

# Town of Anytown Investment Policy

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## I. Scope

The following is the investment policy for the Town Treasurer to use as a general guideline for the investment of the Town of Anytown's cash assets. The policy applies to the following:

- General Operating Funds
- Special Revenue Funds
- Stabilization Fund
- Retirement Fund
- Self-Insured Trust Funds
- Town Trust Funds

## II. Objective

In addition to conforming to all applicable federal, state and other legal requirements, the primary objectives, in the order of priority, of investment activities shall be:

### **A. Safety:**

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

#### **1. Credit Risk**

Credit risk may be mitigated by:

- Limiting investments to the safest types of securities;
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the Town will do business; and
- Diversifying the investment portfolio so that potential loss on individual securities will be minimized.

#### **2. Interest Rate Risk**

Interest rate risk may be mitigated by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and
- By investing operating funds in shorter-term securities (90 days or less).

## ***B. Liquidity***

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrently with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible Cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity).

## ***C. Yield***

The Investment portfolio shall be designed with the objective of attaining a market rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of least importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

- a declining credit security could be sold early to minimize loss of principal;
- a security swap would improve the quality, yield, or target duration in the portfolio; or
- liquidity needs of the portfolio require that the security be sold.

# **III. Standards of Care**

## ***A. Prudence***

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

## ***B. Ethics and Conflicts of Interest***

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Town.

### ***C. Delegation of Authority***

Authority to manage the investment program is granted to the Town Treasurer derived from the following: Massachusetts General Laws, Chapter 44, section 55B and Acts of 1985, Chapter 740. Responsibility for the operation of the investment program is delegated to the Town Treasurer, who shall carry out established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements and banking service contracts. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Town Treasurer. The Town Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

## **IV. Safekeeping and Custody**

### ***A. Authorized Financial Dealer and Institution***

A list will be maintained of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by creditworthiness (minimum capital requirement \$10,000,000 and at least five years of operation). These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule)

All financial institutions and broker/dealers who desire to become qualified bidders for cash management services and investment transactions must supply the following as appropriate:

- depositories, custodians, and dealers are selected or qualified through competitive procedures, including requests for proposals for cash management services;
- Provide compliance certification from the Broker/Dealer and an independent auditor for capital adequacy requirements. Broker/Dealers conducting transactions with the Town are required to comply with the Federal Reserve Bank of New York's capital adequacy guidelines as a condition of doing business.
- audited financial statements;
- proof of National Association of Securities Dealers (NASD) certification;
- proof of state registration;
- completed appropriate module of Town's Triennial Request for Proposal process; and
- certification of having read the Town's investment policy.

An annual review of the financial condition and registration of qualified bidders will be conducted by the Town Treasurer.

## ***B. Internal Controls***

The Town Accountant is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Town are protected from loss, theft or misuse. The internal controls' structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation costs and benefits require estimates and judgments by management.

Accordingly, the Finance Director shall establish a process for independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

- Control of collusion;
- Separation of transaction authority from accounting and record keeping;
- Custodial Safekeeping;
- Avoidance of physical delivery securities;
- Clear delegation of authority to subordinate staff members;
- Written confirmation of telephone transactions for investments and wire transfers;
- Wire transfer agreements with lead bank or third party custodian.

## ***C. Delivery vs. Payment (DVP)***

All trades where applicable will be executed by deliver vs. payment (DVP). This ensures that securities are deposited in the eligible financial institution prior to the release of funds. Securities will be held by a third party custodian as evidenced by safekeeping receipts.

# **V. Suitable and Authorized Investments**

Consistent with the Massachusetts General Laws and generally accepted practices the following investments will be permitted by this policy.

## ***A. Investment Types***

**General Operating Funds:** (MGL, Ch. 44, sec. 55, 55A, 55B)

1. U.S. Government obligations, U.S. Government agency obligations, and U.S. Government instrumentality obligations with a maturity of less than one year;
2. Repurchase Agreements secured by U.S. Government or Agency obligation with a maturity of less than 90 days from a trust company, national bank or banking company;
3. Certificates of Deposit with a maturity of less than two years from trust companies, national banks, savings banks, banking companies, or cooperative banks. No more than 10% of the portfolio shall be invested in CD's in any one financial institution

4. Money Market Deposit Account from a commercial bank, mutual savings bank, savings and loans, and cooperative banks; or
5. State Investment Pool (MGL Ch. 29, sec 38A).

