

FINANCIAL AUDIT ADVISORY COMMITTEE

Agenda

Thursday, January 10, 2012 at 8:00 AM

Room 222, City Hall

Agenda Items

- Continue discussion on the Fiscal Year 2012 external audit
- Audits for Discretely Presented Component Units (see pgs. 34-35 on the FY2012 Comprehensive Annual Financial Report)
- Discussion regarding the annual report to the Finance Committee of the Board of Aldermen
- Review and possible approval of the draft Investment Policy
- Review and possible approval of the draft Whistleblower Policy
- Discussion of goals and calendar for 2013

Handouts:

CAFR Portion of 12/6/12 Sullivan & Rogers Presentation

Newton Community Farm Financial Statements

Draft Annual Report

Draft Investment Policy

Draft Whistleblower Policy

Tentative 2013 Schedule

1

City of Newton, Massachusetts

Fiscal Year 2012 Audit Exit Conference

December 6, 2012

Presented by: Chris Rogers, CPA, Shareholder

Agenda

2

- Engagement summary
- CAFR/Financial Statement summary
 - ▣ CAFR Structure
 - ▣ Opinion
 - ▣ Financial highlights
 - ▣ Significant footnotes
 - ▣ Required Supplementary Information
- Reports on Internal Control and Federal Awards
- Management Letter

Engagement Summary

3

- Audit began September 2012
- Financial statement/CAFR draft issued 10-31; final issued 11-30
- Management letter and Reports on Internal Control and Federal Awards drafts issued 11-9 and 11-30
- Information provided timely and was well organized
- Management and staff responsive to all inquiries
- No disagreements with management

CAFR Structure

4

- Introductory section (p i-viii)
- Financial section
 - ▣ Auditors' opinion (p 1-2)
 - ▣ Management's discussion and analysis (p 3-16)
 - ▣ Financial statements and notes (p 17-73)
 - ▣ Required supplementary information (p 74-75)
 - ▣ Combining statements and schedules (p 76-113)
 - ▣ Additional information (p 114-121)
- Statistical Section (p 122-139)

Opinion

5

- Opinion (p 1-2)
 - ▣ Unqualified opinion (best opinion available)
 - ▣ Other auditors audited Newton Commonwealth Foundation and Newton Community Farm
 - Discretely presented component units

Financial Highlights

6

- **Government-Wide Financial Statements (Full Accrual)**
 - ▣ **Statement of Net Assets - Governmental Activities (p 17-18)**
 - **Assets - \$545m**
 - Cash and investments - \$101.5m
 - Capital assets - \$407.5m
 - **Liabilities - \$383.3m**
 - Bonds payable - \$188.3m
 - Net OPEB obligation - \$144.3m
 - **Net Assets – \$161.2m**
 - Invested in capital assets, net of debt - \$220.2m
 - Restrictions - \$34.5m
 - Unrestricted – (\$93.5m)
 - ▣ **Statement of Net Assets - Business-type Activities (p 17-18)**
 - Represent collective balances of enterprise funds, which are discussed individually further in this document

Financial Highlights

7

- Government-Wide Financial Statements (continued)
 - ▣ Statement of Activities - Governmental Activities (p 19-20)
 - Decrease in net assets of \$19.6m, or 10.7%
 - Primarily the result of recognizing \$29.1m in OPEB expense and a decrease of \$3.3m in snow and ice expenses
 - Total expenses - \$389.7m
 - Education - \$252.9m, or 64.9%
 - Public safety - \$56.1m, or 14.4%
 - Public works - \$24.2m, or 6.2%
 - Total revenues – 368.9m
 - Program revenues - \$94.0m, or 24.1%
 - Operating grants and contributions - \$65.8m, or 70.0%
 - General revenues and transfers - \$274.9m, or 75.9%
 - Real estate \$249.3m, or 90.7%

Financial Highlights

8

- Governmental Funds Financial Statements (Modified Accrual)
 - General Fund
 - Balance Sheet (p 21)
 - Fund balance - \$28.2m
 - Restricted - \$938k (debt service, OPEB, capital)
 - Committed - \$9.8m (funding of the FY 13 budget, continuing appropriations & capital)
 - Assigned - \$2.6m (encumbrances and capital)
 - Unassigned - \$14.9m
 - Includes \$6.2m of general/"rainy day" stabilization funds
 - Represents 4.5% of total revenues and other financing sources (3.4 – 5.7% over the past 6 fiscal years)
 - See Note 14, page 67, for further detail

Financial Highlights

□ General Fund

■ Statement of changes in fund balance (p 23)

- Net change in fund balance – (\$2.5m)
 - Use of reserves (including prior year carry-forwards) – \$10.8m (primarily free cash and continuing appropriations of \$6.2m and \$3.8m, respectively)
 - Budgeted revenue positive variance - \$3.0m
 - Budgeted expenditures positive variance - \$6.6m
 - Encumbrances and continuing appropriations totals \$4.6m
- General Fund debt service as a percentage of total expenditures and transfers out – 4.8% (4.9% in prior year)
- Paid approximately \$494k in interest on refund to Verizon

Financial Highlights

10

▣ Other Governmental Funds

■ Fund balances

- Community Preservation - \$8.6m
- School construction/renovation - \$5.4m
- Education - \$4.5m
- Culture and recreation - \$2.9m
- Receipts reserved - \$4.8m

Financial Highlights

11

- Proprietary Funds Financial Statements (full accrual)
 - Sewer Enterprise
 - Statement of net assets (p 27)
 - Assets - \$54.4m
 - Cash and investments - \$9.9m
 - Capital assets - \$33.7m
 - Liabilities - \$13.4m
 - Bonds payable - \$11.1m
 - Net OPEB obligation - \$1.6m
 - Net assets - \$41.0m
 - Invested in capital assets, net of debt - \$24.6m
 - Restricted (capital) – \$2.9m
 - Unrestricted - \$13.5m

Financial Highlights

12

□ Sewer Enterprise (continued)

■ Statement of revenues, expenses and changes (p 28)

- Net change in net assets - \$4.6m (\$3.3m in prior year)

- Primarily result of rate increase, reduction in abatements compared to the prior year and increase in capital contributions

□ Water Enterprise

■ Statement of net assets (p 27)

- Assets - \$57.4m

- Cash and investments - \$8.8m

- Capital assets - \$42.6m

Financial Highlights

13

□ Water Enterprise (continued)

- Liabilities - \$21.4m
 - Bonds payable - \$18.2m
 - Net OPEB obligation - \$1.9m
- Net assets - \$36.0m
 - Invested in capital assets, net of debt - \$24.4m
 - Restricted (capital) – \$4.0m
 - Unrestricted - \$7.6m
- Statement of revenues, expenses and changes (p 28)
 - Net change in net assets - \$3.3m (\$3.8m in prior year)
 - Rate increase, reduction in abatements compared to the prior year offset by increase in depreciation (resulting from water meter additions)

