City of Charlevoix

INVESTMENT POLICY

Policy: It is the policy of the City of Charlevoix to invest public funds to insure the preservation of capital, allowing the highest investment return with the maximum security. The policy requires that any investments meet the daily cash flow requirements of the City and these investments conform to all state statutes governing the investment of public funds.

Scope: This investment policy applies to all financial assets of the City of Charlevoix. These funds are accounted for in the governments' annual financial report and include all funds unless specifically exempted by the City Council. These funds include:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Project Funds
- Enterprise Funds (Electric, Sewer & Water)
- Trust & Agency
- Any new fund created by the governing body, unless specifically exempted by the City Council

Prudence: The standard of prudence to be applied by the investment official(s) shall be the "prudent person rule". Investments shall be made with judgment and care, considering prevailing circumstances, which persons of prudence, discretion and intelligence exercise in the management of their own investments, weighing the probable safety of capital as well as the probable revenue to be derived.

Objectives: The objectives of the City of Charlevoix investment policy are A) safety, B) liquidity and C) rate of return on investment. Safety is the highest priority since the City wishes to safeguard against the loss of principal of all public funds. Liquidity must be considered due to the cyclical nature of tax revenues and irregular spending patterns common in a municipal setting. Maximizing return within the constraints of safety, liquidity and risk-free investments is a major objective. Idle funds should be invested as they become available to maximize the return. The public's trust must be maintained in this process and all participants must act responsibly as custodians of the public trust. The overall program must be designed, documented and managed with professionalism worthy of public trust.

Responsibility: The individual responsible for investments is the City Treasurer, who in turn is responsible to the City Manager. The Treasurer's deputies will act in the absence of the Treasurer. The Treasurer will establish procedures and internal controls for depositing City monies and carrying out investment decisions and activities consistent with this investment policy. No person may engage in investment transactions except as provided under the terms of this policy and the procedures established by the Treasurer.

Ethics & Conflicts of Interest: The investment officer and all other persons involved in investment activities of the City of Charlevoix shall refrain from personal business activity that could conflict with the investment program or could impair their ability to make impartial investment decisions. These persons will disclose to the City Council any material financial interests in financial institutions that could be related to performance of the City's portfolio.

Authorized Depositories: The City Council shall designate the depository or depositories for City funds as defined by the City Charter Section 7.14 Deposits. Depositories shall include financial institutions that must be a chartered bank or savings & loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office in the State of Michigan under the laws of Michigan under the laws of Michigan or the United States.

The Treasurer will conduct quarterly evaluations of all depositories' credit worthiness to determine whether it should be on the "Qualified Institution" listing. Use of financial institutions or security dealers may include primary or regional dealers that qualify under the Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule) and investment departments of banks, which have been subject to the following evaluation:

1. Financial condition, loan exposure, capital adequacy, asset quality, earnings and liquidity
2. Regulatory status of the dealer
3. Background and expertise of the individual representative
4. An upper quartile rating from a nationally recognized independent bank and savings and loan rating service.

Individuals representing institutions doing business with the City shall receive a copy of this policy, shall certify they have read and understand it's provisions (see appendix A). A copy of each certification shall be kept on file by the Treasurer.

Authorized Investments: The investment officer is permitted to invest funds in instruments allowed by State of Michigan Statutes and meet the criteria of this policy. Examples of such investments assuming they are fully secured are:

1) Interest bearing savings and checking accounts
2) Negotiable certificates of deposit
3) Non-negotiable certificates of deposit
4) U.S. Treasury bills
5) Bankers acceptance
6) Federal agency instruments
7) Money Market funds/investment pools in accordance with PA 20 and its amendments. Authorized mutual funds are limited to a net asset value (NAV) of $1.00 per share. Investment pools must be organized under the surplus funds investment pool act of 1982, the local investment pool act of 1985 or the urban cooperation act of 1967.
8) Commercial Paper with the following ratings:

	S&P	**Moodys**
Highest quality	A-1	Prime-1
High quality	A-2	Prime-2

These instruments provide the City with sufficient latitude to select and meet their investment objectives. Note that the City does not include repurchase agreements in its allowed list.

Collateralization: The City of Charlevoix chooses to limit collateralization to repurchase agreements. Since repurchase agreements are not currently included in the list of available investments, there is not a current requirement for collateralization by this policy. Should these investments be allowed in the future, appropriate collateral would be required.