**Special Revenue Funds:** (MGL, Ch. 44, sec. 55,55A, 55B)

1. U.S. Government obligations, U.S. Government agency obligations, and U.S. Government instrumentality obligations with a maturity of less than one year;
2. Repurchase Agreements secured by U.S. Government or Agency obligation with a maturity of less than 90 days from a trust company, national bank or banking company;
3. Certificates of Deposit with a maturity of less than one year from trust companies, national banks, savings banks, banking companies, or cooperative banks. No more than 10% of the portfolio shall be invested in CD's in any one financial institution;
4. Money Market Deposit Account from a commercial bank, mutual savings bank, savings and loans, and cooperative banks; or
5. State Investment Pool (MGL Ch. 29, sec 38A).

**Stabilization Fund:** (MGL, Ch. 40, sec. 5B)

1. Money Market Deposit Account from a nation bank, savings bank, cooperative bank, or trust company organized under the laws of the commonwealth, or
2. invest in such securities as are legal for the investment of funds of savings banks under the laws of the commonwealth, For example:
  - U.S. Government obligations, U.S. Government .agency obligations, and U.S. Government instrumentality obligations;
  - Certificates of Deposit. No more than 10% of the portfolio shall be invested in CD's in any one financial institution ;
  - Mutual Funds;
  - Corporate Investment Grade Bonds;
3. State Investment Pool (MGL Ch. 29, sec 38A); or
4. in federal savings and loan associations situated in the commonwealth.

**Retirement Fund:** (MGL, Ch. 40, sec. 5D)

The policy adopted restricts investment in exclusively US Treasuries for terms not exceeding 5 years. A combination of notes and bills will be used to ensure cash flow requirements are met and the annual yield is achieved. Principal will be tapped as required unless it exceeds more than 2 % of the total fund. An appropriation would be requested to fund or restore the retirement Fund to the current principal balance. The cash flow requirements are based on an annual rate of two retirements per year to be paid out of the annual income. The fund will also receive an annual appropriation of \$10,000 to build principal to help cover

future sick leave buy back obligations. If properly established, the investment income could become a healthy revenue source fully funding non-contributory retirement benefits and all other Town benefits an employee receives upon retirement.

**Self-Insured Trust Funds:** (MGL, Ch. 44, sec. 55, Ch. 40, sec. 5E, 13A, 13C and Ch. 32b sec. 3A,)

1. deposit or invest the fund in such a manner as may be legal for the town under the laws of the commonwealth without limitation to the State Investment Pool (MGL Ch. 29, sec 3 8A);
2. invest in such securities as are legal for the investment of funds of savings banks under the laws of the commonwealth; For example:
  - U.S. Government obligations, U.S. Government agency obligations, and U.S. Government instrumentality obligations;
  - Certificates of Deposit. No more than 10% of the portfolio shall be invested in CD's in any one financial institution;
  - Mutual Funds;
  - Corporate Investment Grade Bonds;
3. The purpose of the Self-Insured Trust Fund is to cover the costs of the insurance provided to employees. Therefore, the investment vehicles should be low risk and relatively liquid. The fund has not been established to produce growth in principal or a specific dollar amount of income earnings. Investment earnings may be used to offset unknown future costs associated with each trust.

**Town Trust Funds:** (Ch. 180)

The Investment policy for the Town Trust Funds is included here by reference only. See "Investment Policy and Procedures for Town Trust Funds" for further details. All actions and procedures of the Town Treasurer and the implementation of the Town Trust Fund Policy must be compatible and not contrary to the policy set for General Operating Funds.

