

CITY OF WOODLAND

COUNCIL POLICIES

CHAPTER 1 – FINANCE

POLICY 1-1 – FUND BALANCE POLICY

PURPOSE

The purpose of this policy is to establish specific guidelines the City of Woodland will use to maintain an adequate level of fund balance to provide for cash flow requirements and contingency needs because major revenues, including property taxes and other government aids are received in the second half of the City's fiscal year.

The purpose of this policy is to also establish specific guidelines the City of Woodland will use to classify fund balances into a categories based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in these funds can be spent.

CLASSIFICATION OF FUND BALANCES

a) Nonspendable

- This category includes fund balance that cannot be spent because it is either (i) not in spendable form or (ii) is legally or contractually required to be maintained intact. Examples include inventories and prepaid amounts.

b) Restricted

- Fund balance should be reported as restricted when constraints placed on those resources are either (i) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (ii) imposed by law through constitutional provisions or enabling legislation.

c) Unrestricted

1. Committed

- Fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. The committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to commit those amounts.
- The City's highest level of decision making authority (City Council) will annually or as deemed necessary commit specific revenue sources for specified purposes by resolution. This formal action must occur prior to the end of the reporting period, however, the amount to be subject to the constraint, may be determined in the subsequent period.

- To remove the constraint on specified use of committed resources the City Council shall pass a resolution

d) Assigned

- Amounts that are constrained by the government's intent to use for specified purposes, but are neither restricted nor committed. Assigned fund balance in the General fund includes amounts that are intended to be used for specific purposes.
- The City Council has delegated the authority to assign and remove assignments of fund balance amounts for specified purposes to the City Clerk and Treasurer.

e) Unassigned

- Unassigned fund balance represents the residual classification for the General fund. Includes amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned to specific purposes within the General fund. The General fund should be the only fund that reports a positive unassigned fund balance amount.

FUND MANAGEMENT PROCEDURE

The City will maintain an unrestricted fund balance in combination of the General Fund the Road Improvement Fund of an amount not less than 50% of the next year's budgeted expenditures of the General Fund. This will assist in maintaining an adequate level of fund balance to provide for cash flow requirements and contingency needs because major revenues, including property taxes and other government aids are received in the second half of the City's fiscal year.

STABILIZATION ARRANGEMENTS

Stabilization arrangements are defined as formally setting aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise.

The City will set aside amounts by resolution as deemed necessary that can only be expended when certain specific circumstances exist. The resolution will identify and describe the specific circumstances under which a need for stabilization arises. The need for stabilization will only be utilized for situations that are not expected to occur routinely.

MONITORING AND REPORTING

The City Clerk and Treasurer shall annually prepare the status of fund balances in relation to this policy and present to the City Council in conjunction with the development of the annual budget.

When both restricted and unrestricted resources are available for use, it is the City's policy to first use restricted resources, and then use unrestricted resources as they are needed.

When committed, assigned or unassigned resources are available for use, it is the City's policy to use resources in the following order; 1) committed 2) assigned and 3) unassigned.

A negative residual amount may not be reported for restricted, committed, or assigned fund balances in the General fund.

Adopted by the Woodland
City Council 9-12-2011

CITY OF WOODLAND
COUNCIL POLICIES
CHAPTER 1 – FINANCE

POLICY 1-2 – INVESTMENT POLICY

PURPOSE

The purpose of this policy is to establish specific guidelines the City of Woodland will use in the investment of City funds. It will be the responsibility of the City Clerk/Treasurer to invest City funds in order to attain a market rate of return while preserving and protecting the capital of the overall portfolio. Investments will be made, based on statutory constraints, in safe, low risk instruments.

SCOPE

The City Clerk/Treasurer is responsible for the investing of all funds in the custody of the City, including, but not necessarily limited to, the General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds, Enterprise Funds, and Agency Funds.

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 overall portfolio. Investment officers acting in accordance with this policy and with MN Statute 118A, and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided that reasonable action is taken to control adverse developments and unexpected deviations are reported in a timely manner.

OBJECTIVE

There are three main objectives of all investment activities that are prioritized as follows:

- A. **Safety -** Safety of principal is the foremost objective of the City. Each investment transaction shall seek to first insure that capital losses are avoided. The objective will be mitigate credit risk and interest rate risk.

Credit Risk is the risk of loss due to failure of the security issuer or backer.

Interest Rate Risk is the risk that the market value of securities in the portfolio will fail due to changes in general interest rates.

- B. **Liquidity -** The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonable anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands.

- C. Yield - The investment portfolio of the City of Woodland shall be designed to attain a market-average rate of return through budgetary and economic cycles, taking into consideration the city's investment risk constraints, cash flow characteristics of the portfolio and prudent investment principles.

