CITY OF WATERVILLE

INVESTMENT POLICY

(As amended 8/6/2013)

PURPOSE

It is the purpose of this policy to ensure that public funds are invested in a way that will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City.

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

- Safety. Safety of principal is the foremost objective of the investment program. Investments of the City of Waterville shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio.
- Liquidity. The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.
- Return on Investment. The City's investment portfolio shall be designed with the objective of attaining a market-average rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and the cash flow characteristics of the portfolio.

SCOPE

This investment policy applies to all financial assets of the City of Waterville. These funds are accounted for in the City’s Annual Financial Report and include:

- General Fund
- Special Revenue Funds
- Capital Project Funds
- Trust and Endowment Funds

This investment policy applies to all transactions involving the financial assets and related activities of all the foregoing funds.

PRUDENCE

The standard of prudence to be applied by the management shall be the "prudent standard" rule. "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived." The investment decision should be consistent with the written investment policy of the City.

DELEGATION OF AUTHORITY

Authority to manage the City's investment program is derived from 30-A M.R.S.A. §5706 et seq. Management responsibility for the investment program is hereby delegated to the Finance Director, who may, in consultation with the City Manager, establish procedures for the operation of the investment program consistent with this investment policy. The Finance Director shall be responsible for all transactions undertaken and shall establish a system of internal controls to ensure that all transactions are undertaken by authorized individuals.

INVESTMENT PROCEDURES

The Finance Director and City Manager shall develop and review annually with the oversight of the City's Finance Committee investment procedures and processes to be followed when investing City funds. The procedures shall address such issues as how to handle collection and quotes of data, the establishment of how to diversify maturity while investing, and the process for selection of investment specialists who aid the City.

ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Manager any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City's portfolio.

PROHIBITED INTEREST

No City employee shall invest City funds in any instrument or institution in which he/she has any direct or indirect financial interest, nor shall he/she accept any gift, free service or payment of any kind for performing their duties under this policy.

AUTHORIZED AND SUITABLE INVESTMENTS

1. General, Special Revenue and Capital Project Funds.

These funds may be invested in the following types of securities:

- Obligations of the U.S. government, its agencies and instrumentalities, i.e., Treasury bills. Treasury notes or bonds maturing within one year.
- Insured or fully collateralized certificates of deposit of banks and savings and loan associations.
- Repurchase agreements collateralized by Letters of Credit from such institutions such as Federal Home Loan Bank or the Federal Reserve Bank; or by U.S. Government backed obligations of U.S. Government agencies and corporations. Pledged collateral must be at least 102% of the market value of the principal and accrued interest and marked-to-market daily. A Master Repurchase Agreement must be signed with the bank or dealer and kept on file by the Finance Director.

- Money market mutual funds whose portfolios consist entirely of U.S. Government securities.

Funds may be invested in longer maturities, prime bankers' acceptances and secured commercial paper with an AAA rating according to the Standard & Poor's rating scale upon adoption of a motion of authorization by the majority of the governing body at a regular or special public meeting.

2. **Trust and Endowment Funds.**
   The City's trust and endowment funds are considered long-term investments with a goal of achieving an equal balance between maintaining purchasing power through principal appreciation of the endowments and generating income to support its spending purposes. These funds will be managed under a contract between the City and a professional investment manager. The contract will notify the manager of the intended use of the money and give general guidance regarding the overall investment goals. However, the selection of the individual stocks, bonds and money market instruments is left to the discretion of the professional money managers. All management fees are charged to income as they are incurred. We require the manager to operate under the "prudent person" rule.

The City's investment policy for these funds is to maintain a portfolio of high quality stocks, government and corporate bonds to meet the objectives as described above. Generally, principal growth is to be achieved through equity investment and current income needs are to be met through high quality fixed income investments.

Asset Allocation Guidelines

(As a Percentage of the Total Market Value)

Investment	Minimum %	Maximum %
Cash Equivalents	0	20
Fixed Income	30	80
Large Cap Domestic Equities	20	60
Mid Cap Domestic Equities	0	15
Small Cap Domestic Equities	0	15
International Equities Mutual Fund	0	30

Allowable Investments

- U.S. Treasury and Agency Securities
- Corporate Bonds
- Convertible Corporate Debentures
- Common Stocks
- Preferred Stocks
- Convertible preferred Stocks
- Money Market Mutual Funds
- Mutual Funds and Exchange Traded Funds
- As otherwise approved or directed in writing by the City of Waterville, Maine

Prohibited Investments

Short selling, security lending, speculative derivative products, commodities, individual foreign stocks not traded on U.S. Exchanges, and the use of futures and option contracts are prohibited. Certain derivative products may be acquired in unusual circumstances without written approval of the Finance Director.

MAXIMUM MATURITIES

To the extent possible, the City of Waterville will attempt to match investments with anticipated cash requirements. Maturities will be two years or less for operating fund investments and five years or less for other long term funds. The prior does not apply to trust funds held by the City. The City of Waterville may collateralize its repurchase agreements using longer investments through a Letter of Credit with banks of such standing and quality as the Federal Home Loan Bank of Boston or the Federal Reserve Bank.

DIVERSIFICATION

The City of Waterville will diversify its investment portfolios. Assets shall be diversified to eliminate the risk of loss resulting from overconcentration of assets in a specific maturity, a specific issuer or a specific class of security. With the exception of U.S. Treasury securities or FDIC insured CDs, no more than 70 percent of the City of Waterville's total investment portfolio will be invested in a single security type or with a single financial institution.

COLLATERALIZATION

Collateralization will be required on any investment, including repurchase agreements, where funds are not insured, or any other investment balance that exceeds the stated limits of insurance. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest. This paragraph excludes investments in permanent funds and private-purpose trust funds designated otherwise.

Collateral will always be held by an independent third party with whom the entity has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained.

The right of collateral substitution is granted.

SAFEKEEPING AND CUSTODY

To protect against potential fraud and embezzlement, the assets of the City of Waterville shall be secured through third party custody and safekeeping procedures. Bearer instruments shall be held only through third-party institutions. Investment officials shall be bonded to protect the public against possible embezzlement and malfeasance. Collateralized securities such as repurchase agreements shall be purchased using the delivery vs. payment procedure. Unless prevailing practices or economic circumstances dictate otherwise, ownership shall be protected through third-party custodial safekeeping. Safekeeping procedures shall be reviewed annually by the independent auditor.

INTERNAL CONTROL AND REVIEW

The Director of Finance is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the city are protected from loss, theft, or misuse. A process for annual independent review by an external auditor to assure compliance with policies and procedures shall be established. These will include separation of duties, custodial safekeeping, avoidance of physical delivery of securities, oversight control of staff, written confirmation for investment purchases, wire transfer agreement.

REPORTING

The City Manager and Finance Director shall provide the Finance Committee and the City Council semi-annual investment reports which provide a clear picture of the status of the current investment portfolio.

Schedules in the report should include the following:

- A listing of securities held at the end of the reporting period by authorized investment category
- Average life and final maturity of all investments categories.
- Percentage of the Portfolio represented by each investment category

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APPROVED

Waterville City Council
January 2, 2008
(Resolution 12-2008)

As Amended: July 15, 2008
(Resolution 97-2008)

As Amended: August 6, 2013
(Resolution 132-2013)