

TOWN OF BETHLEHEM

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**TOWN OF BETHLEHEM
ANNUAL INVESTMENT REPORT
FOR THE YEAR ENDED 12/31/13**

As required by the Town's investment policy, the annual investment report is hereby submitted to the Town Board for review and approval. There are eleven designated depositories for the Town. All but Key Bank have a deposit limit of \$20,000,000. Key Bank's deposit limit is \$50,000,000 due to the timing of school tax collections and distributions. The following chart identifies the depositories, as well as balances invested at year-end:

Key Bank of New York, NA Four Corners Office Delmar, NY 12054	6,734,951
JP Morgan Chase 12 Corporate Woods Boulevard Albany, NY 12211	4,790,339
Capital Bank 1365 New Scotland Road Slingerlands, NY 12159	1,011,958
Berkshire Bank 255 Delaware Avenue Delamar, NY 12054	4,147,190
RBS Citizens, N.A. 180 Delaware Avenue Delamar, NY 12054	-
Pioneer Commercial Bank 184 Delaware Avenue Delamar, NY 12054	32,281
TD Bank North 343 Delaware Avenue Delmar, NY 12054	-
Bank of America 111 Delaware Avenue Delmar, NY 12054	-
First Niagara Commercial Bank 197 Delaware Avenue Delamar, NY 12054	-
M&T Bank 2080 Western Ave. Guilderland, 12084	-
Trustco Bank 197 Delaware Avenue Delamar, NY 12054	-

Fees Paid to Brokers: None.

Investment Guidelines: **Exhibit A** contains a copy of the Investment Policy. For 2014, we have modified section IX – “Safekeeping and Collateralization”. In 2012, the state modified General Municipal Law Section 10, Subsection 2 to allow for banks to sweep governmental money market funds into other banking institutions, as long as they maintain custodianship, and banks within the program who are located outside NYS invest similar funds within the program. The benefit to this type of program is that the town is fully covered by FDIC insurance, removing the collateral requirement [that funds in excess of FDIC funding are fully collateralized by the custodial bank] which can mean a greater level of interest payments. Also, added to the policy is National Bank of Coxsackie, who is currently in the process of opening a branch in Glenmont and offering the highest money market rates in the area.

Amendments to Guidelines: None.

Results of Annual Independent Audit: The firm of Cusack & Company, LLC has been engaged to perform an audit of the 2013 financial activity. The fieldwork has been completed and a report will be issued by May 2013. The most recent audit report is for 2012, prepared by Cusack & Company, LLC. Copies are on file in the Town Clerk’s Office and on the Town’s website.

Inventory of Existing Investments as of 12/31/12: See **Exhibit B** for a summary of accounts held at year-end.

Investment Income Record: See **Exhibit C** for a detailed schedule of interest earned. The interest earnings for 2013 were equal to \$31,497, a 43% decrease from the 2012 earnings of \$54,938. This is consistent with the decrease in the average rate earned on investments in 2013 which dropped to 0.12% from an average rate of 0.23% for 2012.

The following schedule lists information on interest rates:

2013

Type of Investment	High	Low	Average
Key Money Market	0.15	0.10	0.10
Chase Money Market	0.30	0.20	0.24
Berkshire Money Market	0.20	0.05	0.17
First Niagara Money Market*	0.15	0.15	0.15
Capital Bank Certificate of Deposit	0.65	0.25	0.31
Pioneer Commercial Money Market	0.05	0.05	0.05

* Closed March 2013

2012

Type of Investment	High	Low	Average
Key Money Market	0.15	0.15	0.15
Chase Money Market	0.30	0.20	0.24
Berkshire Money Market	0.63	0.24	0.43
First Niagara Money Market	0.15	0.15	0.15
Capital Bank Certificate of Deposit	0.65	0.60	0.62
Pioneer Commercial Money Market	0.05	0.05	0.05

The Money Market accounts provide a safe, liquid, and competitive return, with a minimal investment of administrative time to manage them. A 12 month CD was purchased in lieu of opening a Money Market

account with Capital Bank in an effort to maximize interest earnings without tying up a significant amount of money for an extended period of time.

