AGENDA

Finance/Audit
Committee Meeting
August 9, 2016
Board Room-11:00 a.m.

Call to Order - Ascertain Quorum

Acceptance of the Agenda

1. Approval of Minutes
   [Tony Cannon]

   March 1, 2016

2. Consideration of Natural Gas Supply Agreement with Black Belt Energy
   [Anthony Miller]

3. Annual Review of Investment Policy
   [Jeff McCauley]

Adjournment

Agenda Item # 1

Meeting Date: August 9, 2016

Board Committee:	**Finance /Audit Committee**
Item:	**Approval of Minutes**
Contact:	Tony Cannon
Explanation:	Finance/Audit Committee Meeting: March 1, 2016
Previous Board Actions:	
Fiscal Note:	
Recommended Action(s):	Approve minutes from the March 1, 2016 Finance/Audit Committee Meeting as presented or amended.

GREENVILLE UTILITIES COMMISSION
FINANCE/AUDIT COMMITTEE
GREENVILLE, NORTH CAROLINA
MARCH 1, 2016

The Finance/Audit Committee of the Greenville Utilities Commission met on Tuesday, March 1, 2016, at 11:30 a.m. in the Board Room with the following members and others present.

Committee Members Present:

Don Mills-Committee Chair
Dennis Mitchell
Rebecca Blount
Tommy Stoughton

Parker Overton, Committee Vice Chair, had an excused absence.

Other Board Members Present:

John Minges

GUC Staff Present:

Tony Cannon	Phil Dixon
Chris Padgett	Steve Hawley
Jeff McCauley	Amy Quinn
Keith Jones	Lou Norris
Roger Jones	John Worrell

Others present included Ginger Livingston with The Daily Reflector.

Committee Chair Mills called the meeting to order at 11:30 a.m. and Mr. Mitchell ascertained that a quorum was present.

A motion was made by Ms. Blount, seconded by Mr. Mitchell, to accept the agenda as presented. The motion carried unanimously.

APPROVAL OF MINUTES (Agenda Item 1)

A motion was made by Ms. Blount, seconded by Mr. Mitchell, to approve the August 20, 2015, Finance/Audit Committee minutes as presented. The motion carried unanimously.

END OF YEAR FORECAST/DRAFT REVENUE AND EXPENDITURES FOR UPCOMING YEAR (Agenda Item 2)

Mr. Cannon's presentation focused on end-of-year performance for FY 2015-16 and the key elements of the proposed FY 2016-17 budget. These areas included current status, capital investment, five-year capital plans, rate models, and the long-term financial forecast. A memorandum and supplemental materials were provided in the agenda packet.

A highlight of the supplemental items include:

- End-of-year projections for FY 2015-16 (current year)
- FY 2016-17 forecast developed last year
- Proposed FY 2016-17 Budget
- FY 2018-21 Financial Forecasts
- FY 2017-21 Capital Improvement Plan

Key metrics, such as fund balance and debt service ratios, are also included in the materials.

End-of-Year Projections

The current budget adopted for FY 2015-16 focused on fine-tuning revenue forecasts, gaining efficiencies, managing expenditures, managing the timing of capital projects, and mitigating rate adjustments. The strategy resulted in a budget projected to produce $960K in fund equity or three-tenths of a percent (0.3%) margin on $275M in revenue.

The most notable adjustments in the end-of-year forecast are $1.4M decrease in operations, $293K decrease in capital outlay, $1.2M decrease for purchased power (due to milder than anticipated winter weather), $6.8M decrease for purchased gas (due to milder than anticipated winter weather), $1.0M decrease for debt service (due to delaying debt issuance to the Spring), $845K increase in transfer to the City of Greenville and $1.1M increase in transfers to capital projects. Adjustments to other accounts were made to appropriately address increases in utilities, fuel and system reliability issues.

