



POLICY: INVESTMENT POLICY
REFERENCE NO. FIN-001

ORIGINAL ADOPTION: 12/10/2004
REVIEWED UPDATED: NA.

SECTION 1: POLICY AND PURPOSE

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

The purpose of this policy is to develop an overall program for cash investments, designed and managed with prudence and a high degree of professionalism.

SECTION 2: SCOPE/FUNDS

The investment policy applies to the investment and deposit of all funds of the city.

Pooling of funds. Except for cash in certain restricted and special funds, the city will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on respective participation and in accordance to general accepted accounting principles (GAAP).

SECTION 3: DELEGATION OF AUTHORITY

The Finance Director is designated as the Investment Officer of the City and is responsible for investment management decisions and activities. The Finance Director shall be the authority to conduct actual investment transactions and will act in accordance with procedures as established within this policy.

SECTION 4: PRUDENCE

The standard of prudence to be used by investment officials shall be the “prudent investor”, and shall be applied in the context of managing the investments. All investment transaction shall be made in good faith with the degree of judgment and care, under the circumstances, that a person of prudence discretion and intelligence would exercise in the management of their own affairs. This standard of prudence shall mean not for speculation, and with consideration of the probable safety of the capital as well as the probable investment return derived from assets.

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.

SECTION 5: 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 recognized 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.

SECTION 6: ETHICS AND CONFLICTS OF INTEREST

Public officials and city 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. Investment officials shall disclose any material interests in financial institutions with which they conduct business. Employees and officers shall refrain from undertaking personal investments transactions with the same individual with which business is conducted on behalf of the city.

SECTION 7: INVESTMENT OBJECTIVES

The objective of this policy is to establish standards for governing the investment of the funds of the city. At all times, investments of the city shall be in accordance with Minnesota Statutes Chapter 118A and amendments thereto. The primary objectives of the city's investments shall be in the following order of priority:

Safety of Principal

Safety of the principal is the foremost objective of the investment portfolio. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. Avoiding capital losses shall be the primary objective of each investment transaction.

Liquidity

The investment portfolio must remain sufficiently liquid to enable the city to meet all operating and capital requirements that might be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Cash needs will be determined based on cash flow forecasts prepared during the budget process.

Yield

The investment portfolio must be maintained as to attain a market-average rate of return.

SECTION 8: INVESTMENT INSTRUMENTS

The following are investments instruments authorized for Minnesota public sector entities under Minnesota Statute 118A:

1. U.S. Government Obligations (Bills, Notes, Bonds).
2. Other securities that are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.
3. Cities may invest funds in the following types of state and local securities:
 - a. General Obligation of any state or local government with taxing powers which is rated "A" or better by a national bond rating service.
 - b. A revenue obligation of any state or local government which is rated "AA" or better by a national bond rating service.
 - c. A general obligation of the Minnesota Housing Finance Agency which is a moral obligation of the state of Minnesota and is rated "A" or better by a national bond rating agency.
 - d. Any security which is an obligation of a school district with an original maturity not exceeding 13 months and, either rated in the highest category by a national bond rating service or enrolled in a particular credit enhancement program.
4. In commercial paper issued by U.S. corporations or their Canadian subsidiaries. These must be rated in the highest quality category by at least two national recognized rating agencies and must mature in 270 days or less.
5. Time deposits include savings accounts or certificates of deposits that are made for a fixed term but can be withdrawn early with notice. Fund may be invested in time deposits that are fully insured by the FDIC or in bankers acceptances of United States banks.
6. Certificates of Deposits that are fully insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized by law.
7. Repurchase Agreements.
8. Local Government Investment Pool (4M Fund).
9. Money Market funds rated by at least one national recognized agency.

SECTION 9: INVESTMENT PARAMETERS

Investments shall be diversified in the following manner:

1. By limiting investments to avoid overconcentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities).
2. By limited investment in securities that have higher credit risks.
3. By investing in securities with varying maturities.
4. By 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.

Maximum maturities. To the extent possible, the city should attempt to match its investments with anticipated cash flow requirements. The city shall adopt average maturity limitations (which often range from 90 days to 3 years), consistent with the investment objectives.

SECTION 10: REPORTING

The Investment Officer shall prepare an investment report, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made quarterly. The management summary will be prepared in a manner which will allow the City to ascertain whether investment activities whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the Mayor, City Council, and City Manager on a quarterly basis.

The report will include the following:

1. Listing of individual securities held at the end of the report period.
2. Realized and unrealized gains and 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.
3. Average weighted yield to maturity of portfolio on investments.
4. Listing of investments by maturity date.
5. Percentage of the total portfolio which each type of investment represents.

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 a market/economic environment of stable interest rates.

City of Mound
Broker/Dealer Questionnaire

1. Proposed Vendor Company: _____

2. Designated Contact Person: _____

3. Branch Manager: _____

4. Home Office Institutional Contact: _____

5. Local Address: _____

6. Telephone: _____

7. Home Office Mailing Address: _____

8. Telephone: _____

9. Qualifications:

A. References: Please provide at least five (5) references from other municipal entities that are similar to the City of Mound, which you have worked for a period longer than two (2) years.

B. Please provide us with your firm's most recent financial information.

C. Does the local representative of your firm have any current or recent legal disputes with any Public Sector entity over investment related issues?

If so, please explain:

This shall serve as notice that the firm of _____
and the representatives of said company attest that they have read and understand all of the
State Investment Laws pertaining to the City of Mound, Minnesota, and agree to adhere to
these guidelines and will not seek to sell the City of Mound, Minnesota, any investments that
do not fall within these parameters.

Furthermore, we have read the Investment Policy of the City of Mound, Minnesota, and will
adhere to its provisions above and beyond any covered by state statutes.

Finally, we will not attempt to sell any security to the City of Mound, Minnesota, that does not
conform to the cash flow forecast of the City of Mound, Minnesota.

Branch Manager

Broker Representative

Date

Date