

**CITY OF KIMBALL**  
**MUNICIPAL POLICY NUMBER 01-2010**  
**INVESTMENT POLICY**

**DATE COUNCIL APPROVED:** July 6, 2010

**I. Authority**

This policy covers all monies of the City of Kimball (hereinafter, City) and includes deposits and investments of funds deposited in interest bearing accounts.

It is a common occurrence for the City to have cash balances in various fund accounts, which although allocated for a specific purpose, are temporarily not needed. It is the policy of the City that any fund with a cash balance, which will remain unexpended for a reasonable period of time, shall be invested in a manner as outlined below.

The investment program shall be operated in conformance with federal, state, and other legal requirements, including *Minn. Stat. §118A*.

**II. Scope**

The purpose of this Policy statement is to establish standards governing the investment of City funds. In accordance with *Minn. Stat. §118A.02*, the City Clerk/Treasurer is authorized to invest the City's funds. The types of securities and financial instruments that can be purchased will be as set out in *Minn. Stat. §118A.04 – 118A.05*. The investment policy applies to all the investment activities of the City.

Investments will be made, based on statutory constraints, in safe, low risk instruments.

**III. Objective**

At all times, investments of the City shall be made in accordance with *Minn. Stat. §118A*. The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

*1. Safety*

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

a) Credit Risk

The City will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:

- Limiting investments to the types of securities listed in Section VII of this Investment Policy
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business in accordance with Section V
- Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

b) Interest Rate Risk

The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity
- Investing operating funds primarily in money market checking accounts, shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy (see section VIII).

*2. Liquidity*

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist of some securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.

*3. Yield*

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal.
- Liquidity needs of the portfolio require that the security be sold.

**IV. Standards of Care**

*1. Prudence*

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. 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.

The "prudent person" standard states that, "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 probable income to be derived."

### *2. Ethics and Conflicts of Interest*

Officers 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.

### *3. Delegation of Authority*

Authority to manage the investment program is granted to the City Clerk/Treasurer, hereinafter referred to as investment officer. Responsibility for the operation of the investment program is hereby delegated to the investment officer by the City Council, who shall act in accordance with established 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 investment officer. The investment officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. The City Clerk/Treasurer may delegate appropriate staff.

## **IV. Authorized Financial Institutions, Depositories and Brokers/Dealers**

A list will be maintained of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by creditworthiness (e.g., a minimum capital requirement of \$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 (SEC) Rule 15C3-1 (uniform net capital rule).

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

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
- Proof of National Association of Securities Dealers (NASD) certification (not applicable to Certificate of Deposit counterparties)
- Proof of state registration
- Completed broker certification form (annual) (not applicable to Certificate of Deposit counterparties)
- Certification of having read and understood and agreeing to comply with the City's investment policy.

## **V. Safekeeping and Custody**

### *1. Safekeeping*

Securities will be held by an independent third-party custodian as evidenced by safekeeping receipts in the City's name.

### *2. Internal Controls*

The investment officer shall establish a system of internal controls, which shall be documented in writing. The controls shall be designed to prevent the loss of public funds arising from fraud,

employee error, unanticipated changes in financial markets or imprudent actions by employees and officers of the City.

## **VI. Suitable and Authorized Investments**

### *1. Investment Types*

*Minn. Stat. §118A.04 – 118A.05* lists all permissible investments for municipalities. This list establishes the maximum investment risk permitted for a Minnesota municipality. Even though these sections provide for more instruments to be used for investing purposes, the following is a list of investments the City will be authorized to invest in:

- a) Government Securities Instruments such as bonds, notes, bills, mortgages and other securities which are direct obligations of the federal government or its agencies, with the principal fully guaranteed by the US Government or its agencies.
- b) Certificate of Deposit A negotiable or non-negotiable instrument issued by commercial banks and insured up to \$250,000 by the FDIC.
- c) Repurchase Agreement An investment which consists of two simultaneous transactions, where an investor purchases securities from a bank or dealer. At the same time, the selling bank or dealer agrees to repurchase the securities at the same price plus interest at some agreed-upon future date. The security purchased is the collateral protecting the investment.
- d) Any security which is a general obligation of any state or local government with taxing powers which is rated “A” or better by a national bond rating service.
- e) Statewide investment pools including Minnesota Joint Powers Investment Trust (4M Fund), which invest in authorized instruments according to Chapter 118A of the Minnesota Statutes.
- f) Money Market Mutual Funds which invest in authorized instruments according to Chapter 118A of the Minnesota Statutes.
- g) Interest Bearing Deposits in authorized depositories must be fully insured or collateralized at a minimum of 110% of face value.

### *2. Collateralization*

In accordance with *Minn. Stat. §118A.03* on the Collateralization of Public Deposits, full collateralization will be required on all demand deposit accounts, including checking accounts and non-negotiable certificates of deposit.

## **VII. 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 and collateralized deposits),

- limiting investment in securities that have higher credit risks,
- investing in securities with varying maturities and
- investing a portion of the portfolio in readily available funds such as local government investment pools or money market funds to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

### *2. Maximum Maturities*

To the extent possible, the City shall 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 an average expected life of ten (10) years from the date of purchase or in accordance with state and local statutes and ordinances.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as local government investment pools, money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

### *3. Competitive Bids*

The investment officer shall obtain competitive bids from at least two brokers or financial institutions on all purchases of investment instruments purchased on the secondary market. The investment officer shall have no obligation to purchase, and may decline on any or all bids received.

## **VIII. Investment Reporting**

The investment officer on or before February 1 of each year shall furnish the City Council a detailed report of all investments held as of December 31 of the previous year, including the cost, date and place of each investment, the maturity date and rate of interest earning on each as of that date.

## **IX. Policy Considerations**

### *1. Exemption*

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.

### *2. Amendments*

This policy shall be reviewed on an annual basis. Any changes must be approved by the City Council.

## **X. Approval of Investment Policy**

The investment policy shall be formally approved and adopted by the City Council.