Non-Monetary Compensation: The Town receives numerous bank services and benefits, beyond interest payments, for the balances deposited at our approved banking institutions. In 2013:

Service Received from Key Bank included,

- Payment Processing (“Lockbox”) – receipt and processing of water/sewer payments;
- Positive Pay - checks written on Town account are matched to a master file;
- Reconciliation Services - verification of outstanding checks;
- Debit blocks - ACH debits rejected unless preapproved;
- Free Checks and Deposit Slips;
- KTT - online access to view current and historical banking data as well as transfer and wire;
- Highway check scanner – allows for depositing check batches without leaving office;
- Accelerated earnings for compensating credits (Average 1.0%);
- Free credit card processing (waived \$3,159 in processing fees);
- Low bidder on \$1,021,000 BAN at 0.58%.

Services Received from Chase Bank included,

- Free credit card processing (waived \$4,516 in processing fees – moved to Key Bank in July 2013);
- Low bidder on 3 BANs \$1,284,000 (0.57%), \$826,317 (0.75%) and \$1,898,000 (0.54%);

While most of these services do not have a direct monetary value associated with them, the lockbox services deployed in 2012 have allowed the Town to absorb the attrition from one full time position, saving \$25,000 in 2012 and \$80,000 in 2013. In addition, the bank provides return envelopes free of charge resulting in \$6,000 savings in 2013.

If you have any questions, please do not hesitate to call.

Michael Cohen
March 26, 2014

Exhibit A

Town of Bethlehem

Investment Policy

INVESTMENT POLICY FOR THE TOWN OF BETHLEHEM

I. SCOPE

This investment policy applies to all moneys and other financial resources available for investment on its own behalf or on behalf of any other entity or individual, and is effective as of January 1, 1993, and as annually renewed and/or amended thereafter.

The Board shall annually review the Investment Policy, and amend if necessary.

II. OBJECTIVES

The primary objectives of the local government's investment activities are, in priority order:

- a) to conform with all applicable federal, state and other legal requirements (legal);
- b) to adequately safeguard principal (safety);
- c) to provide sufficient liquidity to meet all operating requirements (liquidity);
- d) to obtain a reasonable rate of return (yield);
- e) to maximize efficient use of bank services offered in compensation for deposits.

III. DELEGATION OF AUTHORITY

The governing board's responsibility for administration of the investment program is delegated to the Comptroller, who shall establish written procedures for the operation of the investment program consistent with these investment guidelines. Such procedures shall include an adequate internal control structure to provide a satisfactory level of accountability based on a data base or records incorporating description and amounts of investments, transaction dates, and other relevant information and regulate the activities of subordinate employees.

IV. PRUDENCE

All participants in the investment process shall seek to act responsibly as custodians of the public trust and shall avoid any transaction that might impair public confidence in the Town of Bethlehem to govern effectively.

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudent discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the safety of the principal as well as the probable income to be derived.

All participants 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.

V. DIVERSIFICATION

It is the policy of the Town of Bethlehem to diversify its deposits and investments by financial institution, by investment instrument, and by maturity scheduling.

VI. INTERNAL CONTROLS

It is the policy of the Town of Bethlehem for all moneys collected by any officer or employee of the

government to transfer those funds to the Comptroller on a weekly basis, or within the time period specified in law, whichever is shorter. The only exception to this requirement is for funds collected by the Town Clerk and by the Justices, which are normally transferred to the Comptroller monthly.

The Comptroller is responsible for establishing and maintaining an internal control structure to provide reasonable, but not absolute, assurance that deposits and investments are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly, and are managed in compliance with applicable laws and regulations.

