



City Council Policy #3

Investment

Date Approved: November 21, 1994,

Dates Amended: December 7, 1998; October 4, 2010; November 17, 2014

I. Scope

This policy shall govern the investment activities of the City of Kirksville, excluding any specific funds cited or those pertaining to investments of employees' retirement funds or proceeds from certain bond issues.

Pooling of Funds. Except for cash in certain restricted, fiduciary or 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.

External Management of Funds. Investment through external programs, facilities and professionals operating in a manner consistent with this policy will constitute compliance.

II. General Objectives

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

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

- Credit Risk. The City will minimize credit risk, the risk of loss due the failure of the security issuer or backer, by:
 - Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the City will do business.
 - Diversifying the portfolio so that potential losses on individual securities will be minimized.
- Interest Rate Risk. The City will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:
 - Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to cash in un-matured investments or sell securities on the open market prior to maturity.
 - Investing operating funds primarily in shorter-term securities.

Liquidity. The City's investment portfolio shall remain sufficiently liquid to enable the City to meet all operating requirements that may be reasonably anticipated. This will be accomplished by structuring the portfolio so that investments mature concurrent with cash needs to meet anticipated demands (static liquidity). Since all possible cash demands cannot be anticipated, the portfolio should consist largely of investments with active secondary or resale markets (dynamic liquidity). A portion of the portfolio also may be placed in bank deposits or repurchase agreements that offer same-day liquidity for short-term funds.

Yield. 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 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 are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal.
- A security swap would improve the quality, yield, or target duration in the portfolio.
- Liquidity needs of the portfolio require that the security be sold.

III. Standards of Care

Prudence. The standard of care 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 liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion to the governing body and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

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.

Ethics and Conflicts of Interest. City staff 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. City staff involved in the investment process 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.

Delegation of Authority. Authority to manage the investment program is granted to the City's Finance Director as investment officer. Responsibility for the operation of the investment program is hereby delegated to the investment officer, who shall act in accordance with the established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. 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 investment activities.

IV. Investment Transactions

Authorized Financial Institutions. The purchase of City investment securities will be on a competitive basis from financial institutions which have branches located within the City limits of Kirksville or from the State of Missouri investment pool. A list will be maintained of financial institutions authorized to provide investment transactions.

Internal Controls. The investment officer is responsible for establishing and maintaining an internal control structure that will be reviewed annually with the City's independent auditor. The internal control structure shall be designed to ensure that the assets of the City are protected from loss, theft or misuse and to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits require estimates and judgments by management.

V. Portfolio

Investments. The City will limit its purchase of investment securities to those which are of the highest quality, including, but not limited to the following instruments:

- U.S. Treasury Bills, Notes and Bonds
- Certificates of Deposits (collateralized)
- Government Repurchase Agreements

Collateralization. All Certificates of Deposits and Repurchase Agreements will be fully collateralized at 105%. The securities acceptable to be used as collateral are described in Missouri Statutes 30.270, Part 1, with the exception of items 6 and 7.

All securities, which serve as collateral against the deposits of a depository institution, must be safe kept at a non-affiliated custodial facility. Depository institutions pledging collateral against deposits must, in conjunction with the custodial agent, furnish the necessary custodial receipts within five business days from the settlement date.

The City shall have a depository contract and pledge agreement with each safekeeping bank that will comply with the Financial Institutions, Reform, Recovery, and Enforcement Act of 1989 (FIRREA). This will ensure that the City's security interest in collateral pledged to secure deposits is enforceable against the receiver of a failed financial institution.

Investment Restrictions and Prohibited Transactions. To provide for the safety and liquidity of the City's funds, the investment portfolio will be subject to the following restrictions:

- Borrowing for investment purposes ("Leverage") is prohibited.
- Instruments known as Structured Notes (e.g. inverse floaters, leveraged floaters, and equity-linked securities) are not permitted. Investment in any instrument, which is commonly considered a "derivative" instrument (e.g. options, futures, swaps, caps, floors, and collars), is prohibited.
- Contracting to sell securities not yet acquired in order to purchase other securities for purposes of speculating on developments or trends in the market is prohibited.

VI. Investment Parameters

Diversification. Investments shall be diversified to minimize the risk of loss resulting from over concentration of assets in specific maturity, specific issuer, or specific class of securities. Diversification strategies shall be established and periodically reviewed.

Maximum Maturities. To the extent possible, the City shall attempt to match its investments with anticipated cash flow requirements. 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 in bank deposits or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

Generally, the City will maintain approximately 75 percent of the City's cash reserves in short-term investments of less than one-year maturities. Long-term investments of up to two years shall be limited to approximately 25 percent of the City's investments. At no time shall funds from the City's pooled cash account be invested for a length to exceed two years without the prior approval of the City Council.

VII. Reporting

Reports. In the event the City acquires investments other than checking accounts or certificates of deposit, at least quarterly, 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 by the investment officer over the last quarter. This report shall be provided to the City Council and will include the following:

- Listing of individual securities held at the end of the reporting period.
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration (in accordance with Government Accounting Standards Board (GASB) 31 requirements). [Note, this is only required annually]
- Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.
- Listing of investment by maturity date.
- Percentage of the total portfolio which each type of investment represents.

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 a market/economic environment of stable interest rates. A series of appropriate benchmarks may be established against which portfolio performance shall be compared on a regular basis.