In reviewing the end-of-year forecast, the financial viability of each fund is considered to ensure that GUC is properly positioned to continue to meet its mission and future financial challenges. *Key Performance Indicators such as end-of-year performance, debt service coverage, and fund balances are primary components of the review.* These factors are also monitored by the Local Government Commission (LGC) and credit rating agencies in determining GUC's ability to borrow funds at a favorable interest rate.

GUC's current credit ratings are Aa2 rating with Moody's, AA- credit rating with Fitch, and A+ credit rating with S&P. These high ratings enable GUC to borrow funds at lower interest rates, thereby lowering the cost of borrowing for necessary investments in infrastructure to maintain our systems.

- <u>End-of-Year Forecast for Electric Fund</u>
  Weather variances experienced during this fiscal year have impacted the consumption of services and the rates and charges generated through January 2016 are $1.1M below the amended budget. A transfer of $13.0M to the rate stabilization fund to defer rate increases in future fiscal years in line with the strategy approved by the Commission, and a transfer of $2.0M to capital projects to reduce future debt issuances has been incorporated into the FY 2015-16 projection. It is anticipated the Electric Fund will end the fiscal year with $1.8M fund equity, debt service coverage ratio of 10.03x, and a fund balance of 15.6%.

- <u>End-of-Year Forecast for Water Fund</u>
  It is projected that the Water Fund will end the fiscal year with $58K fund equity, debt service coverage ratio of 1.59x, and a fund balance of 17.6%.

- <u>End-of-Year Forecast for Sewer Fund</u>
  It is projected that the Sewer Fund will end the fiscal year with $27K fund equity, debt service coverage ratio of 1.43x, and a fund balance of 16.2%.

- <u>End-of-Year Forecast for Gas Fund</u>
  Weather variances experienced during this fiscal year have impacted the consumption of services and the rates and charges generated through January 2016 are $8.2M below the original budget. The current projection includes $5.2M being transferred to capital projects to reduce future debt issuances. It is projected that the Gas Fund will end the fiscal year with $29K fund equity, debt service coverage ratio of 3.57x, and a fund balance of 39.1%.

- <u>End-of-Year Forecast for the Combined Enterprise Operation</u>
  GUC is projected to end the fiscal year on a positive note as a combined enterprise operation with fund equity of $2.0M, debt service coverage ratio of 3.51x, and a fund balance of 19.3%. The fund equity of $2.0M provides seven tenths of a percent (0.7%) return on $266.8M in revenue.

Proposed FY 2016-17 Budget
Mr. Cannon reported on the drivers and goals of each of the four funds and the highlights of the FY 2016-17 proposed budget are listed below:

- Expenditures budgeted for FY 2016-17 have decreased by 6.2% or $16.9M when compared to the FY 2015-16 amended budget. Key drivers are:
  - $8.5M decrease in transfer to rate stabilization
  - $5.4M decrease in transfer to Capital Projects
  - $3.8M increase in operations
  - $5.5M decrease in purchased commodities costs
  - $1.0M decrease in debt service
  - $2.1M increase in capital outlay
- A 4.0% rate decrease adjustment for the Electric Fund effective July 1, 2016 due to revised wholesale power costs for FY 2016-17 provided by NCEMPA

- A 5.5% recommended rate adjustment for the Water Fund effective July 1, 2016, which is 1.9% lower than last year's projection of 7.4%
- A 6.5% recommended rate adjustment for the Sewer Fund effective July 1, 2016, which is 1.9% lower than last year's projection of 8.4%
- No rate adjustment for the Gas Fund (other than purchased gas adjustments as needed)
- Funding for the employee market adjustment at 2.0% or $498K effective July 1, 2016
- Funding for the employee merit program at 1.5% or $381K
- Expansion of the self-insured health insurance plan to include a high deductible Health Savings Account option (option was provided January 1, 2016)
- Continuation of self-insured dental insurance plan
- Funding to bring replacements on board prior to the retirement of key personnel in order to facilitate succession planning, leverage the knowledge and experience of long-term employees for training on critical issues and ensure smooth transitions
- Existing positions have been reallocated and eight permanent positions have been added to appropriately respond to needs within the combined enterprise operation
- Prefunding for Other Post-Employment Benefits (OPEB) has been increased by $50K, bringing the total amount for prefunding to $500K
- Investment of $9.7M for capital outlay in order to maintain system reliability and comply with regulatory requirements in the combined enterprise operation
- Annual turnover or transfer of $6.4M to the City of Greenville in accordance with the Charter issued by the North Carolina General Assembly

In summary, Mr. Cannon added that the proposed FY 2016-17 budget is a balanced budget and he asked for the Finance/Audit Committee to endorse the end-of-year projections and the proposed preliminary budget.

