

TOWN OF BETHLEHEM

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

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 nine designated depositories for the Town, each with a deposit limit of \$20,000,000. 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	\$3,685,227
JP Morgan Chase 12 Corporate Woods Boulevard Albany, NY 12211	\$4,241,956
Capital Bank 1365 New Scotland Road Slingerlands, NY 12159	\$1,007,972
Berkshire Bank 24 North Street Pittsfield, MA 01201	\$5,294,658
Kinderhook Savings 180 Delaware Avenue Delmar, NY 12054	-
Pioneer Commercial Bank 21 Second Street Troy, NY 12180	\$82,162
TD Bank North 343 Delaware Avenue Delmar, NY 12054	-
Bank of America Kiernan Plaza Albany, NY 12207	-
First Niagara Commercial Bank 18 Corporate Woods Boulevard Albany, NY 12211	\$513,143

Fees Paid to Brokers: None.

Investment Guidelines: **Exhibit A** contains a copy of the Investment Policy. For 2013, the policy has been modified to request a \$50,000,000 limit for Key Bank due to the timing of collections and disbursements for school taxes which can, by themselves, account for daily balances in excess of \$40 million. With typical Town balances held at Key around \$5 million, on any given day in September or early October, the Town can be holding around \$45 million at this depository. There is no additional risk to the Town for larger balances as banking institutions are required to collateralize deposits held for municipalities to prevent loss of assets should a banking catastrophe occur.

Amendments to Guidelines: None.

Results of Annual Independent Audit: The firm of Cusack & Company, LLC has been engaged to perform an audit of the 2012 financial activity. The fieldwork has been completed and a report will be issued in April, 2013. The most recent audit report is for 2011, 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 2012 were equal to \$54,938, a 4% increase from the 2011 earnings of \$52,862. This contrasts with the decrease in the average rate earned on investments in 2011 which was .23% compared to an average rate of 0.25% for 2011. The net return on investments increased primarily because of the Town's steadily increasing fund balance and mix of institutional investments.

The following schedule lists information on interest rates:

<u>2012</u>	Type of Investment	High	Low	Average
	Key Money Market	.15	.15	.15
	Chase Money Market	.30	.20	.24
	Berkshire Money Market	.63	.24	.43
	First Niagara Money Market	.15	.15	.15
	Capital Bank Certificate of Deposit	.65	.60	.62
	Pioneer Commercial Money Market	.05	.05	.05

<u>2011</u>	Type of Investment	High	Low	Average
	Key Money Market	.20	.15	.19
	Chase Money Market	.45	.35	.40
	Berkshire Money Market	.81	.55	.66
	Citizens Money Market	.10	.03	.05
	First Niagara Money Market	.30	.20	.25
	Capital Bank Certificate of Deposit	.65	.65	.65
	Pioneer Commercial Money Market	.05	.05	.05

The Money Market accounts provide a safe, liquid, and competitive return, with a minimal investment of administrative time to manage them. A 10 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 2012:

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 (1.3%).

Services Received from Chase Bank included,

- Free credit card processing (waived \$10,923 in processing fees);
- Low bidder on \$896,000 BAN (0.74%).

Services from Pioneer Commercial Bank included,

- Low bidder on \$1,430,500 refinancing BAN (0.625%)

Services from Berkshire Bank included,

- Low bidder on \$1,149,000 refinancing BAN (0.60%)

In 2013, the Town began collection on mailed tax payments through Key Bank. The added value to the Town, between this service and water/sewer collection, will be annual savings in excess of \$68K based on a retirement, and reallocation of resources to remove one full time position from the Town.

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

Michael Cohen
March 27, 2013

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 monies 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

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.

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 authorizes 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, 2012