Financial Highlights

14

- ▣ Internal Service Fund (self-insured activities for health, workers' compensation, building and liability insurance)
 - Statement of net assets (p 27)
 - Assets - \$28.1m
 - Cash and investments - \$27.6m
 - Liabilities - \$12.9m
 - Accrued health claims - \$3.7m
 - Workers' compensation - \$6.5m
 - Net assets - \$15.1m
 - Health - \$12.8m
 - Workers' compensation - \$1.7m
 - Building - \$434k
 - Liability - \$223k

Financial Highlights

15

- ▣ Internal Service Fund (continued)
 - Statement of revenues, expenses and changes (p 28)
 - Net change in net assets - \$2.1m ((\$248k) in prior year)
 - Primarily related to \$2.5m decrease in health insurance claims during fiscal year 2012

Financial Highlights

16

- Fiduciary Funds Financial Statements (full accrual)
 - Pension Trust Fund
 - Statement of Fiduciary Net Assets (p 30)
 - Net assets - \$233.3m (primarily consisting of cash and investments)
 - Statement of Changes in Fiduciary Net Assets (p 31)
 - Change in net assets – (\$8.0m); prior year increase of \$18.8m
 - Change from prior year primarily the result of investment gains (losses) – (\$28m) decrease from the prior year
 - Funding progress (p 70)
 - Unfunded actuarial accrued liability (UAAL) - \$231.1m
 - Funded ratio – 53.1% as of 01/01/12
 - City is responsible for 98.9% of UAAL

Significant Footnotes

17

- Note 10 - Long-term Debt (p 57-62)
 - ▣ Total outstanding
 - Governmental Funds - \$188.3m
 - Water - \$18.2m
 - Sewer - \$11.1m

Significant Footnotes

18

- Note 12 – OPEB (p 62-65)
 - 5th year of OPEB accrual
 - UAAL at 06/30/12 - \$601.3m
 - Net OPEB Obligation at 06/30/12 – \$147.9m
 - FY 12 ARC - \$46.4m
 - Paid \$16.6m (pay-as-you-go)
 - Increase to NOPEBO - \$29.8m
 - Percentage contributed related to ARC – 35.3%
 - Note: \$313k set aside in OPEB trust (employer asset reported as restricted general fund balance)

Significant Footnotes

- Note 14 – Fund Balances (p 67)
 - ▣ Provides detail of fund balances reported in Governmental Funds

- Note 15 - Stabilization Funds (p 68)
 - ▣ Describes establishment and use of funds
 - ▣ Capital stabilization totals \$5.2m
 - ▣ General/”rainy-day” stabilization totals \$6.2m

Required Supplementary Information

20

- Pages 74-75
 - ▣ Includes historical pension and OPEB information
 - Schedules of funding progress
 - Schedule of employer contributions
 - City share of retirement system ARC

Newton Community Farm, Inc.
(A Not-for-Profit Organization)

Financial Statements
and Supplementary Information

December 31, 2011 and 2010

Newton Community Farm, Inc.
(A Not-for-Profit Organization)

Table of Contents

Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5
Supplementary Information	
Program and Administrative Expenses	10

FRIEDMAN
SUVALLE & SALOMON PC

Certified Public Accountants and Business Advisors

Member of CPA Associates International, Inc.

Independent Auditors' Report

The Board of Directors
Newton Community Farm, Inc.

We have audited the accompanying statements of financial position of Newton Community Farm, Inc. (a not-for-profit organization) as of December 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Newton Community Farm, Inc. as of December 31, 2011 and 2010, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purposes of forming an opinion on the financial statements taken as a whole. The supplementary information on page 10 is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Friedman Suvalle & Salomon P.C.

Newton, Massachusetts

August 30, 2012

Newton Community Farm, Inc.
(A not-for-profit Organization)
Statements of Financial Position
As of December 31,

	2011	2010
Assets		
Current assets		
Cash and cash equivalents	\$ 143,861	\$ 126,541
Accounts receivable	4,219	403
Contributions receivable	4,950	-
Inventory	782	782
Prepaid expenses	2,098	730
Construction deposit	457	457
Total current assets	156,367	128,913
Property and equipment, net	233,269	244,363
Other assets		
Cash restricted for barn renovation	3,494	3,490
Total other assets	3,494	3,490
Total assets	\$ 393,130	\$ 376,766
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 14,617	\$ 7,763
Net assets		
Unrestricted	376,450	366,944
Temporarily restricted	2,063	2,059
Total net assets	378,513	369,003
Total liabilities and net assets	\$ 393,130	\$ 376,766

See independent auditors' report and notes to financial statements.

Newton Community Farm, Inc.
(A not-for-profit Organization)

Statements of Activities
For the Years Ended December 31,

	2011				2010			
	Net Assets		Total	%	Net Assets		Total	%
	Unrestricted	Temporarily Restricted			Unrestricted	Temporarily Restricted		
Revenues								
Donation income	\$ 47,707	\$ -	\$ 47,707	30.3	\$ 52,395	\$ -	\$ 52,395	33.6
Education programs	7,829	-	7,829	5.0	6,829	-	6,829	4.4
Grant income	3,000	-	3,000	1.9	-	-	-	-
Interest	1,015	4	1,019	0.6	849	-	849	0.5
CSA income	47,477	-	47,477	30.2	47,973	-	47,973	30.8
Produce sales	49,343	-	49,343	31.4	47,285	-	47,285	30.3
Miscellaneous income	879	-	879	0.6	485	-	485	0.3
Net assets released from restrictions	-	-	-	-	1,000	(1,000)	-	-
Total revenues	157,250	4	157,254	100.0	156,816	(1,000)	155,816	100.0
Expenses								
Program expenses	127,445	-	127,445	81.0	111,378	-	111,378	71.5
General and administrative expenses	11,301	-	11,301	7.2	14,138	-	14,138	9.1
Fundraising expense	8,998	-	8,998	5.7	7,537	-	7,537	4.8
Total expenses	147,744	-	147,744	94.0	133,053	-	133,053	85.4
Income from operations	9,506	4	9,510	6.0	23,763	(1,000)	22,763	14.6
Change in net assets	9,506	4	9,510	6.0	23,763	(1,000)	22,763	14.6
Net assets beginning of year	366,944	2,059	369,003		343,181	3,059	346,240	
Net assets end of year	\$ 376,450	\$ 2,063	\$ 378,513		\$ 366,944	\$ 2,059	\$ 369,003	

Newton Community Farm, Inc.
(A not-for-profit Organization)

Statements of Cash Flows
For the Years Ended December 31,

	2011	2010
Cash flows from operating activities		
Change in net assets	\$ 9,510	\$ 22,763
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	18,923	19,171
Non-cash donations of equipment	(1,500)	-
(Increase) decrease in:		
Accounts receivable	(3,816)	(386)
Contributions receivable	(4,950)	300
Inventory	-	28
Prepaid expenses	(1,368)	60
Cash restricted for barn renovation	(4)	235
Contractor fee	-	30,832
Increase (decrease) in:		
Accounts payable and accrued expenses	6,854	(2,485)
Total adjustments	14,139	47,755
Net cash provided by operating activities	23,649	70,518
Cash flows from investing activities		
Cash payments for the purchase of property and equipment	(6,329)	(4,610)
Net cash used by investing activities	(6,329)	(4,610)
Net increase in cash and cash equivalents	17,320	65,908
Cash and cash equivalents, beginning	126,541	60,633
Cash and cash equivalents, ending	\$ 143,861	\$ 126,541

See independent auditors' report and notes to financial statements.

