

INVESTMENT POLICY

FOR

CITY OF BREEZY POINT

(8319 County Road 11, Breezy Point MN 56472)

INTRODUCTION

The purpose of this policy is to establish the specific guidelines for the investment of all public funds of City of Breezy Point. This policy is designed to ensure the prudent management of public funds, the availability of operating and capital funds when needed, and an investment return commensurate with the City's investment risk constraints and cash flow characteristics of the portfolio. The guidelines are intended to be broad enough to allow the investment officer to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets.

OBJECTIVES:

The objective of this policy is to establish standards for governing the investment of the funds of the City. These funds will be invested in accordance with this policy and Minnesota Statute 118A. The City has determined that its funds shall be invested based on the following three objectives, listed in priority order:

- **SAFETY** - Safety of principal is the foremost objective of the City. Investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. Avoiding capital losses shall be the primary objective of each investment transaction.
- **LIQUIDITY** - The portfolio will remain sufficiently liquid to enable the City to meet all operating and capital requirements that might be reasonably anticipated. A portion of the portfolio may be placed in money market mutual funds or local government investment pools, which offer same-day liquidity.
- **MAXIMIZATION OF RETURN ON INVESTMENT** -Following the satisfaction of liquidity and maturity needs, the balance of the funds available for investment will be placed with institutions that offer the highest rate of return consistent with preservation of principal.

SCOPE

This policy applies to all financial assets of City of Breezy Point While separate investment funds are created to accommodate reporting on certain bonded indebtedness, individual investments are purchased using a pooled approach for efficiency and maximum investment opportunity. The City's funds are defined in the City's Comprehensive Annual Financial Report *and include: General Fund; Special Revenue Funds; Capital Projects Fund; Enterprise Funds; Trust and Agency Funds; Debt Service Funds* and all new funds created by the City, unless specifically exempted by the City Council through resolution.

POOLING OF FUNDS: Except for cash in certain restricted and special funds, the City will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

STANDARDS OF CARE

1. PRUDENCE

The prudent person standard shall be applied to the management of the portfolio. This standard states: "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the expected income to be derived."
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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.

2. ETHICS AND CONFLICTS OF INTEREST

Any city official involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or that could impair their ability to make impartial decisions. Investment officials shall disclose any material interests in financial institutions with which they conduct business. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of the City.

3. DELEGATION OF AUTHORITY

The City Administrator/Clerk is designated as the investment officer of the City and is responsible for investment management decisions and activities. The City Administrator/Clerk through assistance of staff and consultants shall develop and maintain written administrative procedures for the operation of the investment program, monitoring diversification and risk as well as a system of controls to regulate the activities of subordinate officials. No person may engage in an investment transaction except as provided under the terms of this policy and procedures established by the investment officer.

4. INTERNAL CONTROLS

The investment officer 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 control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

Accordingly, the investment officer shall establish a process for an annual 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 transactions for investments and wire transfers
- Development of a wire transfer agreement with the lead bank and third-party custodian

5. PROHIBITED INVESTMENTS

In addition to any limitations on investment types according to Minnesota statutes, City funds will not be invested in derivative type investments such as collateralized mortgage obligations, strips, floaters, etc. Certain types of such investments may qualify under state statute but are not deemed appropriate for use by the City of Breezy Point.

FINANCIAL INSTITUTIONS AND SAFEKEEPING

1. AUTHORIZED BROKER/DEALERS AND FINANCIAL INSTITUTIONS

The City Administrator/Clerk is authorized, as allowed under State Statute, to designate depositories and broker-dealers for City Funds. The City Administrator/Clerk will maintain a list of financial institutions authorized to provide investment services to the City. All broker/dealers who desire to become qualified bidders for investment transactions must supply the City Administrator/Clerk with:

- audited financial statements (a current audited financial statement is required to be on file for each financial institution)
- proof of National Association of Security Dealers (NASD) certification,
- proof of Minnesota registration
- Broker Notification and Certification form required by Minnesota Statutes 118A prior to any investment transactions with the City. The Broker Notification must be updated annually.
- The Official Broker/Dealer Questionnaire must be on file for each broker the City is currently doing business with.
- Authorized institutions must be registered and approved to operate in the State of Minnesota and have other Minnesota local government clients.

