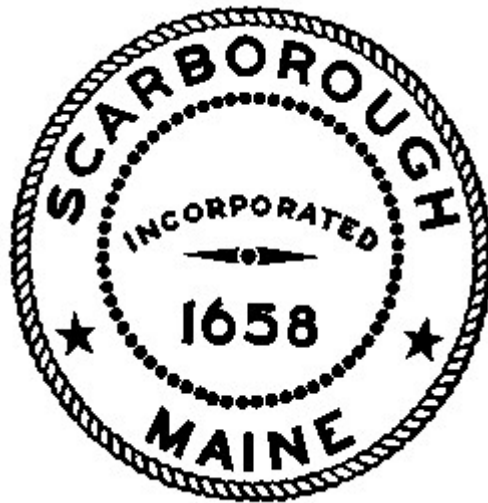


Town of Scarborough

Investment Policy



Adopted March 21, 2012

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Town of Scarborough Investment Policy

The following Investment Policy is hereby enacted by the Town Council to standardize the investment procedures of the Town of Scarborough's (the Town) available funds.

INTRODUCTION

It is the policy of the Town to invest funds in a manner which will provide safety of principal with a market rate of return while meeting the daily cash flow demands of the Town and conforming to all State and local statutes governing the investment of public funds.

PURPOSE

The purpose of this Investment Policy is to establish the investment scope, objectives, delegation of authority, internal controls, standards of prudence, authorized investments and transactions, diversification requirements risk tolerance, safekeeping and custodial procedures, and reporting requirements for the invested funds. The Finance Director shall maintain administrative procedures and internal controls, consistent with this Investment Policy, for the operation of the Town's investment program. Such procedures shall be designed to prevent losses of public funds arising from fraud, employee error and misrepresentation by third parties, or unauthorized actions by employees of the Town.

DEFINITIONS

Collateral. Securities or property pledged by a borrower to secure payment.

Delivery versus Payment. There are two methods of delivery of securities: Delivery vs. payment and delivery vs. receipt. Delivery vs. payment is delivery of securities with an exchange of money for securities. Delivery vs. receipt is delivery of securities with an exchange of a signed receipt for the securities.

Diversification. Investment funds divided among a variety of securities offering independent returns.

Federal Deposit Insurance Corporation (FDIC). An independent agency created by the Congress to maintain stability and public confidence in the nation's financial system by insuring deposits, examining and supervising financial institutions for safety and soundness and consumer protections, and managing receiverships.

Liquidity. Assets converted easily and rapidly into cash without a substantial loss of value.

Pooled Investments. Assets from different funds that are invested together.

Portfolio. A Portfolio is a collection of securities and investments held by investors.

Prudent (Prudence). Investments made with the care, good judgment, skill, careful management and diligence that a prudent person, acting in a similar capacity, and familiar with such matters, would use in the conduct of an enterprise of a comparable nature and with similar aims.

Securities. Securities are financial contracts that grant the owner a stake in the asset. Such securities account for most of what is traded in financial markets.

ENFORCEMENT

This policy will be enforced by the Finance Director. This Investment Policy shall be reviewed by the Finance Director, the Town Manager and the Finance Committee at least every three years.

SCOPE

This investment policy applies to all financial assets of the Town accounted for within the Town's Comprehensive Annual Financial Report. These funds include but are not limited to:

- General Fund Operating Funds
- Capital Project Funds
- Special Revenue Funds
- Proprietary Funds
- Permanent Funds (i.e., Cemetery Funds)
- Bond Proceeds
- Enterprise Funds including Tax Increment Financing (TIF) Accounts
- Trust and Agency Funds
- Endowments and Trust Funds
- CDBG Funds
- Escrow or Custodial Accounts

Since many of these funds are pooled for investment purposes, the investment income derived from the pooled investment account will be allocated to the various funds based on their applicable balance.

PRUDENCE

The standard of prudence to be used, for managing the Town's assets, shall be Title 30-A, Section 5718 of the Maine Revised Statutes, which states:

“All investments made under this subchapter must be made with the judgment and care that persons of prudence, discretion and intelligence, under circumstances then prevailing, exercise in the management of their own affairs, not for speculation but for investment, considering:

- **Safety:** The safety of principal and preservation of capital in the overall portfolio;
- **Maintenance of liquidity:** Maintenance of sufficient liquidity to meet all operating and other cash requirements with which a fund is charged that are reasonably anticipated; and
- **Income:** The income to be derived throughout budgetary and economic cycles, taking into account prudent investment risk constraints and the cash-flow characteristics of the portfolio.

This standard must be applied to the overall investment portfolio of the municipality and not to individual items within a diversified portfolio.”

These State standards shall be applied to the Town's overall investment portfolio. Investment Officials acting in accordance with written procedures and this Investment Policy and exercising due diligence, shall be relieved of personal liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner to the Town Manager.