Newton Community Farm, Inc.
(A Not-for-Profit Organization)

Notes to Financial Statements
December 31, 2011 and 2010

Note 1 – Nature of Operations

Newton Community Farm, Inc. (the "Organization") was founded in 2005 to preserve the historic Angino Farm including its open space, buildings, and farm structures. The farm, building, and structures are owned by the City of Newton and licensed out to the Organization. The Organization provides a model of sustainable agriculture by creating a successful operation onsite. The Organization educates citizens of Newton through a hands-on and didactic experience of sustainable practices.

As part of its operations, the Organization sells approximately 100 shares (split between Weekly Shares and Alternate Week Shares) to residents of the City of Newton. CSA Sharers pre-pay for produce which is then picked up from the farm over the course of an approximately 22 week season running from early June to late October. CSA Sharers are required as part of the cost of the share to work 6 to 12 hours, depending on the type of share, at the farm over the course of the season. In addition, CSA Sharers must be current participants in the Friends of the Farm program. The Organization also sells Apple Shares in partnership with a local orchard. These shares currently are available to anyone who wants to participate. In addition to the CSA model, the farm also sells produce at Newton's Friday farmers' market, grows and donates food to the Newton Food Pantry in Waban, and operates an onsite farm stand that is open to the public from late April through the end of November.

Note 2 – Summary of Significant Accounting Policies

Classification of Net Assets

The financial statements are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets. Those classifications are defined as follows:

Unrestricted Net Assets – consist of assets created through public support and program revenues, which are available and used for operations and programs. Grants and donations are considered available for unrestricted use unless specifically restricted by the donor. Unrestricted donations include temporarily restricted assets whose restrictions have been met in the same reporting period.

Temporarily Restricted Net Assets – consist of assets created through public support and program revenues with donor-imposed restrictions, which are satisfied either by the passage of time or by completion of actions by the organization that satisfy the restriction.

Permanently Restricted Net Assets – consist of assets which have a permanent donor-imposed restriction, which stipulates that the assets are to be maintained permanently, but permit the Organization to expend part or all of the income derived from the donated assets.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers money market funds and any other short-term debt securities with an original maturity date of three months or less at the time of purchase to be cash equivalents.

Newton Community Farm, Inc.
(A Not-for-Profit Organization)

Notes to Financial Statements
December 31, 2011 and 2010

Note 2 – Summary of Significant Accounting Policies (Continued)

Accounts Receivable

The Organization extends credit to its members in the ordinary course of operations. After reviewing aged outstanding balances and giving consideration to the Organization's collection history, the Organization has determined that all aged outstanding balances are collectible. Therefore, there was no allowance for doubtful accounts at December 31, 2011 and 2010.

Inventories

Inventories are stated at the lower of cost or market value, with costs determined on the first-in, first-out (FIFO) method. Inventory at December 31, 2011 and 2010 consisted of seeds only.

Donated Equipment

Donations of equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Donated assets that have a questionable or uncertain value are not recognized in the financial statements.

Property and Equipment

Property and equipment are stated at cost. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method ranging from five to twenty-five years. Repairs and maintenance costs are expensed as incurred.

Income Taxes

The Organization is a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Organization accounts for uncertainty of tax positions under the current generally accepted accounting principles. These principles provide guidance on how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. They prescribe a two-step process to determine the amount of tax benefit to recognize. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon examination by a tax authority. If the position is deemed "more-likely-than-not" to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in the financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50 percent likelihood of being realized upon ultimate settlement. If the tax position does not meet the "more-likely-than-not" threshold then it is not recognized in the financial statements. In accordance with these principles, an entity accrues interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense. The Organization remains subject to income tax examinations by its respective federal and state tax jurisdictions for the years ended December 31, 2009 through 2011.

Newton Community Farm, Inc.
(A Not-for-Profit Organization)

Notes to Financial Statements
December 31, 2011 and 2010

Note 2 – Summary of Significant Accounting Policies (Continued)

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from the estimates that were used.

Note 3 – Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2011</u>	<u>2010</u>
Equipment	\$ 42,241	\$ 34,412
Leasehold improvements	<u>267,450</u>	<u>267,450</u>
	309,691	301,862
Accumulated depreciation	<u>(76,422)</u>	<u>(57,499)</u>
	<u>\$ 233,269</u>	<u>\$ 244,363</u>

Depreciation expense for the years ended December 31, 2011 and 2010 was \$18,923 and \$19,171, respectively.

Note 4 – Donated Use of Property and Building

The Organization has a license to operate the farm, building, and facilities at Newton Angino Farm to March 2030. This license was granted by its owner, the City of Newton. The farm manager is granted the use of the farm house as a condition of the license agreement and his/her employment. The fair value of these facilities has not been recognized in the financial statements as it is held by the grantor.

Note 5 – Cash Restricted for Barn Renovation

Cash restricted for barn renovation represents donations received by the Organization to be used exclusively for the barn renovation project.

Newton Community Farm, Inc.
(A Not-for-Profit Organization)

Notes to Financial Statements
December 31, 2011 and 2010

Note 6 – Commitments

The Organization had an oral commitment with a related party under which the related party made unrestricted cash donations to the Organization over a period of five years. Said commitment expired as of December 31, 2010. Commencing January 1, 2011, the related party will make annual donations at their own discretion. Donations received from this related party are recognized as income when received. Donations for the years ended December 31, 2011 and 2010 were \$5,000 and \$10,000, respectively.

Note 7 – Supplemental Cash Flow Information

Non-cash donations of property of \$1,500 during the year ended December 31, 2011 consisted of a 1989 Ford F-350 dump truck.

Note 8 – Concentration of Credit Risk

Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist principally of uninsured cash. Cash balances are maintained primarily at one Massachusetts bank and sometimes exceed the Federal Deposit Insurance Corporation coverage limit. To date, the Organization has not experienced any losses in any of its accounts and does not believe it is exposed to any significant credit risk in its cash. The combined cash balances at December 31, 2011 did not exceed \$250,000, the coverage limit set by the Federal Deposit Insurance Corporation.

