

Town of Lebanon, Connecticut
Investment Policy for Endowments and Donations

1. **Policy**

It shall be the policy of the Town of Lebanon to manage investments to achieve the financial objective of generating maximum current income, preserve capital over the long-term and have the potential for modest long-term growth. A modest amount of short-term volatility is acceptable in reaching these goals. In order to minimize trade costs and allow for greater diversification, it shall be the policy to manage the endowments and donations funds in a pool with each endowment/donation owning a pro-rata share of the pool as well as the income generated (unless these are specific, agreed upon stipulations attached to an endowment/donation that would necessitate segregation of assets).

2. **Scope**

This policy applies to the investment of endowments and donations.

3. **Objective**

Primary objectives of investment activities, in priority order shall be:

a. **Principal**

The investment principal shall not be utilized for any endowment/donation except where the purpose is to fund an ongoing scholarship award. Endowments or donations funding a scholarship award may utilize principal to fund the award in order to achieve a minimum annual award of \$500.00.(see 14. Utilization of Principal)

b. **Investment Income**

The primary objective of the investment program is to generate an income stream to be utilized by the various programs so designated for each fund. Generally, no investment income is reinvested.

c. **Safety**

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

1) **Credit Risk**

Credit Risk is the risk of loss due to the failure of the security issuer or backer. Credit risk may be mitigated by:

- a) Limiting investments to types of securities
- b) Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the Town will do business.
- c) Diversifying the investment portfolio so that potential losses on individual securities will be minimized. Also diversification across market segments (i.e. consumer staples, technology, financial services, etc.) in order to minimize market segment risk.

2) Interest Rate Risk

- a) Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates.
- b) It is important to manage investments to balance the income from a particular security vs. it's' market value on an ongoing basis.

d. Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints. Return on investment is primary, but attention must be paid to preservation of principal. 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:

- 1) Declining credit securities could be sold early to minimize loss of principal or to lock in investment gains.

4. 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.

Investments shall be made with judgment and care, under circumstances 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.

b. Ethics and Conflicts of Interest

Elected officials 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 elected officials shall disclose any material interest in financial institutions with which they conduct business, in which there is a conflict of interest. Employees and elected officials shall disclose when undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Town. This does not limit employees or elected officials from maintaining personal investment accounts with the same financial institution.

5. Safekeeping and Custody

a. Qualified Financial Dealers and Institutions

Annual review of the financial condition and registration of qualified dealers and institutions will be conducted by the Treasurer.

b. Internal Controls

The Treasurer 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 control structure shall be designed to provide reasonable assurance that:

- 1) The cost of control should not exceed the benefits likely to be derived.
- 2) The valuation of costs and benefits requires estimates and judgments by the Board of Selectmen.
- 3) The Treasurer shall have an annual review by an outside auditor to assure compliance with policies and procedures. The internal controls shall address the following points:
 - a) Control of collusion. Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
 - b) Custodial safekeeping. Proof of securities purchased from any bank or dealer shall be provided to the Treasurer and recorded on the Town's books.
 - c) Clear delegation of authority from the Board of Selectmen to the Treasurer. The Treasurer must have a clear understanding of his/her authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the Treasurer position and his/her respective responsibilities.

- 4) Written confirmation of fax or telephone transactions for investments and wire transfers are required. Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by written communications, recorded by the Treasurer, and approved by the Board of Selectmen prior to transactions and/or wire transfers being made. Written communications may be via fax and the safekeeping institution has a list of authorized signatures.

6. Delegation of Authority

- a. Authority to manage the investment program is granted to the Treasurer under the Connecticut General Statutes with supervision and direction of the Board of Selectmen. The Treasurer shall carry out established written procedures and internal controls for the operation of the investment program consistent with this investment policy. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Board of Selectmen. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.
- b. The Town Treasurer shall report to the Board of Selectmen at agreed-upon intervals on investment activities. At least annually, the Town Treasurer shall prepare and present a written report to the Board of Selectmen that includes, but is not limited to, a discussion of adherence to this policy; data on investments being held in the portfolio and the returns on the Town's investments during the preceding period. An informational copy of the written report shall be provided to the Board of Finance.
- c. The Town Treasurer, under the supervision of the Board of Selectmen, is responsible for day-to-day investment decisions, activities and the development and maintenance of written administrative procedures for the operation of the investment program, consistent with these policies.