VII. DESIGNATION OF DEPOSITORIES

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

<u>Depository Name</u>	<u>Maximum Amount</u>
Key Bank of New York	\$50,000,000
JP Morgan Chase	\$20,000,000
Berkshire Bank	\$20,000,000
Capital Bank	\$20,000,000
TD Bank North	\$20,000,000
Bank of America	\$20,000,000
Pioneer Commercial Bank	\$20,000,000
Kinderhook Savings	\$20,000,000
First Niagara Commercial Bank	\$20,000,000
M&T Bank	\$20,000,000
National Bank of Coxsackie	\$20,000,000

VIII. COLLATERALIZING OF DEPOSITS

In accordance with the provisions of General Municipal Law, Section 10, all deposits of the Town of Bethlehem, including certificates of deposit and special time deposits, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act shall be secured:

1. By a pledge of "eligible securities" with an aggregate "market value" as provided by GML Section 10, equal to the aggregate amount of deposits from the categories designated in Appendix A to the policy.
2. By an eligible "irrevocable letter of credit" issued by a qualified bank other than the bank with the deposits (and also excluding any bank affiliated with the bank which serves as an authorized depository) in favor of the government for a term not to exceed 90 days with an aggregate value equal to 140% of the aggregate amount of deposits and the agreed upon interest, if any. A qualified bank is one whose commercial paper and other unsecured short-term debt obligations are rated in one of the three highest rating categories by at least one nationally recognized statistical rating organization or by a bank that is in compliance with applicable federal minimum risk-based capital requirements.
3. By an eligible surety bond payable to the government for an amount at least equal to 100% of the aggregate amount of deposits and the agreed upon interest, if any, executed by an insurance company authorized to do business in New York State, whose claims-paying ability is rated in the highest rating category by at least two nationally recognized statistical rating organizations.

IX. SAFEKEEPING AND COLLATERALIZATION

Eligible securities used for collateralizing deposits shall be held by the depository or a third party bank or trust company, subject to security and custodial agreements.

The security agreement shall provide that eligible securities are being pledged to secure local government deposits together with agreed upon interest, if any, and any costs or expenses arising out of the collection of such deposits upon default. It shall also provide the conditions under which the securities may be sold, presented for payment, substituted or released and the events which will enable the local government to exercise its rights against the pledged securities. In the event that the securities are not registered or inscribed in the name of the local government, such securities shall be delivered in a form suitable for transfer or with an assignment in blank to the Town of Bethlehem or its custodial bank.

The custodial agreement shall provide that securities held by the bank or trust company, or agent of and custodian for, the local government, will be kept separate and apart from the general assets of the custodial bank or trust company and will not, in any circumstances, be commingled with or become part of the backing for any other deposit or other liabilities. The agreement should also describe that the custodian shall confirm the receipt, substitution or release of the securities. The agreement shall provide for the frequency of revaluation of eligible securities and for the substitution of securities when a change in the rating of a security may cause ineligibility. Such agreement shall include all provisions necessary to provide the local government a perfected interest in the securities.

Alternatively, the Town of Bethlehem may choose to arrange for redeposit of moneys through a deposit placement program through a bank or trust company that serves as custodian with respect to the moneys and arranges for the redeposit of the moneys in one or more banking institutions; the moneys being secured, provided that the depository receives deposits from customers of other financial institutions that are at least equal to the amount of moneys so invested.

X. PERMITTED INVESTMENTS

As authorized by General Municipal Law, Section 11, the Town of Bethlehem authorizes the Comptroller to invest moneys not required for immediate expenditure for terms not to exceed its projected cash flow needs in the following types of investments:

- a) Special time deposit accounts;
- b) Certificates of deposit;
- c) Obligations of the United States of America;
- d) Obligations guaranteed by agencies of the United States of America where the payment of principal and interest are guaranteed by the United States of America;
- e) Obligations of the State of New York;
- f) Obligations issued by states (other than the State of New York) of the United States rated in one of the three highest rating categories by at least one nationally recognized statistical rating organization.
- g) Obligation issued pursuant to LFL Section 24.00 or 25.00 (with approval of the State Comptroller) by any municipality, school district or district corporation other than the Town of Bethlehem;
- h) Obligations of public authorities, public housing authorities, urban renewal agencies and industrial development agencies where the general State statutes governing such entities or whose specific enabling legislation authorize such investments.
- i) Certificate of participation (COPS) issued pursuant to GML Section 109-b.
- j) Obligations of domestic corporations rated in one of the two highest rating categories by at least one nationally recognized statistical rating organization.