Note 9 – Reclassifications

Certain amounts for the year ended December 31, 2010 have been reclassified to conform with the presentation of the December 31, 2011 amounts. The reclassifications have no effect on income from operations or net assets for the year ended December 31, 2010.

Note 10 – Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through August 30, 2012 the date the financial statements were issued.

Supplementary Information

Newton Community Farm, Inc.
(A not-for-profit Organization)
Program and Administrative Expenses
For the Years Ended December 31,

	<u>2011</u>	<u>%</u>	<u>2010</u>	<u>%</u>
Program expenses				
Auto expense	\$ 2,165	1.4	\$ 1,879	1.2
Purchased produce	12,118	7.7	6,467	4.2
Building maintenance	3,953	2.5	2,828	1.8
Depreciation expense	18,923	12.0	19,171	12.3
Educational programs	559	0.4	788	0.5
Insurance	2,234	1.4	508	0.3
Mulch	519	0.3	1,368	0.9
Payroll	63,902	40.6	50,543	32.4
Payroll taxes	4,889	3.1	5,091	3.3
Repairs and maintenance	1,001	0.6	784	0.5
Seed	3,458	2.2	3,967	2.5
Soil management	933	0.6	505	0.3
Special event expenses	2,123	1.4	3,847	2.5
Supplies	5,298	3.4	7,445	4.8
Utilities	4,092	2.6	3,827	2.5
Workmen's compensation insurance	1,278	0.8	2,360	1.5
	<u>\$ 127,445</u>	81.0	<u>\$ 111,378</u>	71.5
General and administrative expenses				
Conferences	\$ 216	0.1	\$ 529	0.3
Donations	2,200	1.4	2,449	1.6
Dues	180	0.1	180	0.1
Marketing	368	0.2	501	0.3
Office expenses	2,587	1.6	3,564	2.3
Professional fees	5,750	3.7	6,915	4.5
	<u>\$ 11,301</u>	7.2	<u>\$ 14,138</u>	9.1

See independent auditors' report.

Financial Audit Advisory Committee

DRAFT

2012 Annual Report

December 20, 2012

In December 2010, the Board of Aldermen established a Financial Audit Advisory Committee. The purpose of the Committee is to assist the Comptroller and the Board's Finance Committee in the review of audit and fiscal accountability matters. One of its duties is to report annually confirming that its responsibilities have been carried out.

The Committee consists of nine members. The Finance Committee chair is a member (Lenny Gentile) as well as three other Aldermen appointed by the President of the Board of Aldermen (Ruthanne Fuller, Vicki Danberg, Scott Lennon). The President of the Board of Aldermen, with input from the Board) appoints four citizens of the City with financial expertise (Gail Deegan, Bob Fox, Howard Merkowitz, and Tony Logalbo). The President of the Board of Aldermen, upon the recommendation of the Chair of the School Committee, also appoints one School Committee member (Matt Hills). The President of the Board, in consultation with the Finance Committee Chair, appoints the Chair of this Financial Audit Advisory Committee from among the members of the Board of Aldermen on the Committee (Ruthanne Fuller).

The Financial Audit Advisory Committee met for the first time in March 2012. The Committee met eight times. In addition, the Committee had four sub-committees:

(1) Accounting and Audit Sub-Committee: This sub-committee met twice. It reviewed responses by City personnel to specific concerns in the Auditor's Management letter (water and sewer billings, Newton Community Development Authority, police details, student activity funds, unclaimed checks, old outstanding checks, bank account reconciliations, technology disaster recovery plan, and technology test database). Significant progress was made in all areas. The full discussion of the Newton Community Development Authority's relationship with the City will continue in the early part of 2013. The sub-Committee also recommended that the Auditor's contract be extended by one year to cover this fiscal year. The contract is put out to bid approximately every five years. Therefore, in 2013, this sub-committee will undertake the process for selecting the City's Auditor (determining what process will be used, working with the Comptroller to develop a Request for Proposal, reviewing submissions, conducting interviews, recommending the Auditor). Committee Chair: Gail Deegan. Committee Members: Howard Merkowitz, Vicky Danberg, Ruthanne Fuller (ex officio).

(2) Internal Controls & Financial Policies and Procedures Sub-Committee: This sub-committee met once in 2012. The focus of the sub-committee for 2012 was on cash management -- receipts and disbursements. The Chair of the sub-committee, Tony Logalbo, met with various department heads. In addition, the Auditor, Sullivan, Rogers & Company, was asked to do a site visit at the Parks and Recreation Department and suggested ways to strengthen cash management in this department. The

work will continue in 2013. Committee Chair: Tony Logalbo. Committee Members: Scott Lennon, Ruthanne Fuller (ex officio).

(3) Risk Assessment, Monitoring and Compliance Sub-Committee. This sub-committee met three times in 2012. The focus for the year was on developing internal whistleblower policies and procedures. A draft of this policy has been reviewed and will go to the Finance Committee in January 2013 and then to the full Board of Aldermen for approval. Committee Chair: Bob Fox. Members: Gail Deegan, Scott Lennon, Ruthanne Fuller (ex officio).

(4) Investment Policies Ad Hoc Sub-Committee. This ad hoc sub-committee met four times in 2012 to review the investment policies for short-term and medium-term cash. A draft of this policy has been reviewed and will go to the Finance Committee and then the full Board of Aldermen. Committee Chair: Howard Merkowitz. Members: Lenny Gentile, Matt Hills, Ruthanne Fuller (ex officio).

One of the policies that the Financial Audit Advisory Committee suggests be implemented in the years ahead relates to federal and state grants. Chris Rogers from the City's auditing firm, Sullivan, Rogers & Company, has noted that grants can be difficult to administer and grant requirements must be met to ensure a smooth audit without findings. When the Finance Committee authorizes a grant expenditure, a specific individual should be assigned to be the grant administrator. The municipal side of the City should also receive grant administration training from the School Department's Grant Coordinator who has extensive experience in this area.

In closing, I would like to thank all members of the Committee for their time and insight. The expertise of our citizen members – Gail Deegan, Bob Fox, Tony Logalbo and Howard Merkowitz – has been invaluable. Quite a few staff members have invested considerable time in reviewing and improving the City's internal policies and procedures. Our work went more smoothly and improved substantively from the wise counsel of David Wilkinson and Shawna Sullivan. Thank you.