A motion was made by Mr. Stoughton, seconded by Mr. Mitchell, to recommend the full Board move forward with appropriate actions related to the current end-of-year fiscal forecast and preparation of the proposed preliminary FY 2016-17 budget as presented. The motion carried unanimously.

RECOMMENDED ADJUSTMENT OF THIRD YEAR IMPLEMENTATION OF ELECTRIC SERVICE FEES LISTED IN GUC'S UTILITY REGULATIONS PART A (Agenda Item 3)

Roger Jones, Director of Electric Systems, introduced John Worrell, Assistant Director of Electric Systems. Mr. Worrell reminded the Committee that GUC's Utility Regulations Part A Terms and Conditions of Electric Service specifies various fees to be paid by the applicant for connection to GUC's Electric System. These customer participation fees offset GUC's initial cost of the service installation for a new customer and supports keeping electric rates stable for all customers.

Mr. Worrell added that Electric fees have remained relatively unchanged for over 15 years while GUC's labor and material costs have increased by approximately 30% during the same period. Regulatory requirements have also increased GUC's cost to provide various commercial services. Electric Department staff completed a comprehensive review of all fees in 2013 utilizing current labor and material costs. The results of this review and the options for implementation were presented to the Committee and full Board in 2014.

As a reminder, Mr. Worrell stated that in 2014 a five year implementation plan was approved to gradually increase fees and the first year of the presented phased approach for the Electric Fee implementation was effective on July 1, 2014. In March 2015, the Board approved the second year of the fee adjustment of electric fees effective July 1, 2015. He noted that it is now time to implement year three of the five year plan.

After much discussion, a motion was made by Mr. Mitchell, seconded by Ms. Blount, to recommend to the full Board that the third year of recommended electric fee adjustments to be implemented on July 1, 2016, along with the fourth year and fifth year electric fee adjustments to be implemented on July 1, 2017 and on July 1, 2018. The motion carried unanimously.

RECOMMENDATION TO AWARD AUDITING SERVICES CONTRACT (Agenda Item 4)

Jeff McCauley, Chief Financial Officer, stated that in accordance with GUC's Charter, a single auditing firm is used to perform the City's and GUC's audit. The costs associated with the audit are based on hours expended for each organization. Last year a five year engagement contract for auditing services was awarded to Cherry Bekaert, LLP, but subject to approval of a contract on an annual basis.

Mr. McCauley reminded the Board that last year's audit fee was $40,000 and the projection under the five year plan for the fiscal year 2016 audit was $40,500. Based on last year's level of effort, Cherry Bekaert, LLP is proposing that the audit fee for fiscal year 2016 be increased to $42,500, which is $2,000 or 5 percent above the original projection. The revision in pricing is reflective of the estimated auditing hours increasing approximately 16 hours, from 338 to 354 hours.

A motion was made by Mr. Mitchell, seconded by Mr. Stoughton, to concur with the proposed revised pricing of the auditing services contract to $42,500 and recommend to the Board to proceed with executing the fiscal year 2016 auditing services contract with Cherry Bekaert, LLP. The motion passed unanimously.

ADJOURNMENT

A motion was made by Mr. Mitchell, seconded by Mr. Stoughton, to adjourn the meeting. The motion carried unanimously and the Finance/Audit Committee meeting adjourned at 12:41 p.m.