INVESTMENT OBJECTIVES

The primary objectives, in priority order, of the Town's investment activities shall be:

1. **Prudence:** All participants in the investment process shall seek to act responsibly as custodians of the public trust. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.
2. **Safety:** Safety of principal is the foremost objective of the investment program. Investments shall be made by the Finance Director or designee in a manner that seeks to ensure preservation of capital and investment principal in the overall portfolio. The idea of safety is to mitigate credit risk and interest rate risk. To obtain this objective, the Finance Director shall use basic techniques to diversify the investment portfolio. The Finance Director shall utilize the Federal Deposit Insurance Corporation (FDIC) insured bank deposits and/or obtain collateralized investments that guarantee the Town a perfected security interest in the underlying security. Further, the Finance Director shall invest funds only in highly capitalized and highly rated financial institutions.
3. **Liquidity:** The Town's investment portfolio will remain sufficiently liquid to enable the Town to meet all operating requirements that might be reasonably anticipated through cash flow analysis. The Finance Director will structure the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Since all possible cash demands cannot be anticipated, the portfolio shall maintain assets that can be liquidated without penalty prior to their maturity.
4. **Return on Investment:** The Town's investment portfolio shall be designed with the objective of attaining a market rate of return throughout any budgetary and economic cycles and fluctuations, taking into account prudent investment risk constraints and the cash flow characteristics of the Town's portfolio. This objective shall take into account the constraints of the aforementioned safety and liquidity objectives.

DELEGATION OF AUTHORITY

Authority to manage the Town's investment program is derived from Maine Revised Statutes, Title 30-A, Sections 5706 through 5719, and the Town's Charter. The Town Council delegates the investment of Town funds to the Finance Director. Upon approval of this document, the Finance Director shall prepare written procedures for the operation of the investment program consistent with this investment policy. Such internal procedures shall include delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director. The Finance Director will manage all investment or cash management transactions undertaken.

From time to time, investments will be managed through external programs, facilities and professionals. To constitute compliance, these must be managed in a manner consistent with this policy.

ETHICS AND CONFLICTS OF INTEREST

The Finance Director and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or could

impair their ability to make impartial investment decisions. Elected Officials, Department Administrators, town and school employees and other municipal officials shall disclose to the Finance Director any material financial interest in financial institutions that conduct business with the Town. Further, they shall disclose any personal financial/investment position that could be related to the performance of the Town's investment portfolio.

PROHIBITED INTEREST

No Town employee shall invest Town funds in any instrument or institution in which he/she has a direct or indirect financial interest, neither shall he/she accept any gift, free services or payment of any kind for performing their duties under this policy.

AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Finance Director shall maintain a list of financial institutions authorized to provide investment services. No Public deposit shall be made except in a qualified public depository as established by State law. An annual review of the financial condition and registrations of qualified bidders will be conducted by the Finance Director.

SAFEKEEPING AND CUSTODY

All security transactions, including collateral for repurchase agreements, entered into by the Town shall be conducted on a "delivery versus payment" basis. Securities will be held by a third party custodian or Trust Department designated by the Finance Director and evidenced by safekeeping receipts and meets or exceeds the minimum risk category classification of the Government Accounting Standards Board (GASB) standards.

MAXIMUM MATURITIES

To the extent possible, the Town will endeavor to match investments with anticipated cash requirements. Unless matched to a specific process/procedure, the Town will not directly invest in securities maturing more than one year from date of purchase. The Town may, however, collateralize its repurchase agreements using longer investments not to exceed five years.

Special Revenue, Trust, Permanent and Endowments funds may be invested in securities exceeding one year if the maturity of such investments are made to coincide as nearly as practicable with the expected use of the funds.

AUTHORIZED INVESTMENTS

The Town of Scarborough is authorized to invest only in the following types of securities:

- Obligations of the United States (U.S.) Government, its agencies and instrumentalities
- Certificates of Deposits and other evidences of deposits at banks
- Prime Commercial Paper
- Repurchase Agreements whose underlying collateral by obligations of the Federal government in amounts equal to the Town's investment.
- Money Market Mutual Funds whose portfolios are secured by obligations of the Federal Government.

DIVERSIFICATION

The Town will diversify its investments by security type and institution. No more than fifty percent (50%) of the Town's total investment portfolio will be invested in a single security type or with single financial institution.

INTERNAL CONTROLS

The Finance Director shall establish a system of internal controls. The internal controls shall be reviewed periodically and completed within the time frame of the annual audit. This review will be conducted by the external auditor during the annual Town Audit. The external auditing firm will be selected by the Council. To provide reasonable assurance that these objectives are met, this review will enhance internal control by assessing compliance with policies and procedures to ensure that the assets of the Town are protected from loss, theft or misuse.

CHECKS AND BALANCES

These guidelines have been established to enhance the integrity and transparency of the Town's internal procedures for investing the Town's funds and accounting for those investments.

The Finance Director and the Deputy Finance Director will be authorized to transact investment business on behalf of the Town. All trade confirmations will be sent directly to the Bookkeeper where transaction details will be compared and verified against internal records.

ACCOUNTING METHOD

Investments will be carried on the Town books at cost. Interest on securities will be credited to investment income at the time of sale. The values of investment securities will be accrued as of each fiscal year end.

EXTERNAL MANAGEMENT

The Finance Director may contract with a qualified external money management company in order to benefit from portfolio diversification, credit research, full-time portfolio management and economies of scale that are unavailable from Town staff. Any such contract will define and control the risks of the portfolio and establish performance criteria for monitoring and evaluating results.

STATUTORY COMPLIANCE

Nothing in the Town's investment policy shall be read to contravene with State law, 30-A M.R.S.A. Sections 5706 through 5719.

BIBLIOGRAPHY

Maine Revised Statutes Title 30-A Chapter 223, Subchapter 3-A Municipal Investments

<http://www.mainelegislature.org/legis/statutes/30-A/title30-Ach223sec0.html>