Respectfully submitted,

Alderman Ruthanne Fuller, Chair
Financial Audit Advisory Committee

**City of Newton
Investment Policy**

I. Responsibilities and Scope	2
A. Responsibilities	
B. Scope	
II. Standards of Care	3
A. Prudence	
B. Ethics and Conflict of Interest	
III. Objectives	3
A. Safety	
B. Liquidity	
C. Return	
D. Quality of Services, Cost, Community Support	
IV. Suitable and Authorized Investments	4
A. General Operating Funds	
B. City Trust Funds	
C. Retirement Funds	
D. Investment Restrictions	
V. Authorized Financial Institutions, Brokers/Dealers and Depositories	6
VI. Investment Guidelines	6
A. Safety	
B. Liquidity	
C. Diversification	
D. Maturity	
E. State Treasurer’s Pooled Fund	
F. Certificates of Deposit and U.S. Treasury and Government Agency Securities	
G. Mutual Funds	
H. Repurchase Agreements	
I. Bank Ratings	
J. FDIC Insurance	
K. Collateralization	
VII. Safekeeping and Custody	11
A. Custody	
B. Delivery vs. Payment	
C. Internal Controls	
IX. Reporting	12
A. Reports	
B. Performance Standards and Evaluation	
C. Marking to Market	
D. Fees	
E. Arbitrage	
F. Exemptions	
G. Performance Monitoring	

I. Responsibilities and Scope

A. Responsibilities

The Mayor, the Treasurer and the Comptroller shall develop the policy for investment of City funds for the approval of the Board of Aldermen. This policy shall be reviewed on a regular basis and, at a minimum, every four years. The Treasurer shall report on the review to the Board of Aldermen Financial Audit Advisory Committee.

The Treasurer has the responsibility and authority to manage the investment of City Funds (see Massachusetts General Laws, Chapter 44, section 55B and Acts of 1985, Chapter 740). 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 Treasurer. If the Treasurer wishes to make a decision to deviate from the terms of this policy, the Treasurer shall obtain prior written approval from the Board of Aldermen. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

The selection of financial institutions and broker/dealers authorized to engage in transactions with the City of Newton shall be at the sole discretion of the Treasurer.

The Treasurer, as required by Massachusetts General Laws, Chapter 44, section 55B, must invest all public funds, except those required to be kept uninvested for purposes of immediate distribution. Invested funds are required to be “invested in such a manner as to require the payment of interest on the money at the highest possible rate reasonably available, taking account of safety, liquidity, and yield.” (Ref: Ch 740, Acts of 1985 and Chapter 44, section 55B)

The Treasurer and those responsible to the Treasurer shall be bonded as required by law and insured for their fiduciary responsibilities.

The Treasurer shall be responsible for monitoring changes to the General Laws governing the type and method of investing City funds referred to in this Investment Policy.

B. Scope

This investment policy is to be used by the Treasurer as a general guideline for the investment of the City of Newton’s cash assets. The policy applies to the following:

- General Operating Funds (which includes Special Revenue Funds, Stabilization Funds, most Self-Insured Trust Funds, Capital Project Funds, Internal Service Funds and Agency Funds)
- City Trust Funds and one Self-Insured Trust Fund, the Workers Compensation Insurance Fund

II. Standards of Care

A. Prudence

The standard of prudence used by the Treasurer and employees involved in the investment process shall be the "prudent person" standard. Such fiduciaries must act in the manner of a prudent person, with judgment and care, discretion and intelligence. They must act not for speculation but for investment, considering the probable safety of the capital as well as the probable income to be derived, with the understanding that no investment is completely without risk. 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.

B. Ethics and Conflict of Interest

The Treasurer 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 investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

III. Objectives

City funds are to be invested in a manner which will meet the daily cash flow demands of the City of Newton. The investment activities shall conform to all applicable federal and state statutes and City ordinances governing the investment of public funds. In addition, the City's investment activities will be managed by the Treasurer to achieve the primary objectives, in order of priority, of safety, liquidity and return.

A. Safety

Safety of principal is the foremost goal of the City of Newton's investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital. Safety also is the assurance that the investment expectation will be fulfilled in a timely fashion. To attain this objective, diversification of types of investments, duration of investments and financial institutions holding the investments shall be considered. The Treasurer shall invest in quality issues and comply with state statutes regarding investment requirements.

B. Liquidity

After safety, the next most important objective is liquidity. The investment portfolio shall remain sufficiently liquid to enable the City to meet all operating, debt service and cash needs that may be reasonably anticipated without substantial transaction costs. Liquidity is accomplished by structuring the portfolio so that securities mature concurrently with cash needs (static liquidity). In addition, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). The Treasurer shall continue to analyze the cash flow of all funds on a regular basis to ensure maximum cash availability.

C. Return

Return on investment is the third priority after the safety and liquidity objectives described above. The City's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and liquidity needs.

The Treasurer shall continue to pool cash from several different funds for investment purposes, in order to obtain the best possible return on all cash investments. The Treasurer shall continue to analyze market conditions and investment securities on a regular basis to determine the maximum yield to be obtained. The Treasurer shall continue to invest the maximum amount of idle cash on a continuous basis taking advantage of disbursement float whenever possible.

D. Quality of Services, Cost, Community Support

To repeat, the most important investment goals are, in order of priority, safety, liquidity and return on investment. Once all three of those criteria have been met, the Treasurer, when appropriate, may also give consideration to:

- (1) Quality of services provided by the financial institution;
- (2) The ability of the City to minimize costs, either those charged by the financial institution or the internal costs borne by the City of Newton in managing its relationship(s) with financial institutions; and,
- (3) Investing for the betterment of Newton's local economy.

IV. Suitable and Authorized Investments

Consistent with the Massachusetts General Laws and generally accepted practices, the following investments will be permitted by this policy.

A. General Operating Funds (which includes Special Revenue Funds, Stabilization Funds, most Self-Insured Trust Funds, Capital Project Funds, Internal Service Funds and Agency Funds)

General operating will be invested by the Treasurer in accordance with MGL, Ch. 44, sec. 55, 55A, 55B.

1. U.S. Government obligations, U.S. Government agency obligations, and U.S. Government instrumentality obligations with a maturity of less than one year;
2. Repurchase Agreements secured by U.S. Government or Agency obligation with a maturity of less than 90 days from a trust company, national bank or banking company;
3. Certificates of Deposit with a maturity of less than two years from trust companies, national banks, savings banks, banking companies, or cooperative banks.
4. Money Market Deposit Account from a commercial bank, mutual savings bank, savings and loans, and cooperative banks; or
5. State Investment Pool (MGL Ch. 29, sec 38A), i.e., pooled investment funds operated under the authority of the State Treasurer in the Massachusetts Municipal Depository Trust (“MMDT”)

B. City Trust Funds

City trust funds will be invested by the Treasurer in accordance with the Acts of 2007 Ch. 75. This chapter specifies that, notwithstanding any general or special law to the contrary, the Treasurer of the City of Newton may invest the funds of the City in the custody of the Treasurer in accordance with the investor rule, and sections 3, 4, 5, 8 and 9 of Chapter 203C of the General Laws. The Treasurer, in consultation with each trust fund board of trustees, shall develop investment policies which shall include an asset allocation policy for each trust fund and shall select professional investment advisors to manage the funds.