### ***B. Collateralization***

- All cash accounts will be kept at the \$100,000 FDIC coverage level as a maximum unless additional collateralization or insurance (i.e. DIF coverage for Massachusetts banks) is provided and the yield is advantageous;
- all idle cash may be deposited to the State Investment Pool which has been deemed collateralized by GASB 5;
- Two types of investments require collateralization: Certificates of Deposit and Repurchase Agreements

### **C. Repurchase Agreements**

Any Repo purchased by the Town Treasurer is subject to include the following:

- special caution used in selecting parties with whom the Town will conduct repurchase transactions;
- be able to identify the parties acting as principals to the transaction;
- use Master Repurchase Agreement, or
- use Public Securities Association Repurchase agreement with added language addressing delivery, substitution, margin maintenance, margin amounts, seller representations and governing law.
- use proper collateralization practices to protect funds invested in repos:
  1. delivery of underlying securities through physical delivery or safekeeping with the Town's custodian; and
  2. Over collateralization ("haircuts") or marking-to-market practices are mandatory.

### **D. Mutual Funds**

The Town may from time to time invest funds, as allowed, in a mutual fund consistent with the following:

- Portfolio diversification, liquidity, and professional management;
- Maturity of Fund is less than 60 days;
- regulated by the Securities and Exchange Commission;
- portfolio consists only of domestic securities;
- contain no derivative products;
- favorable market risk (volatility) rating from nationally recognized rating agency; and
- maintains a high Morningstar rating.

### **E. Investment Restrictions**

The Town at the present time will not invest in the following types of investments:

- Derivatives, hedging, or speculative type of investments;
- Reverse Repos, Leveraging or similar investments;
- Master Trust and Custodial Bank Security Lending Programs;
- Any other investment type omitted from this policy

### **F. Designation of Depositories**

The banks and trust companies authorized for the deposit of monies up to the maximum amounts are:

<u>Depository Name</u>	<u>Maximum Amount</u>
Bank of America-operations aggregate	\$10,000,000
MMDT	\$10,000,000
Unibank	\$10,000,000
Century Bank-Lock Box operations	\$ 3,000,000
Others	\$ 3,000,000

## **VI. Investment Parameters**

### ***A. Cash Management***

- All regular cash disbursement requirements shall be held in the State Investment Pool or other liquid accounts. The level required set by the Town Treasurer
- All FDIC accounts will be kept at the \$100,000 coverage level as a maximum unless additional collateralization or insurance (i.e. DIF coverage for Massachusetts banks) is provided and the yield is advantageous;
- All excess cash will be transferred to approved investment instruments or the State Investment Pool whichever is more advantageous after the minimum cash requirements have been met. At least 10% of the portfolio shall be invested in cash or marketable securities which can be sold to raise cash in one business day's notice.

### ***B. Diversification***

The Investments will be diversified by security type, by financial institution, and by maturity scheduling.

### ***C. Maximum Maturity***

The Town will limit the maximum final maturity on long-term investments to five years unless a specific authority is given to exceed. All General Operating Funds maximum final maturity is two years or less unless specific authority requires it to be shorter. Maturities should be staggered to avoid concentrations in any one maturity sector.

## **VII. Reporting**

### ***A. Methods***

The Town Treasurer shall prepare an investment report at least quarterly, including a succinct management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner that will allow the Town to ascertain whether the investment activities during the reporting period have conformed to the investment policy. The report should be provided to the Town Manager, Board of Selectmen, Finance Director, and Town Accountant. The report will include the following:

- A listing of individual securities held at the end of the reporting period by fund.
- Unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities.
- Average weighted yield to maturity of portfolio on Town investments as compared to applicable benchmarks

## ***B. Performance Standards***

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should maintain a market average rate of return during a market/economic environment of stable interest rates. Portfolio performance should be compared to appropriate benchmarks on a regular basis.

## ***C. Marking to Market***

A statement of the market value of the portfolio shall be issued at least quarterly. This will ensure that the minimal amount of review has been performed on the investment portfolio in terms of value and subsequent price volatility.

## ***D. Fees***

Fees for securities and mutual fund based investments may be charged on a managed or transaction fee basis whichever is more cost effective, as determined by the Treasurer. Fees may therefore be paid/recorded based on a pre-determined payment schedule (e.g. quarterly, annually), netted against income distributions or netted against the investment's purchase price.