The written administrative procedures will provide:

- a. Offerings of securities to be purchased or sold.
- b. Formats for reports to be provided to the Town Board of Selectmen.
- c. Comparison of confirmations.
- d. Establishment of benchmarks for performance measurement.
- e. Pro-ration of investment income from pooled investments to participating Funds.

f. Compliance with generally accepted accounting principles of the Government Accounting Standards Board.

g. Review of investment activities by the Board of Selectmen.

h. Establishment of a system of written internal controls, designed to detect fraud, error, misrepresentation or imprudent actions.

i. Review of investment operations by the Town Auditor.

j. Annual review of investment practices in specific areas of interest to the Town Board of Selectmen.

7. Suitable and Authorized Investments for the Town of Lebanon Endowment and Donation Funds

a. U.S. Government obligations, U.S. Government agency obligations, and U.S. Government instrumentality obligations.

b. Certificates of deposit.

c. Savings and loan association deposits.

d. Investment-grade obligations of state, provincial and local governments and public authorities.

e. Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of domestic securities.

f. Statewide investment pools (Stiff, Class, ICMA RC, Cigna Guaranteed Deposit Account and Cigna Short Term Money Market Account) and others that meet the Town of Lebanon's requirements.

g. Stocks

h. Bonds (S&P rating A- or better for long term or A-2 for better for short term; or the equivalent).

i. Mutual funds which derive their value from any of the investments listed above.

8. Investment Parameters

Diversification - The investments will be diversified by security type, length of maturity, institution and market segment, where appropriate given the size of a particular fund. Current income shall be the paramount objective of the investment program of the Town of Lebanon,

while preserving principal. Investments shall be selected in a manner that will attempt to ensure the safety of the Town's capital and generating a reasonable rate of return.

9. Security Dealers and Financial Institutions

Minimum qualifications for financial institutions to be considered for providing investment services:

- a. Minimum capital requirement \$10,000,000 and at least five years of operation.
- b. Financial institutions and broker/dealers desiring to become qualified bidders for investment transactions must supply the following as appropriate:
 - o Audited financial statements
 - o Proof of National Association of Securities Dealers (NASD) certification
 - o Certification of having read the Town of Lebanon's investment policy

The security dealers and financial institutions may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule) and Investment Departments of local banks, all of which have been subjected to the following evaluation.

- a. Financial condition, strength and capability to fulfill commitments.
- b. Overall reputation with other dealers and investors.
- c. Regulatory status of the dealer.
- d. Background and expertise of the individual representative.

Individuals representing firms doing business with the Town shall receive a copy of this policy, and shall certify that they have read it and understand the provisions therein. A copy of such certification, along with financial statements (both current and annual audited), shall be kept on file in the Finance Office.

10. Payment and Safekeeping

All transactions will be accomplished with authorized security dealers and financial institutions.

11. Reporting

a. Performance Standards - The investment portfolio shall be managed in accordance with the parameters specified within this policy and state law. Portfolio performance should be compared to appropriate benchmarks on a regular basis.

b. Annual Investment Statement - A statement of the market value of the portfolio shall be issued annually by the Treasurer to the Board of Selectmen. This will ensure that the minimal

amount of review has been performed on the investment portfolio in terms of value and subsequent price.

c. Methods - The Treasurer shall prepare a financial statement annually and include adequate portfolio footnote disclosure.

12. Policy Exemption

a Exemption

Any investment currently held or any new donation of securities 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 so that over time they become compliant with the policy.

b. Amendment

This policy shall be reviewed on an annual basis. Any changes must be approved by the Board of Selectmen.

13. Interest Allocation

a. The Town of Lebanon shall maintain investment accounts that record, each month, interest/investment income earned to each fund entitled to such earnings. This allocation shall be approved by the Finance Director. Additionally, the interest allocation for June 30th will be reviewed by the Finance Director after all closing entries have been made to insure no other fiscal period adjustments are required.

b. The Town of Lebanon may use a pooled account to track investment earnings for other endowment and donation investments. Investment earnings will be distributed to the sub-accounts by the Finance Director.

14. Utilization of Principal

a. When sale of investments to fund the minimum scholarship award is required, investments to be sold will be selected so as to minimize any adverse impact to the remainder of the portfolio.

b. When the value of an individual endowment/donation used to fund an annual scholarship award falls below the minimum scholarship award (\$500.00) the endowment/donation shall be entirely liquidated and the funds provided to the Lyman HS scholarship committee.

15. Policy Adoption and Revision

The Town's Investment Policy shall be reviewed by the Board of Selectmen annually with the Town Treasurer.

Any deviation from the above policy considerations must be confirmed by the Town Board of Selectmen.

**Approved Lebanon Board of Selectmen
July 12, 2016**