

TOWN OF CLAYTON FIRE DISTRICT

INVESTMENT POLICY

STATEMENT OF PURPOSE

The Board of Commissioners of the Town of Clayton Fire District has authority to invest all funds of the Fire District pursuant to the General Municipal Law and the bylaws of the District. The purpose of this Investment Policy is to identify the investment objectives of the District and to establish procedures to achieve those objectives. The objectives of this investment policy are as follows: Safety of Principal; Maintenance of Adequate Liquidity; and Maximizing Earnings on the Investment Portfolio.

POLICY STATEMENT

It is the policy of the District that, giving due regard to the safety and risk of investment, all available funds shall be invested in conformance with legal and administrative guidelines and, to the maximum extent possible, at the highest rates obtainable at the time of investment. The District may utilize the services of a consultant/registered investment advisor to assist the District with proper cash and investment management procedures and for the purpose of training District personnel.

Effective cash management is recognized as essential to good fiscal management. An aggressive cash management and investment policy will be pursued to take advantage of investment interest as a viable and material revenue source for all operating and capital funds. The District's portfolio shall be designed and managed in a manner responsive to the public trust and consistent with state and local law.

Earnings from investments will be used in a manner that will best serve the interest of the District and that will comply with applicable law.

APPLICATION OF THE INVESTMENT POLICY:

The Investment Policy adopted by the Town of Clayton Fire District shall apply uniformly to all officers, members, volunteers, committees and authorized agents in the performance of their official duties and to the processing and management of all investment transactions on behalf of the District. This policy shall apply to all funds eligible for investment by the District.

GENERAL OBJECTIVES

The primary objectives of investment activities, in order of priority, shall be safety, liquidity, and yield:

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 a capital in the overall portfolio. The objective will be to reduce credit risk and interest rate risk.

Credit Risk:

The District will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

- a. Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the District will do business; and
- b. Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

Interest Rate Risk:

The District will minimize the risk that the market value of securities in the portfolio will decline due to the changes in general interest rates by:

- a. Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby minimizing the need to sell securities on the open market prior to maturity;
- b. Investing cash funds primarily in securities with maturities of one year or less in certificates of deposit or equivalent low risk investments; and
- c. Limiting investments to a maximum stated maturity of four years, if such length is practical.

Liquidity:

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This will be accomplished by structuring the portfolio so that securities mature concurrently with cash needs to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the investment portfolio will contain securities with active secondary resale markets. A portion of the portfolio may be placed in investments which offer one-day liquidity for short-term funds. Repurchase (or repo) arrangements are not permitted.

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 investment risk constraints and liquidity needs. Return on investment is a lower priority than the safety and liquidity objectives described above.

Prudence:

Investment officials acting pursuant to this policy shall be subject to the "prudent investor rule". Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of person 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.

Ethics and Conflicts of Interest:

Officers and employees involved in the investment process shall refrain from personal business activity that could be perceived as a 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. Employees and officers shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of the District. Employees and public officials shall also be subject to the District's Code of Ethics.

Delegation of Authority:

Responsibility for the operation of the investment program is delegated to the Treasurer, who shall establish 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, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

SAFEKEEPING AND CUSTODY

Authorized Financial Dealers and Institutions:

The Treasurer shall maintain a list of financial institutions authorized to provide investment services. In addition, a list also will be maintained of approved security broker/dealers who provide services to institutions, not retail dealers, selected by creditworthiness. These will include "primary" dealers and regional dealers that are qualified to execute transactions for the District. The Treasurer shall approve these lists annually. It is the intent of the District to have no more than four (4) qualified institutional oriented dealers/banks located in the area with which it will transact investment business, because of the size of the investment portfolio.

All financial institutions and broker/dealers who desire to become qualified for investment transactions shall provide the following:

1. Their most recent audited financial statements;
2. Proof of National Association of Securities Dealer (NASD) certification;
3. Proof of state registration with the New York State Securities Commission;
4. Documentation showing qualifications of individuals who will provide services to the Department; and

5. Certification that the financial institution and/or broker/dealer has read, understands, and agrees to comply with this policy.

An annual review of the financial condition and registration of qualified financial institutions and broker/dealers will be conducted by the Treasurer.

Internal Controls:

The Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the investments of the District are protected from loss, theft or misuse. The internal control 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 of costs and benefits requires estimates and judgments by management.

The investment program shall be subject to an annual independent review by an external auditor to assure adequate internal controls. The internal controls should address the following points:

1. Control of collusion;
2. Separation of transaction authority from accounting and record keeping;
3. Custodial safekeeping;
4. Avoidance of physical delivery securities other than certificates of deposit;
5. Clear delegation of authority to subordinate staff members;
6. Written confirmation of transactions for investments and wire transfers; and
7. Development of a wire transfer agreement with the main operating bank and third-party custodian.

Delivery vs. Payment:

All trades will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution simultaneously with the release of funds. Securities will be held by a third-party custodian, as evidenced by safekeeping receipts, held in the District's name.

Safekeeping of Securities:

1. To protect against potential fraud or embezzlement, the investments of the District shall be secured through third-party custody and safekeeping procedures. Ownership shall be protected through third-party custodial safekeeping. The District's external auditor shall review safekeeping procedures annually.