C. Retirement Funds

Pension funds are under the jurisdiction of the City of Newton’s Contributory Retirement System. The restrictions imposed by Sections 54 and 55 do not apply to city retirement systems. A breakdown of these investments may be obtained either from the Director of the Newton Contributory Retirement System or by consulting the Retirement page of the City of Newton website. Quarterly information about fund investments is posted on this site.

D. Investment Restrictions

The City at the present time will not invest in the following types of investments:

- Derivatives, hedging, or speculative type of investments;
- Reverse Repos, Leveraging or similar investments;
- Master Trust and Custodial Bank Security Lending Programs;
- Any other investment type not authorized by this policy; and,
- Any entity doing business with Sudan pursuant to Newton City Ordinances Sec. 2-117, except as exempted by the ordinance.

V. Authorized Financial Institutions, Brokers/Dealers and Depositories

The Treasurer shall organize and maintain banking relationships designed to ensure investment of all available funds in disbursement accounts.

The Treasurer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by creditworthiness (minimum capital requirement \$10,000,000 and at least five years of operation). These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule).

All financial institutions and broker/dealers who desire to become qualified bidders for cash management services and investment transactions must supply the following as appropriate:

- Depositories, custodians, and dealers are selected or qualified through competitive procedures, including requests for proposals for cash management services;
- Provide compliance certification from the Broker/Dealer and an independent auditor for capital adequacy requirements. Broker/Dealers conducting transactions with the City are required to comply with the Federal Reserve Bank of New York's capital adequacy guidelines as a condition of doing business.
- Audited financial statements;
- Proof of National Association of Securities Dealers (NASD) certification;
- Proof of state registration;
- Certification of having read, understood and agreeing to comply with the City's investment policy.

An annual review of the financial condition and registration of qualified bidders will be conducted by the Treasurer.

VI. Investment Guidelines

A. Safety

Investments will be limited to relatively low risk financial instruments in anticipation of earning a fair return relative to the risk being assumed. Similarly, investments are limited to financial instruments that have higher credit risks with all fixed income investments rated A or above by Standard & Poors (S&P) or a similar rating by another nationally recognized rating agency.

B. Liquidity

To ensure liquidity to meet ongoing obligations, the Treasurer will maintain an appropriate portion of the portfolio in readily available cash, money market funds, the State Treasurer's Pooled Fund, or overnight repurchase agreements. At least 25% of the portfolio shall be invested in cash or marketable securities which can be sold to raise cash in one business day's notice. The Treasurer shall maintain a minimum of three months of budgeted operating expenditures in short term investments to provide sufficient liquidity

for expected disbursements. The Treasurer will make longer-term investments only with funds that are not needed for current cash flow purposes.

C. Diversification

The City of Newton will limit risk by diversifying its investments by investment type, by issuer, and by maturity.

- With the exception of U.S. Treasury securities and the State Treasurer's investment pools, no more than 25% of the City's total investment portfolio may be invested in a single investment type, unless that investment category carries full FDIC insurance. Note: Investment types are those required for disclosure in the Comprehensive Annual Financial Report (CAFR) by Generally Accepted Accounting Principles (GAAP). In 2011, these included U.S. agencies debt securities, corporate bonds, money market mutual funds, mutual bond funds, certificates of deposit, equity securities, equity mutual funds, and real estate investments.
- With the exception of the U.S. Treasury securities and the State Treasurer's investment pools, no more than 15% of the City's total investment portfolio may be invested with a single financial institution, unless that single financial institution's investments carries full FDIC insurance or are fully collateralized.
- With the exception of the U.S. Treasury securities and the State Treasurer's investment pools, no single banking institution shall hold in excess of 25% of the Treasurer's cash balance (cash and investments) for more than three consecutive days.
- MGL c. 44, § 55 specifies that a municipality may not at any one time have on deposit in a bank or trust company an amount exceeding 60% of the capital and surplus of that institution and a total of all the municipality's accounts must not exceed 60% of the institution's net equity. The City of Newton has a more stringent policy. The City of Newton will not have on deposit in a bank or trust company an amount exceeding 15% of capital and surplus of that institution and a total of all the municipality's accounts must not exceed 15% of the institution's net equity, unless those deposits carry full FDIC insurance or are fully collateralized.

Due to fluctuations in the aggregate surplus funds balance, maximum percentages for a particular issuer or investment type may be exceeded at a point in time subsequent to the purchase of a particular issuer or investment type. Securities do not necessarily need to be liquidated to realign the portfolio; however, consideration should be given to liquidation and to this matter when future purchases are made to ensure that appropriate diversification is maintained.

D. Maturity

The City will limit risk by staggering the maturity of securities to avoid concentrations in any one maturity sector. All General Operating Funds maximum final maturity is one year or less unless specific authority requires it to be shorter.

E. State Treasurer's Pooled Fund, a.k.a., Massachusetts Municipal Depository Trust

The Massachusetts Municipal Depository Trust (MMDT) is an investment pool created by the Commonwealth under the supervision of the State Treasurer's Office. The Massachusetts Municipal Depository Trust (MMDT) combines the funds of Massachusetts public units and invests on their behalf in short-term instruments of the U.S. Treasury and Government Agencies and large corporations and financial institutions, thus offering investors, such as the City of Newton, the opportunity to earn higher yields through a professionally managed fund. According to the State Treasurer, the Trust's investment policy is designed to maintain an average weighted maturity of 90 days or less and is limited to high-quality, readily marketable fixed income instruments, including U.S. Government obligations and highly-rated corporate securities, with maturities of one year or less. Assets are invested only in "tier 1" and "tier 2" credit quality securities. Investments in the MMDT are not a deposit in a bank and are neither insured nor guaranteed by the Commonwealth of Massachusetts, the FDIC, or the U.S. Government or any of its agencies. Although the MMDT Cash Portfolio is managed to seek to maintain a stable \$1.00 unit price, there is no guarantee it will be able to do so and a loss of principal is possible with these pools. The degree of safety of the MMDT has been deemed collateralized by the Government Accounting Standards Board 5(GASB) in its qualification of state investment pools in financial statements.

The City of Newton will continue to use this highly liquid, comparatively safe pool as an integral part of its overall investment strategy when, in the Treasurer's judgment, liquidity is necessary, or it is advantageous to do so, taking advantage of disbursement float whenever possible. There is no limit on the amount of funds that may be invested in the State Treasurer's Pooled Fund.