Respectfully submitted,

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Amy Carson Quinn
Executive Secretary

Agenda Item # 2

Meeting Date: August 9, 2016

Board Committee:	**Finance/Audit Committee**
Item:	**Consideration of Natural Gas Supply Agreement with Black Belt Energy**
Contact:	Anthony Miller

Explanation:

In an effort to further diversify our natural gas supply portfolio and reduce costs, staff has evaluated the option of participating in a natural gas pre-payment (prepay) project with Black Belt Energy and Goldman Sachs (through its natural gas marketing affiliate, J. Aron). A prepay is a transaction where a municipal utility can issue tax-exempt bonds to prepay for delivery of gas on a long-term basis to achieve an ongoing discount to the prevailing market price. Black Belt Energy will be the issuer of the bonds. GUC would be a purchaser of gas from Black Belt Energy at a discount to market prices. GUC would have no obligation on the bonds.

GUC is currently in year nine of a 15-year prepay with Patriots Energy Group (PEG). The PEG prepay has saved GUC $1,123,387 since November 2007 and the agreement ends on January 31, 2022.

Black Belt Energy (BBE) and Goldman Sachs (GS) have agreed to move forward with a 30-year natural gas prepayment transaction on a very fast track. BBE will issue 30-year fixed rate bonds. Closing is targeted for September 2016 and participant approval will be required by the end of August 2016. To participate, GUC would enter into one gas supply contract with Black Belt Energy.

The key provisions of the agreement are as follows:

- GUC enters the agreement for a term of 30 years, with deliveries beginning November 2016.
- GUC receives a minimum discount of $0.20 per dekatherm from the applicable first-of-the-month gas index price through a combination of monthly and annual savings. Ordinarily, the annual portion would be about 20% of the total, or about 5 cents per dekatherm.
- GUC pays an administrative fee of $0.03 to $0.05 per dekatherm to BBE to cover administrative costs related to billing, regulatory compliance, and other ongoing administrative tasks associated with

	the prepay transaction. A higher fee will only be charged if economics support it. Therefore, the minimum net discount to participant will be $0.17 per dekatherm. • GUC can continue to hedge natural gas in accordance with the Natural Gas Risk Management Policy adopted by the Board in 2005 upon execution of separate agreement with J. Aron. • If GUC does not have demand for the gas, the supplier is required to remarket the gas to other utilities. • Includes termination rights (e.g., bankruptcy, failure to deliver, etc.) • Includes a Hold Harmless Clause that keeps GUC from being obligated financially due to failure of parties involved.
Previous Committee Actions:	N/A
Fiscal Note:	Greenville Utilities Commission will save approximately $119,550 annually from November 2016 to October 2046 for a total of $3,586,490 in reduced natural gas cost, depending on total contracted volumes.
Recommended Action(s):	Staff recommends Committee's approval for the General Manager/CEO to negotiate and execute the natural gas supply agreement with Black Belt Energy for a volume up to, but not to exceed, 2,000 dekatherms per day over 30 years and recommends similar action the full Board.

Natural Gas Prepay Background Information

Because of tax-free financing, qualified entities such as GUC can enter into agreements that reduce the cost of future purchases for a fixed volume to a below-index price. This is done through a bonding transaction backed by supply agreements from qualified participants.

GUC's goal is to diversify our natural gas supply portfolio in an effort to reduce costs to our customers. Staff has been evaluating a prepay natural gas supply agreement with Black Belt Energy. The participation in a natural gas prepay agreement allows GUC to secure a long-term gas supply from a creditworthy gas supplier at a discount from the market price when the gas is actually delivered. Our goal is to secure approximately 23% of our annual load through the prepay transaction. The Black Belt Energy and Goldman Sachs project has a short window of opportunity for participation as they plan to start flowing gas under the contracts in November 2016.