2. The District shall contract with a single financial institution for custodial and safekeeping services for the District's investment portfolio.
3. All securities owned by the District shall be held by a single safekeeping agent in the name of the Fire District.
4. Security for deposits with financial institutions will be held in a third-party entity and registered jointly to the District and to the depository financial institution as required by New York State law.
5. The authorization to release District securities and transfer District funds will be accomplished by authorized District finance staff.
6. Verification of securities and collateral will be part of the District's annual independent audit, if any.

SUITABLE AND AUTHORIZED INVESTMENTS

The District is empowered to invest in certain types of securities. Among the authorized investments are:

1. Investment deposits, savings accounts, money markets and certificates of deposits.
2. Obligations of the U.S. Government, its agencies and instrumentalities. However, this authorization shall specifically exclude Collateralized Mortgage Obligations (CMOs), Real Estate Mortgage Investment Conduits (REMICs), and other Principal Only (POs) and Interest Only (IOs) obligations that are secured with mortgages issued by any federal agency, instrumentality or private firm.
3. Prime banker's acceptances purchased on the secondary market with rating of A1/P1.
4. Mutual funds and money market funds for bond proceeds subject to the arbitrage provisions of Section 148 of the Federal Internal Revenue Code.
5. Bonds of the State of New York and any local government in the State of New York or of any other state, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency.
6. Individual stocks listed on the NYSE, AMEX or NASDAQ, except for any stock deemed "high risk" and except for any stock valued at under \$10.00/share at the time of purchase.

Corporate Surety Bond:

The financial institution may provide a corporate surety bond of a surety corporation with an AAA investment grade rating authorized to do business in New York State in an amount equal to the amount on deposit including interest accrued.

Federal Home Loan Bank Letters of Credit:

The financial institution may provide a letter of credit from a bank in New York State, in an amount equal to the funds on deposit including interest accrued.

INVESTMENT PARAMETERS

Diversification:

The investments should be diversified by:

1. Limiting investments to avoid over-concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities);
2. Limiting investment in securities that have higher credit risks;
3. Investing in securities with varying maturities; and
4. Continuously investing a portion of the portfolio in readily available funds to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.
5. No single financial institution should hold demand or time deposits which will exceed FDIC insured limits.
6. The following maximum limits, by instrument, are established for the District's total investment portfolio:

Investment Type Maximum Percentage of Portfolio

Collateralized Time and Demand Deposits 75%

U. S. Treasury Notes and Bills 100%

U. S. Government Agency Obligations 80%

Bank Trust Department Municipal Pools 10%

Temporary Notes or No-Fund Warrants 10%

7. Additional investments established for Bond Proceeds until spent are as follows: Maximum limits are listed by instrument as a percentage of the District's total portfolio value. Invested amounts are not to exceed 80% for money market mutual funds and 75% for financial institution paper.

Portfolios:

The District's funds shall be separated into two portfolios for efficient investment management. The short-term portfolio is defined as maturities less than 1 year, and the long-

term portfolio as maturities 1 year or greater. Funds will be allocated based on the cash flow needs of the District.

Maturities:

The District shall attempt to match its investments with anticipated cash flow requirements. The District will not directly invest in securities with stated maturities of more than four (4) years from the date of purchase, in accordance with the New York State law.

The sale of securities before maturity shall require the prior approval of the Treasurer, who may approve the sale based on the following reasons:

1. A security with declining credit may be sold early to minimize loss of principal;
2. A security swap would improve the quality, yield, or target maturity of the portfolio; or
3. Liquidity needs require that the security be sold.

REPORTING

Methods:

The District finance staff shall prepare a monthly investment report summarizing the month's investment activities. This report shall be provided to the Treasurer.

The Treasurer shall also prepare a detailed quarterly report, including a management summary and analysis of the status of the current investment portfolio and transactions made over the last quarter. This summary will be prepared in a manner which will allow the District to ascertain whether investment activities during the reporting period have conformed to this Investment Policy. The report will be provided to the Board of Commissioners. The report will include the following at a minimum:

1. Listing of individual securities held at the end of the reporting period.
2. Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year maturity that are not intended to be held until maturity (in accordance with Governmental Accounting Standards Board (GASB) requirements).
3. Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.
4. Listing of investments by maturity date.
5. Percentage of the total portfolio which each type of investment represents.
6. Percentage of the total portfolio which each institution holds.

Performance Standards:

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. The investment objective is for the short-term portfolio to exceed the 91-day U.S. Treasury Bill rate and for the long-term portfolio to exceed the 1-year U.S. Treasury Note average rate of return, both of which are benchmarks for risk-free investment transactions.

Marking to Market:

The market value of the portfolio shall be calculated at least monthly, and a statement of the market value of the portfolio shall be issued at least monthly. The market values of all securities in the portfolio will be obtained from a reputable and independent source. The report will include the market value, book value and unrealized gains or losses of securities in the portfolio.

Safekeeping/Custodian Reports:

The safekeeping agent shall prepare a holdings report and a transaction summary report monthly. In addition, the safekeeping agent shall value collateral securities on a monthly basis and report values for each bank sub-custodial account.

POLICY CONSIDERATIONS

Exemption:

Any investment currently held as of the first date of approval of this Investment Policy, that does not meet the guidelines of this policy shall be exempted from the requirements of this policy, but at maturity or liquidation, such monies shall be reinvested only as provided by this policy.

Amendments:

This policy shall be reviewed on an annual basis, if possible with an investment consultant or advisor. The Board of Commissioners must approve any changes.

RESPONSIBILITY FOR ENFORCEMENT

The Treasurer shall have primary responsibility for the Investment Policy.