Subject to requirements of the above objectives, it is the policy of the City of Woodland to offer financial institutions and companies within the City of Woodland the opportunity to bid on investments; however the City of Woodland will seek the best investment yields.

DELEGATION OF AUTHORITY

Management responsibility for the investment program is hereby delegated from the City Council to the City Clerk/Treasurer, who shall establish procedures for the operation of the investment program, consistent with this investment policy. Such procedures shall include delegation of authority to persons responsible for investment transactions. The City Clerk/Treasurer shall be responsible for all transactions undertaken and shall establish a system of internal controls designed to prevent losses from fraud and employee error.

CONFLICT OF INTEREST

Any City Official (elected or appointed) 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 his/her ability to make impartial investment decisions.

AUTHORIZED FINANCIAL INSTITUTE AND DEALER

In accordance with Minnesota Statute 118A.005, the responsibility for conducting investment transactions resides with the City Council of the City of Woodland. Also, the Council shall authorize the City Clerk/Treasurer to exercise the powers of the Council in designating a depository of the Funds. In selecting depositories, the credit worthiness of the institutions under consideration shall be examined by the City Clerk/Treasurer.

Only approved security broker/dealers selected by creditworthiness shall be utilized (minimum capital requirement of \$10 million dollars and at least five years of operation). These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15c3-1 (uniform net capital rule).

All financial institutions and broker/dealers must supply the following information as appropriate:

- ◆ Audited financial statements
- ◆ Proof of National Association of Securities Dealers (NASD) certification
- ◆ Proof of stated registration
- ◆ Completed broker/dealer questionnaire for firms who are not major regional or national firms
- ◆ Certification of having read the City's investment policy

BROKER REPRESENTATIONS

Municipalities must obtain from their brokers certain representations regarding future investments. Minnesota Statutes, Section 118A, Subdivision 6, requires municipalities to

provide each broker with information regarding the municipalities investment restrictions. Before engaging in investment transactions with the City of Woodland, the supervising officer at the securities broker/dealer shall submit a certification annually according to MN Statutes 118A.05. The document will state that the officer has reviewed the investment policies and objectives, as well as applicable state law, and agrees to disclose potential conflicts of interest or risk to public funds that might arise out of business transactions between the firm and the City of Woodland. All financial institutions shall agree to undertake reasonable efforts to preclude imprudent transactions involving the City's funds.

AUTHORIZED AND SUITABLE INVESTMENTS

Minnesota Statutes, Section 118A, Subdivision 3, lists all permissible investments for municipalities. This list establishes the maximum investment risk permitted for a Minnesota municipality. Even though MN Statutes 118A provides for more instruments to be used for investing purposes; the following is a listing of investments the City will be authorized to invest in:

1. 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 U.S. Government or its agencies.
2. Certificate of Deposit: A negotiable or nonnegotiable instrument issued by commercial banks and insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC).
3. 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.
4. Any security which is a general obligation of the State of Minnesota or any of its municipalities.
5. Statewide investment pools which invest in authorized instruments according to MN Statutes 118A.
6. Money market mutual funds which invest in authorized instruments according to MN Statutes 118A.

Interest-bearing deposits in authorized depositories must be fully insured or collateralized.

COLLATERALIZATION

Collateralization will be required on two types of investments. Certificates of Deposit (above the FDIC insurance amount) and Repurchase Agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 110 percent of the market value of principal and accrued interest. When the pledged collateral consists of notes secured by first mortgages, the collateral level will be 140% of the market value of the principal and accrued interest. Collateral shall be deposited in the name of the City of Woodland, subject to release by the City Clerk/Treasurer.

SAFEKEEPING AND CUSTODY

When investments purchased by the City are held in safekeeping by a broker/dealer, they must provide asset protection of \$500,000 through the Securities Investor Protection Corporation (SIPC) and at least another \$2,000,000 supplemental insurance protection.

DIVERSIFICATION

The City will attempt to diversify its investments according to type and maturity. The portfolio, as much as possible, will contain both short-term and long-term investments. The City will attempt to match its investments with anticipated cash flow requirements. Extended maturities may be utilized to take advantage of higher yields; however, no more than 30% of the total investments should extend beyond five (5) years and in no circumstance should any extend beyond twenty (20) years.

CERTIFICATE OF AUTHORITY

The Woodland City Council hereby authorizes the following city staff to sell, assign and endorse for transfer, certificates of deposit, certificates representing stocks, bonds or other securities that are registered in the name of the City of Woodland: City Clerk/Treasurer, City Clerk and Deputy Clerk.

INVESTMENT REPORTING

The City Clerk/Treasurer shall prepare an investment report annually, including a management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the last year.

CONCLUSION

The intent of this policy is to ensure the safety of all City funds. The main goal of the City will be to achieve a market rate of return while maintaining the safety of its principal.

Adopted by the Woodland City Council
January 9, 2006