The purchase of all investments must be from institutional brokers. An annual review of the financial condition and registration of qualified financial institutions and brokers/dealers will be conducted by the investment officer.

2. SAFEKEEPING

- (1) All trades where applicable will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds. Securities will be held by a third-party custodian as evidenced by safekeeping receipts. Investments shall be in safekeeping in the City's name. Certificates will be held at the financial institution in the City's name. All securities should be a risk category one according to the Governmental Accounting Standard No. 3.

SUITABLE AND AUTHORIZED INVESTMENTS

Consistent with Minnesota Statute 118A, the following investments will be permitted by this policy:

- U.S. Treasury Obligations (bills, notes, bonds)
- U.S. Government Agency and Federally Sponsored Agency Securities, excluding mortgage backed securities that fail the FFEIC test.

- General obligations of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- Certificates of deposit with federally insured institutions which are collateralized or insured in excess of the amount provided by the Federal Deposit Insurance Corporation coverage limit. The City will seek to collateralize certificates of deposit or any other time deposit in an amount equal to 110%. Where this is not practicable, verifiable evidence of specific pledged securities must be supplied to the City.
- Commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest tier (e.g. A-1, P-1, F-1 or D-1 or higher) by at least two nationally recognized rating agencies and matures in 270 days or less.
- Bankers Acceptances that are eligible for purchase by the Federal Reserve.
- Repurchase Agreements which conform to the requirements stated in 118A.05, sub. 2 of the statutes;
- Guaranteed Investment Contracts that meet the requirements of M. S. 118 A.
- Local government investment pools, either state-administered or through joint powers statutes and other intergovernmental agreement legislation.

INVESTMENT PARAMETERS

1. DIVERSIFICATION

The investments shall be diversified by:

- Limiting investments to avoid overconcentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities),
- Limiting investment in securities that have higher credit risks,
- Investing in securities with varying maturities, and
- Continuously investing a portion of the portfolio in readily available funds such as local government investment pools, money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

2. MAXIMUM MATURITIES

To the extent possible, the City should attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than five years from the date of purchase. The City shall adopt weighted average maturity limitations (which often range from 90 days to 3 years), consistent with the investment objectives.

Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding five years if the maturity of such investments are made to coincide as nearly as practicable with the expected use of funds. The intent to invest in securities with longer maturities shall be disclosed in writing and approved by the Breezy Point City Council.

REPORTING

1. METHODS

The Investment Officer shall prepare an investment report at least quarterly, or as new investments occur, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner which will allow the City Council to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will include the following:

- a. Listing of individual securities held at the end of the reporting period,
- b. Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity.
- c. Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.
- d. Listing of investment by maturity date
- e. Percentage of the total portfolio which each type of investment represents.

2. PERFORMANCE STANDARDS

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during an economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis. The basis used to determine whether market yields are achieved shall be the average Federal Funds rate.

3. MARKING TO MARKET

The market value of this portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least quarterly. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with the recommended practice.

POLICY CONSIDERATIONS

The City's investment policy shall be adopted by resolution by the City Council and will be reviewed on an annual basis. The investment officer shall be in charge of implementation of the Investment Policy.

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.

STATUTORY AUTHORITY

Specific investment parameters for the investment of public funds by the City are found in Minnesota Statutes Chapters 118A. Copy attached to this policy.

LIST OF ATTACHMENTS

The following documents, as applicable, are attached to this policy:

- Listing of authorized personnel and listing of authorized broker/dealers and financial institutions,
- Relevant investment statutes and ordinances