Safekeeping & Custody: Investment securities purchased by the City shall be held in third-party safekeeping by an institution designated as primary agent. The City Treasurer or the City Manager, with the approval of the City Council, will execute a third-party safekeeping agreement with a third party if necessary. The agreement will include the responsibilities of each party, provisions for delivery vs. payment, procedures in case of sire failure or other mishaps, including liability. Not included in the third-party safekeeping agreement are certificates of deposit, mutual funds, direct purchase of commercial paper, and bankers acceptances.

Diversification: It is the policy of the City of Charlevoix to diversify its investment portfolio. Assets held in a pooled cash fund and other investment funds shall be diversified to eliminate the risk of loss resulting from over-concentration of assets in a specific maturity, individual financial institutions, or a specific class of investments. Diversification strategy will be determined and reviewed by the City Treasurer to insure the portfolio meets the objectives of diversification. These objectives include: maturity dates which coincide with cash flow needs, debt service requirements, reserve requirements as well as revenue expectations.

Maximum Maturities: The City of Charlevoix will attempt to match the investment of available cash to its cash flow requirements. The maximum maturity for investments will be two (2) years from the date of purchase. Special projects (such as the Electric Trust Fund) will be limited to a maximum investment of 5 years. This special project fund would be renewable with prior approval by City Council if appropriate.

Internal Controls: The City Treasurer will have investments reviewed annually by the City's designated audit firm. This review will check for appropriate internal controls, check for compliance with policies and procedures and prevent any loss of public funds due to fraud, error, misrepresentation or illegal action.

Performance Standards: Since the investment strategy of the City of Charlevoix is passive, the Treasurer can compare period yields to Lehman Brothers Government/Corporate Index, T-bill rates, CD rates and/or commercial paper rates as found in the Wall Street Journal for a given investment period. Pooled investments can be compared to the Municipal Investors Service benchmark.

Reporting: The Treasurer will report bi-monthly (6 times per year) to the City Manager and Council as to the type, rate and terms of the investments, total interest received, annual rate of returns with benchmark comparisons, bank ratings and other related information which enables the governing body to monitor and measure the success of the investment portfolio.

Glossary: Since this policy is to be available for the public, it is important that a glossary of related terminology be included as a part of this policy (attached).

Adopted by City Council: November 18, 2002

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July 11, 2002

Appendix A

ACKNOWLEDGMENT OF RECEIPT OF INVESTMENT POLICY AND AGREEMENT TO COMPLY

I have read and fully understand Act 20 PA 1943, as amended, and the Investment Policy of the City of Charlevoix.

Any investment advice or recommendation given by ___________________________ to the City of Charlevoix shall comply with the requirements of Act 20 PA 1943 as amended, and the Investment Policy of the City of Charlevoix. Any existing investment not conforming to the statute or the policy will be disclosed promptly.

By: ____

Title: ____

Date: ________________________

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May 25, 1999

GLOSSARY

Agencies: Federal agency securities and/or Government sponsored enterprises.

Asked: The price at which securities are offered.

Bankers Acceptance: 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.

Benchmark: A comparative base for measuring the performance or risk of an investment portfolio. A benchmark should represent a close correlation to the the level of risk and the average duration of the portfolio's investments.

Bid: The price offered by a buyer of securities.

Broker: A broker brings buyers and sellers together at the cost of a commission.

Certificate of Deposit: (CD) A time deposit with a specific maturity. Large CD's can be 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: The annual rate of interest that a bond's face value. A certificate attached to a bond evidencing interest due on a payment date.

Debenture: A bond secured only by the general credit of the issuer.

Delivery vs. Payment: There are two methods of delivery of securities: delivery versus payment and delivery vs. receipt. Delivery vs. payment is delivery of securities with an exchange of money for the securities. Delivery vs. receipt is delivery of securities with an exchange of a signed receipt for the security.

Derivatives: Financial instruments whose return profile is linked to, or derived from the movement of one or more underlying index or security, and may include a leveraging factor or (2) financial contracts based on notional amounts whose value is derived from an underlying index or security (interest rates, equities or commodities).

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.

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, exporters.

Federal Deposit Insurance Corporation (FDIC): A federal agency that insures bank deposits (including CD's) up to $100,000 per institution.

Federal Funds Rate: The rate of interest at which Fed funds are traded. This rate is pegged by the Federal Reserve through open market operations.

Government Securities: An obligation of the U.S. Government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market.

Interest Rate Risk: The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.