F. Certificates of Deposit and U.S Treasury and Government Agency Securities

The City of Newton will use bank certificates of deposit and/or U.S. Treasury and Government Agency securities for maturity periods which provide a favorable rate differential compared to the state Treasurer's pooled investment based upon the Treasurer's judgment and taking advantage of disbursement float whenever possible.

- Certificates of Deposit: The Treasurer may invest in Certificates of Deposit with a maturity of less than one year or less from trust companies, national banks, savings banks, banking companies, or cooperative banks.
 - No more than 15% of the portfolio shall be invested in Certificates of Deposit in any one financial institution.
 - For any one financial institution, Newton's investment in its Certificates of Deposit will not exceed 15% of the capital and surplus of that institution as of its most recent annual report.
- U.S Treasury and Government Agency Securities: The City will use these securities, with a maturity of one year or less, for reasons of diversification and security. Treasury securities will be purchased either at auction or through the

secondary market. Agency securities will only be purchased through registered dealers. There is no limit on the amount of funds that may be invested in U.S Treasury and Government Agency securities.

G. Mutual Funds

The City may from time to time invest trust funds, as allowed, in a mutual fund consistent with the following:

- Portfolio diversification, liquidity, and professional management;
- Maturity of Fund is less than 60 days;
- Regulated by the Securities and Exchange Commission;
- Portfolio consists only of domestic securities;
- Portfolio contains no derivative products;
- Favorable market risk (volatility) rating from nationally recognized rating agency; and
- Maintains a high rating from a nationally recognized rating agency such as Morningstar.

H. Repurchase Agreements

A repurchase agreement (or repo) is economically similar to a secured loan. It is the sale of securities together with an agreement for the seller to buy back the securities at a later date for a higher price. The City of Newton, who would initially sell the security, is effectively a borrower. The buyer of the security -- effectively the lender -- receives securities as collateral.

The City of Newton will use repurchase agreements only on a limited basis when no other more favorable options are possible and then only for a duration of no more than three days and only with a bank with a top bank rating (if using Veribanc, a rating of Green).

Except in the case of overnight repurchase agreements used for the investment of available float in one of the City's operating accounts, any agreement entered into by the City will be on a delivery versus payment basis.

Any Repo purchased by the City Treasurer is subject to the following:

- Special caution used in selecting parties with whom the City will conduct repurchase transactions;
- The ability to identify the parties acting as principals to the transaction;
- The use of a Master Repurchase Agreement, or the use of a Public Securities Association Repurchase agreement with added language addressing delivery, substitution, margin maintenance, margin amounts, seller representations and governing law;
- The use of proper collateralization practices to protect funds invested in repos:

1. Collateral will be in the form of U.S. Treasury or Government Agency securities delivered to the City's third party custodian.
2. Delivery of underlying securities through physical delivery or safekeeping with the City's custodian; and
3. Over collateralization ("haircuts") or marking-to-market practices are mandatory.

I. Bank Ratings

The Treasurer will assess the financial condition of the banks in which the City of Newton invests by reviewing bank rating guides and banks' Reports of Financial Condition and by periodic discussions with the institutions about their financial condition. Primary emphasis will be placed on a bank's capital adequacy, loan quality and profitability before determining suitability for City investments.

The Treasurer will use a reputable bank rating service or services in judging the risk characteristics of the available banks. The Treasurer will invest funds only in institutions with a top rating from a reputable bank rating service. In the case of Veribanc, the bank must have a green rating. If the bank rating falls to yellow, the Treasurer must inform the Chief Financial Officer and the Chair of the Board of Aldermen's Finance Committee. The Treasurer will closely monitor the situation and move the funds if and when appropriate.

M. FDIC Insurance

The size of the City's investment portfolio precludes the use of only FDIC insured products. Efforts will be made to maximize FDIC insurance protection and period modifications to this policy may be made to take advantage of changing FDIC regulations.

All FDIC accounts will be kept within the maximum coverage level as a maximum unless additional collateralization or insurance (i.e. DIF coverage for Massachusetts banks) is provided and the yield is advantageous.

N. Collateralization

Massachusetts has no legal requirement for collateralizing public deposits. Until adoption of collateralization legislation, the Treasurer will provide as much security as possible for the City of Newton's bank investments through the prudent selection process described above. In addition, all cash accounts will be kept within the maximum FDIC coverage level unless additional collateralization or insurance (i.e. DIF coverage for Massachusetts banks) is provided and the yield is advantageous. One type of investment requires collateralization: Repurchase Agreements.

When collateralization is required, the City of Newton will have all pledged collateral held at an independent third-party institution outside the holding company of their bank in the name of the City of Newton, and evidenced by a written agreement. The value of the pledged collateral will be marked to market monthly, or more frequently, depending

on the volatility of the collateral pledged. The margin level of the pledged collateral must be at least 102% of the face value of the security and may be higher depending on the liquidity and volatility of the collateral pledged. Substitutions of collateral must meet the requirements of the collateral agreement, be approved by the entity in writing prior to release, and the collateral should not be released until the replacement collateral has been received. When surety bonds are used in lieu of collateral, they should be limited to those insurers of the highest credit quality as rated by A.M. Best or another nationally recognized rating agency. The City of Newton requires monthly reporting directly from the custodian. The custodian must warrant and be signatory to the agreement.

VII. Safekeeping and Custody

A. Custody

For administrative ease, custody accounts may be established in the name of the City of Newton in order to receive and hold book entry U.S. Treasury and Government Agency securities purchased by the City from commercial banks, collateral for any repurchase agreements to which the City is party, and collateral against any bank investments the City may require.

B. Delivery vs. Payment (DVP)

All trades where applicable will be executed by deliver vs. payment (DVP). This ensures that securities are deposited in the eligible financial institution prior to the release of funds. Securities will be held by a third party custodian as evidenced by safekeeping receipts.

C. Internal Controls

The Comptroller is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse. The internal controls' 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 costs and benefits require estimates and judgments by management.

Accordingly, the Comptroller shall establish a process for independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

- Control of collusion;
- Separation of transaction authority from accounting and record keeping;
- Custodial Safekeeping;
- Avoidance of physical delivery securities;
- Clear delegation of authority to subordinate staff members;
- Written confirmation of telephone transactions for investments and wire transfers;
- Wire transfer agreements with lead bank or third party custodian.

IX. Reporting

A. Reports

Cash Budget: The Treasurer will prepare, maintain, and keep current a cash budget in sufficient detail to adequately plan the annual investment and debt program.

Cash Analysis: The Treasurer shall prepare a Cash Analysis report monthly for the Chief Financial Officer and the Treasurer will submit it to the Board of Aldermen on a quarterly basis for its review.