## ***E. Arbitrage***

Certification that states bond proceeds are not to be used for purposes of arbitrage. Bond issues (and any proceeds thereof) are to be used for the intended purpose; not considered surplus for investment in higher yielding, taxable securities.

## ***F. Exemption***

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

## ***G. Amendments***

This policy shall be reviewed on an annual basis. Any changes must be approved by the Town Treasurer, Town Manager, Town Accountant, and Finance Director.

## ***H. Performance Monitoring***

The Town Treasurer along with designated financial staff, auditor, and the Town Accountant may review the performance of the entities selected providing services through the RFP process. The review may occur off the fiscal year calendar due to information reporting and collection limitations. The results of the review will become part of the next quarterly report.

Annual Review:

- Cash accounts marked against competitors. Failure of the bank to provide competitive interest rates on comparable products and services will reflect negatively on the fee or service relationship established by a competitive proposal process. Long-term lagging of interest rates behind competitors may require an interim RFP to be executed by the Treasurer. Yield comparisons will be against competitors' product or services (i.e., checking to checking, savings to savings, money market to money market).
- Investment Yield Comparisons: Investment accounts marked against selected indices and market.
- Services Provided. Meeting contractual agreement and performance standards set by RFP.
- Annual Review of financial condition of each entity

Triennial Review:

- Annual Review Procedures
- Execution and Completion of RFP for Cash Management Services

## VIII. Glossary

### Accrued Interest:

The accumulated interest due on a bond as of the last interest payment made by the issuer.

### Agency:

A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government. Federally sponsored agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee.

### Amortization:

The systematic reduction of the amount owed on a debt issue through periodic payments of principal.

### Arbitrage:

As applied to municipal debt, the investment of tax-exempt bonds or note proceeds in higher yielding, taxable securities. Section 103 of the Internal Revenue Service (IRS) Code restricts this practice and requires (beyond certain limits) that earnings be rebated (paid) to the IRS.

### Average Life:

The average length of time that issues of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

### Banker's Acceptance:

A short-term non-interest bearing note sold at discount and redeemed at face value. It is secured by the goods which it finances, the bank that accepts the draft and the issuer's promise to pay. These notes trade at a rate equal to or slightly higher than certificates of deposit, depending on the market supply and demand.

### Basis Point:

A measure of an interest rate, i.e., 1/100 of 1 percent, or .001.

### Bid:

The indicated price at which a buyer is willing to purchase a security or commodity.

### Book Entry Securities:

A system established by the U.S. government wherein securities are transferred on the basis of computerized records maintained at the Federal Reserve, instead of actual certificates. The system was devised to facilitate the transfer of ownership and to prevent loss through destruction and theft. The vast majority of U.S. government securities are now in the form of book-entry securities.

Book Value:

The value at which a security is carried on the inventory lists or other financial records of an investor. The book value may differ significantly from the security's current value in the market.

Callable Bonds:

A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

Call Price:

The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

Call Risk:

The risk to a bondholder that a bond may be redeemed prior to maturity.

Cash Management:

A combination of various techniques for accelerating cash receipts, delaying cash disbursements, effectively utilizing banking services and improving investment of idle funds.

Cash sale/purchase:

A transaction which calls for delivery and payment of securities on the same day that the transaction is initiated.

Certificate of Deposit (CD):

A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs are typically negotiable as to maturity and yield.

Collateralization:

Value of securities pledged to a specific amount or investment as supplemental security to the credit of the issuer or the broker. Collateral can be of a specific nature and priced at par or market value.

Collusion:

Collusion is a situation where two or more employees are working in conjunction to defraud their employer.

Commercial Bank:

A financial institution licensed by the state and/or the federal government to receive deposits, allow demand accounts, lend money, and provide trust services and other related services. Generally banks are allowed to engage in more varied lending activities

than other financial institutions. They are owned by stockholders and are operated for profit.