Load Profile

Five Year Average Annual Load 3,171,476 dekatherms

Current PEG prepay	10% of annual load totals 304,000 dekatherms
Proposed BBE prepay	18% of annual load through Jan 2022 totals 579,000 dekatherms
After January 2022	23% of annual load totals 730,500 dekatherms

Projected BBE Savings

	Annual Dekatherms	Annual Savings	Total
November 2016 to October 2022	594,167	$101,008	$606,050
November 2022 to October 2046	730,500	$124,185	$2,980,440
			$3,586,490

Actual and Combined PEG and BBE Savings

	Annual Dekatherms	Annual Savings	Total
November 2016 to October 2022	876,833	$218,997	$1,313,987
November 2022 to October 2046	730,500	$124,185	$2,980,440
			$4,294,427

Firm and Total Volumes

November 2016 to October 2022	Summer Dekatherms	Winter Dekatherms	Annual Total
Five Year Average Firm Volumes	577,304	1,335,608	1,912,912
Five Year Average Total Volumes	1,234,807	1,936,669	3,171,476
PEG & BBE	428,000	453,500	881,500
% of Firm Volumes	74%	34%	46%
% of Total Volumes	35%	23%	28%

November 2022 to October 2046	Summer Dekatherms	Winter Dekatherms	Annual Total
Five Year Average Firm Volumes	577,304	1,335,608	1,912,912
Five Year Average Total Volumes	1,234,807	1,936,669	3,171,476
PEG & BBE	428,000	302,500	730,500
% of Firm Volumes	74%	23%	38%
% of Total Volumes	35%	16%	23%

Greenville Utilities

Agenda Item # 3

Meeting Date: August 9, 2016

Board Committee:	**Finance/Audit Committee**
Item:	Annual Review of Investment Policy
Contact:	Jeff McCauley
Explanation:	It is the policy of GUC to invest public funds in a manner which will provide the highest return with the maximum security while meeting the daily cash flow demands of GUC and conforming to all state and local statutes governing the investment of public funds. To that end, GUC's Investment Policy requires that a review of the investment policy be conducted on annual basis by the Finance/Audit Committee. The investment policy was last updated in November 2012. No changes to the existing policy are being recommended by staff at this time. The current investment policy is attached for your review. A brief update on the status of the investments will be provided at the meeting.
Previous Board Actions:	August 20, 2015 – The Investment Policy was reviewed with no changes by the Finance/Audit Committee.
Fiscal Note:	N/A
Recommended Action(s):	Review of Investment Policy

GREENVILLE UTILITIES COMMISSION

INVESTMENT POLICY

I. POLICY

It is the policy of Greenville Utilities Commission to invest public funds in a manner which will provide the highest return with the maximum security while meeting the daily cash flow demands of Greenville Utilities Commission and conforming to all state and local statutes governing the investment of public funds.

II. SCOPE

These investment policies apply to all cash-related assets included within the scope of the Commission's audited financial statements and held directly by the Commission.

Funds of the Commission will be invested in compliance with the provision of North Carolina General Statutes 159-30.

Deposits into trustee held funds including proceeds from debt financings and investments into the Other Post Employment Benefits Trust Fund (OPEB) are excluded from the scope of this policy.

III. OBJECTIVES

The Commission's investment objectives, in priority order are:

Safety: Safety of principal is the foremost objective of the investment program. Investments of the Greenville Utilities Commission shall be undertaken in a manner that seeks to ensure the preservation of capital in the total portfolio.

Liquidity: The Director of Financial Services shall assure that funds are constantly available to meet immediate payment requirements including payroll, accounts payable and debt service.

Yield: The investment portfolio shall be designed with the objective of regularly exceeding the average return on 90 day U.S. Treasury Bills.

*The 90 day T bill is considered a benchmark for risk-free investment transactions and therefore represents a minimum standard for the portfolio's rate of return.

IV. PRUDENCE

Investments shall be made with judgement and care under circumstances then prevailing which persons of prudence, discretion and intelligence exercise, in the management of their own affairs, not for speculation, considering safety of capital as well as the probable income to be received.

The standard of prudence to be used by investment officials shall be the "prudent person" described above, and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's performance provided that deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

*This is a realistic standard of knowledge and professional expertise to expect from a reasonably well informed person who will be responsible for managing the Commission's investments.