Investment Report: The Treasurer shall prepare an investment report at least quarterly, including a management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner that will allow the City to ascertain whether the investment activities during the reporting period have conformed to the investment policy. The report shall be provided to the Mayor, the Finance Committee of the Board of Aldermen, and Comptroller on a quarterly basis. The report will include at a minimum the following:

- The cash balance by bank
- The total assets of each bank
- The cash balance in each bank as a percent of City deposits
- The cash balance vis a vis the limits identified in this policy
- The excess problem loan (EPL) as a percent of each bank's assets

Annual Report: The Treasurer will prepare an annual report of the calendar year in conjunction with an investment policy review. This report shall include comparisons of City's return to the Benchmark Index return, shall suggest policies and improvements that might enhance the investment program, and shall include an investment plan for the coming year. The report shall be provided to the Mayor, the Finance Committee of the Board of Aldermen, and Comptroller in February each year.

B. Performance Standards and Evaluation

The investment portfolio will be managed in accordance with the guidelines specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. The portfolio's performance shall be compared on a regular basis, at least annually, to market returns.

C. Marking to Market

A statement of the market value of the portfolio shall be issued at least quarterly. This will ensure that the minimal amount of review has been performed on the investment portfolio in terms of value and subsequent price volatility.

D. Fees

Fees for securities and mutual fund based investments may be charged on a managed or transaction fee basis whichever is more cost effective, as determined by the Treasurer. Fees may therefore be paid/recorded based on a pre-determined payment schedule (e.g. quarterly, annually), netted against income distributions or netted against the investment's purchase price.

E. Arbitrage

Certification that states bond proceeds are not to be used for purposes of arbitrage. Bond issues (and any proceeds thereof) are to be used for the intended purpose; not considered surplus for investment in higher yielding, taxable securities.

F. Exemptions

Any investment currently held 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.

G. Performance Monitoring

The Treasurer along with designated financial staff, auditor, and the Comptroller may review the performance of the entities selected to provide services through the RFP process. The review may occur off the fiscal year calendar due to information reporting and collection limitations. The results of the review will become part of the next quarterly report.

Annual Review:

- Cash accounts marked against competitors. Failure of the bank to provide competitive interest rates on comparable products and services will reflect negatively on the fee or service relationship established by a competitive proposal process. Long-term lagging of interest rates behind competitors may require an interim RFP to be executed by the Treasurer. Yield comparisons will be against competitors' product or services (i.e., checking to checking, savings to savings, money market to money market).
- Investment Yield Comparisons: Investment accounts marked against selected indices and market.
- Services Provided. Meeting contractual agreement and performance standards set by RFP.
- Annual Review of financial condition of each entity

Triennial Review:

- Annual Review Procedures
- Execution and Completion of RFP for Cash Management Services

DRAFT-Not a public document

Municipal Whistleblower Policy

Purpose:

The City of Newton is committed to providing a safe workplace with high standards of personal ethics and legal conduct. The City of Newton investigates all complaints by employees of violations of City policies, as well as unethical conduct, illegal conduct or conduct that violates high standards of personal ethics. This policy is intended to provide a process to raise concerns about such conduct and reassurance that employees reporting such conduct are protected from retaliation.

Definition:

A whistleblower, as defined by this policy, is an employee of the City of Newton who, in good faith, reports an activity that he/she considers to be a violation of a City of Newton policy or unethical, illegal, or a violation of high standards of personal ethics, such as stealing, incorrect financial reporting or other serious improper conduct. The whistleblower has neither the authority, nor the responsibility, for investigating any questionable activity or for determining fault or corrective measures.

Examples of unlawful activities are ~~that~~ violations of federal, state or local laws; ~~such as~~. Examples include discrimination, harassment, billing for services not performed, requesting pay for hours not worked, stealing City property, reporting injuries that did not occur in the course of employment, falsifying payroll records, other fraudulent financial reporting and any other unlawful conduct.

Process:

If an employee has knowledge of or a concern regarding unlawful, unethical activities or fraudulent financial reporting, the employee should first report it to his/her supervisor or department head. The employee can also report directly to Director of Human Resources, City Solicitor, Chief Financial Officer or Mayor. In addition, the employee can report directly to the Chair of the Financial Audit Advisory Committee, in person, or via the internet by filling out the confidential form on email, to the City of Newton website located at xxxxxxxwww.whistleblower@newtonma.gov. When the City receives a complaint, there will be a prompt, complete and thorough investigation into the allegations. The City will take an initial statement to determine the need for an independent investigation. If it is determined that an independent investigation is warranted, the City will arrange for an independent investigator as soon as possible. Any employee (referred to above as a whistleblower) will be expected to cooperate, if necessary, to provide information to the independent investigator.

Reporting:

The City Solicitor and the Director of HR-Human Resources will jointly report to the Financial Audit Advisory Committee, via its Chair, on a quarterly basis. The report will include all inquiries, activity on cases and resolution of complaints.

DRAFT-Not a public document

Safeguards:

Whistleblower protections include confidentiality whenever possible. However, identity may be disclosed to conduct a thorough investigation and to comply with the law. The Whistleblower will be advised if it becomes necessary to disclose ~~their~~-his/her identity and the reason why disclosure is necessary. The City will not retaliate against any employee who engages in protected whistleblower activity. The right of a whistleblower for protection against retaliation does not include immunity for any personal wrongdoing.

Anonymity - The City investigates all complaints. Concerns expressed anonymously will be investigated appropriately, but consideration will be given to the seriousness of the issue, the credibility of the concern and the likelihood of confirming the allegations. It is difficult to investigate an anonymous claim because, in most cases, it is impossible to ask appropriate follow-up questions or to get accurate information.

Protection Against Retaliation – This policy includes, but is not limited to, protection from retaliation in the form of an adverse employment action such as termination, compensation decreases, decreases in job duties, adverse comments in the employment record, negative reviews, poor work assignments or threats of physical harm. Any whistleblower who believes he/she is being retaliated against must contact the Human Resources Director, City Solicitor, Chief Financial Officer or Mayor immediately. The whistleblower can also report to the Chair of the Financial Audit Advisory Committee. The City will take an initial statement to determine the need for an independent investigation. If it is determined that an independent investigation is warranted, the City will arrange for an independent investigator as soon as possible. Any whistleblower will be expected to cooperate, if necessary, to provide information to the independent investigator.

Resolution:

When the investigation is complete, the employee who initiated the complaint will be informed, to the extent appropriate and allowable by law, of the results of the investigation. If it is determined that inappropriate or illegal conduct has occurred, the City will act promptly to correct or eliminate the offending or illegal conduct and, if appropriate, will impose disciplinary action, up to and including termination.

Financial Audit Advisory Committee

Calendar for 2013 as of January 4, 2013

Thursday, January 10, 2013 @ 8 AM

Thursday, March 14, 2013 @ 8:15 AM

Thursday, June 13, 2013 @ 8:15 AM

Thursday, October 10, 2013 @ 8:15 AM

Thursday, December 5, 2013 @ 8:15 AM