Commercial Paper:

An unsecured promissory note issued by corporations with a fixed maturity from 2 to 270 days. Commercial paper is normally sold at a discount from face value.

Commingle:

A process by which cash is mixed together so that the identity of individual items is lost. Commingle is vastly different from combine or consolidate and is generally not legal or appropriate for public funds.

Compensating Balances:

A method of paying the bank for providing services. The actual bank service charges form the basis for determining the level of balances to be left with the bank. Adjustments are allowed for reserve requirements and potential interest that could have been earned by the depositor.

Confirmations:

Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and the safekeeping institution has a list of authorized signatures.

Consolidate:

A process by which cash, or any other item, is combined while maintaining the identity of each item. Consolidating several bank accounts into one account is always accomplished by a continuation of separate book balances for each fund on the government unit's ledger. Consolidation is a legal and efficient way to gain economies of scale in cash management. Also referred to as "pooling of funds".

Coupon Equivalent:

A financial technique that converts the discount yield basis of certain securities into the equivalent bond yield to facilitate comparisons among all securities. Generally this technique computes the yield based on the discounted price, rather than on the face value, and covers a 365-day period, rather than the 360 days used for discount yield.

Coupon Rate:

The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as the "interest rate".

Credit Quality:

The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer,

the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

Credit Risk:

The risk to an investor that an issuer will default in the payment of interest and/or principal on a security. Credit Risk is the risk of loss due to the failure of the security issuer or backer.

Current Yield (Current Return):

A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

CUSIP:

A uniform identification method established for municipal, U.S. government securities and corporate securities by the Committee on Uniform Security Identification Procedures under the auspices of the American Bankers Association.

Custodial Safekeeping:

Securities purchased from any bank or dealer including appropriate collateral (as defined by State Law) shall be placed with an independent third party for custodial safekeeping.

Delegation of Authority:

Senior and Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.

Delivered Securities:

Delivered Securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities. Delivery versus Payment (DVP) a type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or his/her custodian.

Derivatives:

A derivative is a financial instrument created from or whose value depends on (is derived from) the value of one or more underlying assets or indexes of asset values. The term "derivative products" refers to instruments or features such as collateralized mortgage obligations (CMOS), interest-only (IOYs) and principal-only (PO'S), forwards, futures, currency and interest rate swaps, options, floaters/inverse floaters, and caps/floors/collars.

Discount:

Yield basis on which short-term, non-interest bearing money market securities are quoted. A rate quoted on a discount basis understates bond equivalent yield, which must be calculated when comparing the return against coupon securities.

General Operating Funds:

Any available cash not designated for a special purpose interest bearing account or posted on a warrant. This would include general revenue and receipts and segregated fund balances on the Town's General Ledger whose interest earnings benefit the Town.

Interest Rate Risk:

The risk that the market value of securities in the portfolio will fall due to changes in general interest rates.

Investment Pools:

In most states there are provisions for the creation and operation of a government investment pool. The purpose of the Pool is to allow political subdivisions to pool investable funds in order to achieve a potentially higher yield.

There are three (3) types of pools: 1) state-run pools; 2) pools that are operated by a political subdivision where allowed by law and the political subdivision is the trustee; and 3) pools that are operated for profit by third parties. Prior to any political subdivision being involved-with any type of pool, a thorough investigation of the pool and its policies and procedures must be reviewed.

Leveraging:

Includes purchasing securities on margin (by borrowing funds from a counterparty), selling securities short (by borrowing the security from a third party and selling in anticipation of higher interest rates), purchasing long-term bonds with short-term funds, and trading futures contracts without an exact offsetting cash market position.

Liquidity:

Ease with which a financial instrument can be converted to cash quickly with minimal loss of principal.

Marketability:

Ability to sell large blocks of money market instruments quickly and at competitive prices.

Pooling:

See consolidation; also connotes combining of assets of different entities (i.e., two or more cities) for investment purposes while maintaining separate accounting trails.

Proposal:

A written pledge by a bank or other service provider to supply certain cash management services for a certain fee or compensating balance.

Prudent Person Standard:

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.