All investment obligations shall be payable or redeemable at the option of the Town of Bethlehem within such times as the proceeds will be needed to meet expenditures for purposes for which the moneys were provided and, in the case of obligations purchased with the proceeds of bonds or

notes, shall be payable or redeemable at the option of the Town of Bethlehem within two years of the date of purchase.

XI. AUTHORIZED FINANCIAL INSTITUTIONS AND DEALERS

The Town of Bethlehem shall maintain a list of financial institutions and dealers approved for investment purposes and establish appropriate limits to the amount of investments which can be made with each financial institution or dealer (See Section VII). All financial institutions with which the local government conducts business must be credit worthy. Banks shall provide their most recent Consolidated Report of Condition (Call Report) at the request of the Town of Bethlehem. Security dealers not affiliated with a bank shall be required to be classified as reporting dealers affiliated with the New York Federal Reserve Bank, as primary dealers. The Comptroller is responsible for evaluating the financial position and maintaining a listing of proposed depositories, trading partners and custodians. Such listing shall be evaluated at least annually.

XII. PURCHASE OF INVESTMENTS

The Comptroller is authorized to contract for the purchase of investments:

1. Directly, from an authorized trading partner.
2. By participation in a cooperative investment program with another authorized governmental entity pursuant to Article 5G of the General Municipal Law where such program meets all the requirements set forth in the Office of the State Comptroller Opinion No. 88-46, and the specific program has been authorized by the governing board.
3. By utilizing an ongoing investment program with an authorized trading partner pursuant to a contract authorized by the governing board.

All purchased obligations, unless registered or inscribed in the name of the local government, shall be purchased through, delivered to and held in the custody of a bank or trust company. Such obligations shall be purchased, sold or presented for redemption or payment by such bank or trust company only in accordance with prior written authorization from the officer authorized to make the investment. All such transactions shall be confirmed in writing to the Town of Bethlehem by the bank or trust company. Any obligation held in the custody of a bank or trust company shall be held pursuant to a written custodial agreement as described in General Municipal Law, Section 10.

The custodial agreement shall provide that securities held by the bank or trust company, as agent of and custodian for, the local government, will be kept separate and apart from the general assets of the custodial bank or trust company and will not, in any circumstances, be commingled with or become part of the backing for any other deposit or other liabilities. The agreement shall describe how the custodian shall confirm the receipt and release of the securities. Such agreement shall include all provisions necessary to provide the local government a perfected interest in the securities.

XIII. REPURCHASE AGREEMENTS

Repurchase agreements are not authorized as an investment vehicle.

XIV. ADMINISTRATIVE FEES

It is the policy of the Town of Bethlehem to invest moneys collected from third parties for contract performance bonds. To compensate itself for the accounting and engineering services rendered in the administration of these funds, the Town imposes an annual fee equal to .5% of the base bond amount, subject to a maximum of \$500 per year.

XV. REPORTING

Within 120 days of the end of the fiscal year, the Comptroller shall prepare and submit to the Town Board an annual investment report; recommendations for changes in the Investment Guidelines; the investment income record; a list of total fees; commissions or other charges, if any, paid to the Custodial Bank and such other matters as the Comptroller deems appropriate. The Town Board shall review and approve the annual investment report within 45 days of receipt.