Last updated: 3/18/2013

	Account Number	Bank	Bank Balance	Add: Deposits in Transit	Less: Outstanding Checks	Town Balance
Demand Deposits						
Master Disbursement Acct	****0047	Key	37,302.95	0.00	32,584.07	4,719.00
Payroll Account	****3654	Key	29,568.26	546.45	7,349.21	22,766.00
Chase M-Mkt	****6268	Chase	3,070,155.05	0.00	0.00	3,070,155.00
VISA/MC receipts	****5709	Chase	1,054,744.69	907.01	0.00	1,055,652.00
Performance Bonds	****4788	Chase	98,267.38	0.00	0.00	98,267.00
Water, Land Acquisition	****7035	Chase	17,882.18	0.00	0.00	17,882.00
First Niagara M-Mkt	****4129	First Niagara	513,143.46	0.00	0.00	513,143.00
Key Premier M-Mkt	****4066	Key	2,741,100.27	0.00	0.00	2,741,100.00
Depository Account	****0149	Key	688,995.41	114,152.17	0.00	803,148.00
Receiver of Taxes	****1541	Key	10.56	0.00	0.00	11.00
Cable Equipment	****0884	Key	12,449.49	0.00	3,207.86	9,242.00
Drug Asset Forfeiture-Federal	****9720	Key	12,226.86	0.00	0.00	12,227.00
Drug Asset Forfeiture-Holding	****9187	Key	10,960.15	0.00	0.00	10,960.00
Drug Asset Forfeiture-State	****9738	Key	26,193.06	0.00	0.00	26,193.00
NYSCAP Grant	****3891	Key	0.00	0.00	8,598.00	-8,598.00
Berkshire Bank	****9645	Berkshire	5,294,658.40	0.00	0.00	5,294,658.00
Pioneer Savings	****0025	Pioneer	82,162.37	0.00	0.00	82,162.00
Special Grant, Housing+	****5021	Key	22,526.75	0.00	0.00	22,527.00
Special Grant	****1785	Key	26,399.99	0.00	0.00	26,400.00
Justice Donovan	****3768	Key	37,893.00	0.00	29,653.00	8,240.00
Justice Jordan	****1005	Key	36,151.50	0.00	29,961.50	6,190.00
Town Clerk	****0298	Key	102.01	0.00	0.00	102.00
Total Demand Deposit Cash			13,746,022.58	115,059.18	11,805.86	13,789,661.00

Certificate of Deposit						
Capital Bank	****0144	Capital	1,007,972.41			1,007,972.00
Total Time Deposit Cash			1,007,972.41	0.00	0.00	1,007,972.00

COLLATERAL	Max FDIC	FDIC Used	Bank Balance	Collateral Value
Key: non-interest bearing (DDA)	Unlimited	141,028	141,028	0
Key: interest bearing	250,000	250,000	3,540,852	3,290,852
Chase: interest bearing	250,000	250,000	3,186,305	2,936,305
Chase: non-interest bearing (DDA)	Unlimited	1,054,745	1,054,745	0
Pioneer	250,000	82,162	82,162	0
Berkshire Bank	250,000	250,000	5,294,658	5,044,658
First Niagara	250,000	217,032	513,143	296,111
Capital Bank	250,000	213,462	1,007,972	794,510
Total Collateral	1,500,000	2,458,430	14,820,866	12,362,436

Note: Beginning on December 31, 2010 all non-interest bearing accounts received 100% FDIC insurance coverage because of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Any balances in non-interest bearing accounts did not receive collateral because FDIC insured them 100%.

**Town of Bethlehem
Summary of Interest Income
December 31, 2012**

Exhibit C

Last updated: 3/18/2013

Fund	Key Savings	Chase M-Mkt #1	Citizens M-Mkt #2	Key Bank M-Mkt #3	M&T Bank M-Mkt #4	Pioneer M-Mkt #5	HSBC M-Mkt #6	1st Niagara M-Mkt #7	Bank CD's	Berkshire M-Mkt #15	Capital M-Mkt #16	Total 2012	Total 2011
General	1,356	2,779	-	2,551	-	41	-	-	-	477	1,584	8,788	10,376
Parkland Set Aside Fees	65					-						65	-
Highway	446	3,105	-	(4)			-	323		8,094	1,584	13,548	10,875
Water	1,052	25	-	695						5,093	1,584	8,449	10,416
Water - Restricted	24											24	-
Sewer	534	292	-	795						6,186	1,584	9,391	12,859
General Fund Reserve	(25)	165		-						2,309		2,449	1,467
Composting Reserve												-	-
Highway Reserve	196	520		11								727	1,786
Sewer Reserve	(23)		-	187						1,437		1,601	246
Sewer Pump Station Projects												-	-
Water Reserve	(18)	-	-							8,865		8,847	3,032
Water Capital Projects												-	-
Landfill Reserve		449										449	734
Sewer Project												-	-
Recreation Reserve	(49)	91		480								522	948
Fire Tower Reserve	-	78	-							-		78	123
Total	3,558	7,504	-	4,715	-	41	-	323	-	32,461	6,336	54,938	52,862