Internal Controls: An internal control structure which insures that the assets of the entity are protected from loss, theft or misuse. This structure is designed to provide reasonable assurance that these objectives are met. Reasonable assurance recognizes that the cost of control should not exceed the benefits derived and the valuation of costs and benefits and that the valuation of costs requires estimates and judgments by management. Internal controls should address the following:

1) control of collusion
2) separation of duties in accounting & record keeping
3) custodial safekeeping
4) avoidance of physical delivery securities
5) clear delegation of authority to subordinate staff
6) written confirmation of transactions (investment & wire transfers)
7) wire transfer agreement with the lead bank and third-party custodian

Inverted Yield Curve: A chart formation that illustrates long-term securities having a lower yield than short-term securities. This situation usually occurs during periods of high inflation combined with low levels of consumer confidence in the economy and a restrictive monetary policy.

Investment Grade Obligations: An investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment grade is restricted to obligations rated BBB or higher by a rating agency. (S&P, Moody's, etc.)

Liquidity: An asset that can be converted easily and quickly to cash.

Mark-to-market: The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

Market risk: The risk that the value of a security will rise or decline as a result of change in market conditions.

Market value: The current market price of a security.

Maturity: The date on which payment of a financial obligation is due. The final stated maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder.

Money Market Mutual Fund: Mutual funds that invest solely in money market instruments (short-term debt instruments such as Treasury bills, commercial paper, bankers' acceptances, repos and federal funds).

National Association of Securities Dealers (NASD):A self-regulatory organization (SRO) of brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares and other securities.

Net Asset Value: The market value of one share of an investment company, such as a mutual fund. The figure is calculated by totaling a fund's assets which includes securities, cash and any accrued earnings, subtracting this from the fund's liabilities and dividing this total by the number of shares outstanding. This is calculated once per day on the closing price for each security in the funds portfolio. (Total assets - Liabilities)/(# of shares outstanding)

No Load Fund: A mutual fund which does not levy a sales charge on the purchase or redemption of its shares.

Nominal Yield: The state rate of interest that a bond pays its current owner, based on par value of the security. It is also known as the coupon rate or interest rate.

Offer: An indicated price at which market participants are willing to sell a security or commodity. Also know as the "ask price".

Par: Face value or principal value of a bond, typically $1,000 per bond.

Premium: The amount by which the price paid for a bond exceeds its par value.

Prime Rate: A preferred interest rate charged by commercial banks to their most creditworthy customers.

Principal: The face value or par value of a debt instrument. Also may refer to the amount of capital invested in a given security.

Prospectus: A legal document that must be provided to any prospective purchaser of new securities offering registered with the SEC. This often includes information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management team and audited financial statements.

Prudent Person Rule: An investment standard outlining the fiduciary responsibilities of public funds investors relating to investment practices.

Reinvestment Risk: The risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by that holding.

Repurchase agreement (repo or RP): An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date.

Reverse Repurchase Agreement (Reverse Repo): An agreement of one party to purchase securities at a specified price from a second party and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specified date.

Rule 2a-7 of the Investment Company Act: Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13 month maturity limit and a 90 day average maturity on investments, to help maintain a constant net asset value of one dollar ($1.00).

Safekeeping: Holding of assets (securities) by a financial institution.

Serial Bond: A bond issue, usually of a municipality, with various maturity dates scheduled at regular intervals until the entire issue is retired.

Sinking Fund:	Money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.
Total Return:	The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period; (Price appreciation) + (dividends paid) + (capital gains) = total return
Treasury Bills:	Short-term U.S. Government non-interest bearing debt securities with maturities of no longer than one year and issued in minimum denominations of $10,000. Auctions of three (3) and six (6) month bills are weekly, while auctions of one year bills are monthly. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.
Treasury Notes:	Intermediate U.S. Government debt securities with maturities of on to 10 years, issued in denominations ranging from $1,000 to $1 million or more.
Treasury Bonds:	Long-term U.S. Government debt securities with maturities of ten (10) years or more, issued in denominations of $1,000. Currently the longest outstanding maturity for these securities is 30 years.
Volatility:	A degree of fluctuation in the price and valuation of securities.
"Volatility Risk" Rating:	A rating system to clearly indicate the level of volatility and other non-credit risks associated with securities and certain bond funds. The ratings for bond funds range from those that have extremely low sensitivity to changing market conditions and offer the greatest stability of the returns (aaa by S&P, V-1 Fitch) to those that are highly sensitive with currently identifiable market volatility risk ("ccc" by S&P, V-10 Fitch).
Yield:	The current rate of return on an investment security generally expressed as a percentage of the security's current price.
Yield to Maturity:	The rate of return yielded by a debt security held to maturity when both interest payments and the investor's potential capital gain or loss are included in the calculation of return.
Zero-coupon Securities:	A security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.