V. RESPONSIBILITY

The authority for investing the funds of Greenville Utilities Commission lies with the Chief Financial Officer and the Director of Financial Services. The primary authority is the Chief Financial Officer. The Director of Financial Services is charged with the day-to-day operations of the Commission's investment portfolio, including the placement of purchase and sell orders with dealers and financial institutions and the preparation of reports as required.

The Director of Financial Services is the Investment Officer for the Commission and prepares cash flow forecasts and budgets as needed to assist in the decision making process for the placement of the Commission's funds to achieve the best yields while meeting the cash flow requirements of the Commission.

VI. INVESTMENT DIVERSIFICATION

Diversification to avoid undue risk is achieved by varying the type of investment to ensure liquidity, purchasing from sound and different financial institutions and brokers to reduce the chance of loss, and varying maturity length to ensure availability of funds to meet cash needs.

The funds of the Commission may be invested in the instruments, as allowed by North Carolina General Statutes 159-30, in the following percentages that are listed in table 1. If applicable, the table also defines other restrictions to reduce risk in the Commission's portfolio.

Table 1

INSTRUMENT	MAXIMUM % OF PORTFOLIO	Other Restrictions
U.S. TREASURY OBLIGATIONS (BILLS, NOTES, BONDS)	100%	None
U.S. GOVERNMENT AGENCY SECURITIES ALLOWED BY STATE STATUTES	100%	No more than 50% of the Commission's total portfolio may be invested in any one agency
NORTH CAROLINA CAPITAL MANAGEMENT TRUST (LOCAL GOVERNMENT POOL)	100%	None
MONEY MARKET ACCOUNTS	100%	No more than 50% of the Commission's total portfolio may be invested in any one financial institution
CERTIFICATES OF DEPOSIT (BANKS AND SAVINGS AND LOAN ASSOCIATIONS)	70%	No more than 50% of the Commission's total portfolio may be invested in any one financial institution
BANKER'S ACCEPTANCES (BA'S)	45%	No more than 25% of the Commission's total portfolio may be invested in any one entity
COMMERCIAL PAPER (CP)	50%	No more than 25% of the Commission's total portfolio may be invested in any one entity
STATE OF NORTH CAROLINA AND LOCAL GOVERNMENT SECURITIES WITH AAA RATING OR BETTER	20%	None

With respect to those instruments that are allowed under the state statutes the following have been omitted from this list and will not be purchased unless this investment policy is amended to include those instruments. They are:

- Repurchase agreements
- Commingled investment pool established by G.S. 160-A-464
- Participating shares in a mutual fund for local government
- Evidences of ownership of future interest and principal payments of direct obligations of the U.S. government

Relative safety and liquidity of each investment type determine the appropriate percentage of the portfolio. Investments are arranged approximately by level of risk, with the safest investments first. State and local government securities with a AAA rating are low risk but also low interest.

VII. DIVERSIFICATION BY MATURITY

Recognizing the Commission's need for funds is not constant, the Director of Financial Services shall schedule investments in coordination with all funds such that there is as little idle cash as practical. Investments shall be limited to maturities not exceeding five years. Maturities should be selected in consideration of the Commission's cash flow requirements.

Investments in Treasuries, Agencies and Instrumentalities may be purchased with maturities exceeding 3 years. All others (with maturities greater than 3 years) are prohibited without the expressed approval of the Commission Board.

Length of Maturity is calculated to be the number of days from the date of the purchase of the investment to the maturity date of the investment.

VIII. COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS

Before the Commission invests any surplus funds in secondary market investments, competitive bids shall be obtained. Records will be kept of the bids offered, the bids accepted, and a brief explanation of the decision made.

IX. QUALIFIED INSTITUTIONS

The Commission shall maintain a listing of all authorized dealers and financial institutions which are approved for investment purposes. Written procedures and criteria for selection of financial institutions will be established by the Director of Financial Services. Any firm is eligible to apply to provide investment services to the Commission and will be added to the list if the selection criteria are met. Additions or deletions to the list will be made by the Director of Financial Services. Firms performing investment services for the Commission shall provide their most recent financial statements upon request.

