

## CHAPTER 165

### FINANCIAL POLICIES

**[HISTORY: Adopted by the Board of Selectmen of the Town of Pembroke 2-21-2007 by Res. No. 2007-01. Amended 9-8-2009; Approved BOS 9-19-11]**

#### **GENERAL REFERENCES**

Purchasing procedures — See Ch. 178.

#### INVESTMENT POLICY

##### **§ 165-1 Introduction.**

This investment policy is established under the authority of State Statute RSA 41:29 for the purpose of providing guidance to Town of Pembroke officials as to the investment of public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the Town and conforming to all laws governing the investment of public funds.

##### **§ 165-2 Scope.**

This investment policy applies to all financial assets under the care of the Board of Selectmen and in the custody of the Town Treasurer for the Town of Pembroke, New Hampshire. These funds are accounted for in the Town's annual audited financial reports and include the following: General Fund, Capital Projects Fund, Special Revenue Funds, Escrow Funds and Agency Funds. Any new funds created by the Town, unless specifically exempted by the governing body, in accordance with law, or by-law.

##### **§ 165-3 Objectives.**

The primary objectives, in primary order, of investment activities:

A. Safety (of principal and preservation of capital): Safety of principal is the foremost objective of the investment program. Investments shall be undertaken to ensure the preservation of capital in the overall portfolio.

B. Liquidity (maintain sufficient liquidity to meet operating requirements and other cash needs): The portfolio shall retain sufficient liquidity to meet all operating requirements that may be reasonably anticipated. To ensure adequate funds are available to pay projected financial obligations, investments will be

purchased or deposits made to reasonably match anticipated cash disbursements.

C. Yield (rate of return): The portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles that is as close to market average as possible, taking into account liquidity needs, investment risk, and capital preservation.

#### **§ 165-4 Risks.**

A. Credit risk (loss due to failure of security issuer): The Town shall minimize credit risk by limiting investments to the safest types of securities, and diversifying the portfolio.

B. Market risk (changes in the financial market could reduce the value of a security): The Town shall minimize market risk by limiting investments that are subject to rapid market swings, and by varying investment maturity dates.

#### **§ 165-5 Investment instruments.**

In accordance with RSA 41:29, funds may be invested in the following:

1. U.S. Treasury bills, notes, and bonds
2. U.S. Government Agency Securities which carry the full faith and credit guarantee of the U.S. Government
3. U.S. Government Instrumentality Securities when contractually managed by a qualified financial advisor
4. Money market deposit accounts
5. Certificates of deposit
6. Sweep Accounts
7. Repurchase agreements, collateralized by U.S. Government Securities
8. Local government investment pools
9. Savings bank deposits

#### **§ 165-6 Collateralization.**

All deposits shall be fully collateralized with the delivery of U.S. obligations, or obligations in the State of New Hampshire in market value at least equal to 100% of the cash deposit in each case.

#### § 165-7 Standards of care.

A. Delegation of authority: In accordance with New Hampshire Law, responsibility for conducting investment transactions resides with the elected Town Treasurer. The Deputy Treasurer may be appointed to assist in performing investment functions.

B. Prudence: 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.

C. Ethics: Key personnel, as listed in Exhibit B, *Editor's Note: Exhibit B is on file in the Town offices.* who are involved with the investment function of the Town, 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 decisions. Key personnel shall also inform the Administration and Board of Selectmen of any relationships, either personal or professional, with any financial institution conducting business with the Town that may, or give the appearance that it may, constitute a conflict of interest.

#### § 165-8 Internal controls.

A. The Town Accountant is responsible for establishing and maintaining an internal control structure designed to ensure the assets of the Town are protected from loss, theft or misuse.

B. The Town Administrator is responsible for ensuring that separation of transaction authority from accounting and recordkeeping, and written confirmation of transactions for investments are maintained.

C. The Board of Selectmen shall establish an annual process of independent review of the investment function. This review will provide internal control by assuring compliance with established policies and procedures.

#### § 165-9 Policy review.

This policy will be reviewed by the Board of Selectmen and Treasurer on annual basis, and when there is a change in key personnel. Performance of the current investments shall also be reviewed on at least an annual basis. This policy may be reviewed if there is a change in the investment environment, a change in an approved financial institution, or for the purposes of continuous improvement. If a change occurs in investment law which is not reflective of this policy, the law will prevail.

## FUND BALANCE POLICY

### § 165-10 Preface.

The Town of Pembroke through its Board of Selectmen establishes and will maintain reservation of Fund Balance, as defined herein, in accordance with Governmental Accounting Standards Board (“GASB”) Statement No. 54, Fund Balance reporting and Governmental Fund Type Definitions. This policy shall only apply to the Town’s governmental funds. In accordance with GASB statement No. 54, fund balance shall be composed of nonspendable, restricted, committed, assigned, and unassigned amounts.

In accordance with the Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective for the period ending December 31, 2011, the Board of Selectmen recognizes the following with regards to fund balance.

### § 165-11 Purpose.

The purpose of this policy is to establish a key element of the financial stability of the Town by setting guidelines for fund balance. Unassigned fund balance is an important measure of economic stability. It is essential that the Town maintain adequate levels of unassigned fund balance to mitigate financial risks that can occur from unforeseen revenue fluctuations, unanticipated expenditures, emergencies, and similar circumstances. The fund balance also provides cash flow liquidity for the Town’s general operations.

### § 165-12 Definitions.

- a. ***Nonspendable Fund Balance*** – includes amounts that are not in a spendable form (such as inventory or prepaid expenses) or are required to be maintained intact (such as principal of an endowment fund).
- b. ***Restricted Fund Balance*** – includes amounts that can only be spent for specific purposes, such as grant, library, income balance of permanent funds, and capital project funds that cannot change purpose.

- c. ***Committed Fund Balance*** – amounts that can only be used for specific purposes pursuant to a formal vote at Town Meetings; such as expendable trust funds (capital reserve), nonlapsing appropriations, and other special revenue funds not listed under restricted and can change purpose via a vote at Town Meeting.
- d. ***Assigned Fund Balance*** – amounts intended by the Board for specific purposes. For all governmental funds other than the general fund, any remaining positive amounts are to be classified as “assigned”. Items that fall under this classification for the general fund would be encumbrances properly approved by contract, purchase order, or other such actions as required.
- e. ***Unassigned Fund Balance*** – includes amounts that are not obligated or specifically designated and is available for any purpose. The residual classification of any General Fund balance to be reported here. Any deficit balance of another fund is also classified as unassigned.

#### **§ 165-13 Spending Prioritizations.**

When expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, restricted fund balance is considered to have been spent first.

When expenditures are incurred for the purposes for which amounts in any of the unrestricted fund balance classifications can be used, committed amounts should be reduced first, followed by assigned amounts and the unassigned amounts.

#### **§ 165-14 Minimum Level of Unassigned Fund Balance.**

The Board will strive to maintain an unassigned fund balance in its general fund equal to the guidelines established by the NH Government Finance Officers Association (NHGFOA) which areas follows:

- a. Retention of 8% to 17% of regular general fund operating revenues or no less than 2 months of general fund operating expenditures. This is calculated by adding the municipality’s general fund operating appropriations, the state education tax amount, the local school net tax commitment, and the county appropriation.

#### **§ 165-15 Annual Review.**

Compliance with the provisions of this policy should be reviewed as part of the annual budget process.