Exhibit B

Time Deposits and Investments December 31, 2013

Last updated: 3/12/2014

	Account Number	Bank	Bank Balance	Add: Deposits in Transit	Less: Outstanding Checks	Town Balance
Demand Deposits						
Master Disbursement Acct	810 ****0047	Key	220,606.92	0.00	189,189.49	31,417.00
Payroll Account	115 ****3654	Key	25,293.15	7,839.05	2,817.87	30,314.00
Depository Account	810 ****0149	Key	4,694,028.01	27,889.19	0.00	4,721,917.00
NYSCAP Grant	347 ****3891	Key	0.00	0.00	0.00	0.00
Drug Asset Forfeiture-Federal	110 ****9720	Key	20,711.77	0.00	0.00	20,712.00
Drug Asset Forfeiture-Holding	410 ****9187	Key	10,971.12	0.00	0.00	10,971.00
Drug Asset Forfeiture-State	110 ****9738	Key	39,911.33	0.00	20,522.31	19,389.00
Justice Donovan	410 ****3768	Key	46,609.00	0.00	39,994.00	6,615.00
Justice Katzer	410 ****1377	Key	40,063.00	0.00	31,000.00	9,063.00
Special Grant, Housing+	****5021	Key	4,931.55	0.00	0.00	4,932.00
Special Grant	****1785	Key	8,780.11	0.00	0.00	8,780.00
Town Clerk	410 ****0298	Key	95.46	0.00	0.00	95.00
Park Merchant Account	110 ****3708	Key	105,531.96	3,530.04	0.00	109,062.00
VISA/MC receipts	110 ****5709	Chase	1,237,548.63	0.00	0.00	1,237,549.00
Total Demand Deposit Cash			6,455,082.01	39,258.28	283,523.67	6,210,816.00

Time Deposits						
Chase M-Mkt	810 ****6268	Chase	3,436,561.34	0.00	0.00	3,436,561.00
Performance Bonds	410 ****4788	Chase	98,335.63	0.00	0.00	98,336.00
Water, Land Acquisition	332 ****7035	Chase	17,892.80	0.00	0.00	17,893.00
Key Premier M-Mkt	810 ****4066	Key	1,752,421.23	5,346.24	0.00	1,757,767.00
Receiver of Taxes	110 ****1541	Key	10.75	0.00	0.00	11.00
Cable Equipment	410 ****0884	Key	9,252.34	0.00	5,346.24	3,906.00
Berkshire Bank	810 ****9645	Berkshire	4,147,190.36	0.00	0.00	4,147,190.00
Pioneer Savings	810 ****0025	Pioneer	32,281.23	0.00	0.00	32,281.00

Certificate of Deposit						
Capital Bank	810 ****7116	Capital	1,011,957.64			1,011,958.00
Total Time Deposit Cash			10,505,903.32	5,346.24	5,346.24	10,505,903.00

	Max FDIC	FDIC Used	Bank Balance	Collateral Per Bank	Collateral Required	Over/(Under) Collateralized
COLLATERAL						
Key: Non interest & interest bearing	500,000	500,000	6,979,218	9,408,665	6,479,218	2,929,448
Chase: Non interest & interest bearing	500,000	500,000	4,790,338	4,376,203	4,290,338	85,865
Pioneer	250,000	32,281	32,281	0	0	0
Berkshire Bank	250,000	250,000	4,147,190	3897190	3,897,190	0
Capital Bank	250,000	250,000	1,011,958	797,162	761,958	35,204
Total Collateral	1,750,000	1,532,281	16,960,985	18,479,221	15,428,704	3,050,517

**Town of Bethlehem
Summary of Interest Income
December 31, 2013**

Exhibit C

Last updated: 3/17/2014

Fund	Key Savings	Chase M-Mkt #1	Key Bank M-Mkt #3	Pioneer M-Mkt #5	1st Niagara M-Mkt #7	Berkshire M-Mkt #15	Capital M-Mkt #16	Total 2013	Total 2012
General	3,808	314	781	119	-	1,065	1,147	7,234	8,788
Parkland Set Aside Fees				-				-	65
Highway	2,452	2,953	(7)		148	622	1,147	7,315	13,548
Water	1,124	1,666	549			972	1,147	5,458	8,449
Water - Restricted	11							11	24
Sewer	1,029	423	395			2,479	1,147	5,473	9,391
General Fund Reserve	-	128	-			753		881	2,449
Composting Reserve								-	-
Highway Reserve	(29)	403	-					374	727
Sewer Reserve	(7)	127	116			489		725	1,601
Sewer Pump Station Projects								-	-
Water Reserve	86	1,227				2,046		3,359	8,847
Water Capital Projects			10					10	-
Landfill Reserve		347						347	449
Sewer Project								-	-
Recreation Reserve	(29)	83	160					214	522
Fire Tower Reserve	-	96				-		96	78
Total 2013	8,445	7,767	2,004	119	148	8,426	4,588	31,497	54,938
Total 2012	3,558	7,504	4,715	41	323	32,461	6,336	54,938	