X. INVESTMENT POOLS / MUTUAL FUNDS

A thorough investigation of the pool/fund is required prior to investing, and on a continual basis. The following information should be available to the Investment Officer.

- A description of eligible investment securities, and a written statement of investment policy and objectives.
- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
- A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
- A fee schedule, and when and how is it assessed.
- Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

XI. SAFEKEEPING AND COLLATERALIZATION

Investment securities purchased by the Commission shall be delivered by either book entry or physical delivery, and held in third party safekeeping by a bank designated as primary agent. The trust department of the bank designated as primary agent may be considered to be a third party for the purposes of safekeeping of securities purchased from that bank. The purchase and sale of all securities will be on a payment versus delivery basis. The primary agent shall issue a safekeeping receipt to the Investment Officer listing the specific instrument, rate, maturity, and other pertinent information.

Deposit-type securities (i.e. certificates of deposit, money market accounts, and checking accounts) shall be 100% collateralized as required by North Carolina General Statutes.

XII. ACCOUNTING METHOD

Investments will be recorded at cost. Realized gains or losses from investments will be credited or charged to interest income at the time of maturity or sale. For instruments purchased at a price greater than par or less than par and not sold, the purchase price premium or discount will be amortized over the life of the investment and charged or credited to interest income on a monthly basis. Investments will be reported annually at a value determined according to generally accepted accounting principles (GAAP).

XIII. REPORTING REQUIREMENTS

The Chief Financial Officer and/or the Director of Financial Services shall submit an Annual Statement of Investment Policy to the Commission, noting compliance with Commission policies. This statement shall be filed by no later than August 31 of each year.

The General Manager\CEO and appropriate Finance Department staff will review the Investment Policy with the Finance/Audit Committee annually by no later than October 31 of each year.

The Chief Financial Officer and/or the Director of Financial Services shall provide the Commission with a monthly investment report, which will provide, at a minimum, the following information.

CUSIP Number
Issuer or Broker/Dealer (Financial Institution)
Type of Investment
Effective Yield
Purchase Date
Maturity Date
Cost
Par Value
Where Held (Safekeeping)

The monthly investment report shall include all investments held in the Commission's portfolio as of the end of the month, and shall be issued with the monthly financial report. Market values shall be reported semi-annually.

Any investment that does not meet policy guidelines due to Board adopted changes will be temporarily exempted for a period not to exceed six months. Investments must come in conformance with the policy within six months of the policy's adoption or the Board must be presented with a plan through which investments will come into conformance.

If a violation does occur, the Chief Financial Officer and/or the Director of Financial Services shall report such violation in a timely manner to the General Manager\CEO along with a plan to address the violation. The violation and plan will then be reported to the Board.

XIV. INTERNAL CONTROLS

The Director of Financial Services shall maintain a system of written internal controls, which shall be reviewed by the independent auditor. The controls shall be designed to prevent loss of public funds due to fraud, error, misrepresentation or imprudent actions.

XV. ETHICS AND CONFLICTS OF INTEREST

Officers and employees 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. Employees and investment officials shall disclose to the General Manager\CEO any material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the Commission. This disclosure need not include normal banking or brokerage relationships that are at normal market rates and conditions available to the general public.

XVI. POLICY REVIEW AND ADOPTION

This investment policy may be reviewed by the Board of Commissioners of Greenville Utilities Commission at their pleasure and amended and adopted at any time.

Last Revised: November 15, 2012

GLOSSARY

AGENCIES: Federal agency securities and/or Government-sponsored enterprises.

ASKED: The price at which securities are offered.

BANKERS' ACCEPTANCE (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

BROKER: A broker brings buyers and sellers together for a commission.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g. U.S. Treasury Bills.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to $250,000 per deposit.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks) which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are back by the FHA, VA or FmHA mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15C3-1: See Uniform Net Capital Rule.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BONDS: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to ten years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security. (b) **NET YIELD** or **YIELD TO MATURITY** is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.