Repurchase Agreement:

A repurchase agreement (repos) is the sale by a bank or dealer of a government security with the simultaneous agreement to repurchase the security on a later date. Repos are commonly used by public entities to secure money market rates of interest.

Request for Proposals:

A written notification prepared by an organization requesting offers to provide certain services and to specify prices for these services. The RFPs are generally quite detailed as to the types of services needed. In the Commonwealth of Massachusetts the statutes require municipalities to use Chapter 32B and establish a triennial review process of cash management services contracts.

Retirement Fund:

Established to address the long-term unfunded liability requirements of the Town's retirement benefits. Under the current policy the income from the Retirement Fund will pay for non-contributory retirement obligations, unanticipated sick-leave buy back requirements, and any unanticipated funding requirements issued by the Middlesex County Retirement System.

Reverse Repo:

In a reverse repo, an investor owns securities, such as a Treasury note, U.S. government agency bond or other security, that a bank or dealer purchases under an agreement to sell back to the investor on a specified date, at an agreed-upon interest rate.

Savings and Loan Association:

A-national or state chartered institution that accepts deposits and lends them out as mortgages. These associations generally are owned by the depositors, not by stockholders as in the case of banks.

Security Lending Programs:

As part of their trust and custody management services, banks like other money managers offer to lend securities owned by institutional clients to brokers in exchange for collateral. The collateral, which is usually cash, is reinvested at a rate higher than the rebate rate paid to the broker. The resulting proceeds are subsequently split between the lending agent and the client. Unsound collateral reinvestment practices can result in some master trust and custodial banks incurring losses on behalf of their institutional security lending program customers. Rapidly changing interest rates, lending short and investing long, investing in speculative derivatives, and paying a fixed rebate while investing in floating rebate rate securities under adverse market conditions are examples of situations that can produce investment losses.

Security Lending Transaction:

A security lending transaction is similar to a reverse repurchase transaction and subject to many of the same risks. While indemnifications offered may vary, the lending agreement may provide that broker credit risk, broker default risk, and collateral maintenance are risks undertaken by the lending agent. The degree of risk assumed by the lending agent generally is reflected in the split of proceeds. Lending agent credit risk, lending agent default risk and collateral reinvestment risks are undertaken by the institutional client.

Self-Insured Trust Funds:

These funds include, Health Insurance, Retiree Supplemental Health Insurance (OME), Unemployment Compensation, Workers Compensation, and any other self-insured fund the Town may adopt in the future.

Separation of Duties:

By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.

Special Revenue Funds:

All segregated fund balances required to be in interest bearing accounts.

Stabilization Fund:

MGL, C. 40, sec. 5B. Cities, Towns and districts may appropriate in any year an amount not exceeding ten (10) percent of the amount raised in the preceding fiscal year by taxation. The aggregate amount in the fund at any time shall not exceed ten (10) percent of the equalized valuation of the city or town. Any interest shall be added to and become part of the fund; The Treasurer shall be the custodian of the fund. The stabilization fund may be appropriated in a town, at annual town meeting be a two-thirds vote or at a special town meeting by a two-thirds vote. Said fund may be appropriated for any lawful purpose.

Town Trust Funds:

Gifts and donations accepted by the Trustees of Town Donations given to the Town through trust or in perpetuity agreements. A separate investment policy is maintained and formulated by the Trustees of Town Donations and will be complementary to the Town Investment Policy because the Town Treasurer is responsible for executing all approved investment activities.

U.S. Government Agency Securities:

A variety of securities issued by several U.S. agencies. Some are issued on a discount basis and some are issued with coupons. Several have the full faith and credit guarantee of the U.S. government, although others do not.

U.S. Government Treasury Securities:

A non-interest bearing security issued by the U.S. Treasury to finance the national debt. Bills are issued in three-month, six-month, and one-year maturities. Notes are issued in 2, 3, 5, 10 or 30 year maturities.

Wire Transfer Agreements:

This agreement should outline the various controls, security provisions, and delineate responsibilities of each party making and receiving wire transfers.

Yield:

The rate of annual income returned on an investment, expressed as a percentage.