

1. POLICY

The investment program shall be operated in conformance with federal, state, and other legal requirements, including Minn. Stat. § 118A. It is the policy of the City to invest public funds in a manner which will provide the highest investment return with minimum risk while meeting the daily cash flow demands.

Investment income will be allocated annually to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

POLICY CONSIDERATIONS

EXEMPTIONS

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.

APPROVAL OF INVESTMENT POLICY

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

AMENDMENTS

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

2. SCOPE

This policy applies to the investment of all funds of the City of Chatfield and Chatfield Economic Development Authority (the "City") except those (if any) which are governed in another manner by specific reference in federal, state and/or local statutes. Proceeds from certain bond issues may be covered by a separate policy to conform to federal requirements.

All assets to which this policy applies are accounted for in the City's annual Financial Statements and include;

- General Fund (*Governmental Fund*)
- Special Revenue Funds (*Governmental Fund*)
- Debt Service Funds
- Capital Project Funds (*Governmental Fund*)
- Enterprise Funds (*Proprietary Fund*)
- Internal Service Funds (*Proprietary Fund*)
- Custodial Funds
- Any other newly created fund

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.

3. STANDARDS OF CARE

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."

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.

DELEGATION OF AUTHORITY

Authority to manage the investment program is granted to the City Administrator, 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.

4. INVESTMENT GENERAL OBJECTIVES

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

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, through diversification and maturity limitations for each pool of fund of investments. The objective will be to mitigate credit risk and interest rate risk.

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 identified as authorized in section 5 of this investment policy
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business in accordance with those defined in Section 7 of this investment policy.
- Diversifying the investment portfolio so that the impact of price fluctuations from any one type of security or from any one individual issuer will be minimized in accordance with section 9 of this investment policy.

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 8).

LIQUIDITY

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. The portfolio will be structured 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.

Yield Return on Investment

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 are 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.

5. AUTHORIZED INVESTMENTS

Investment Types

Consistent with Minn. Stat. § 118A, the following investments will be permitted by this policy:

UNITED STATES SECURITIES (§ 118A.04 SUBD. 2)

Public funds may be invested in governmental bonds, notes, bills, mortgages (excluding high-risk mortgage-backed securities), and other securities, which 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.

MONEY MARKET FUNDS

Money market funds consisting of United States Treasury Obligations and/or Federal Agency Issues and/or repurchase agreements as long as it is rated AAA by two rating agencies.

MINNESOTA JOINT POWERS INVESTMENT TRUST

City funds may be invested in agreements or contracts for shares of a Minnesota joint powers investment trust whose investments are restricted to comply with Minnesota Statutes.

STATE AND LOCAL SECURITIES (§ 118A.04 SUBD. 3):

- (1) 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;
- (2) any security which is a revenue obligation of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- (3) 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.
- (4) any security which is an obligation of a school district with an original maturity not exceeding 13 months and rated in the highest category by a national bond rating service or enrolled in the credit enhancement program.

COMMERCIAL PAPERS (§ 118A.04 SUBD. 4):

Funds may be invested in commercial papers issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by at least two nationally recognized rating agencies and matures in 270 days or less.

TIME DEPOSITS (§ 118A.04 SUBD. 5):

Time deposits (brokered) that are fully insured by the Federal Deposit Insurance Corporation, the National Credit Union Administration, or bankers acceptances of United States banks (excluding local time deposits that are fully collateralized as addressed in M.S. 118A.03.

FULLY COLLATERALIZED DEPOSITS

Certificates of deposit and other evidence of deposits at financial institutions that are fully collateralized as required by state statute.

6. SAFEKEEPING AND CUSTODY

Safekeeping

Consistent with Minn. Stat. § 118A.06(a), Investments may be held in safekeeping with;

- (1) Any Federal Reserve Bank,

- (2) Any bank authorized under the laws of the United States or any state to exercise corporate trust powers, including, but not limited to, the bank from which the investment is purchased;
- (3) A primary reporting dealer in United States government securities to the Federal Reserve Bank of New York or;
- (4) A securities broker-dealer, or an affiliate of it, that meets the following requirements:
 - a. It is registered as a broker-dealer under chapter 80A or is exempt from the registration requirements;
 - b. It is regulated by the Securities and Exchange Commission; and
 - c. It maintains insurance through the Securities Investor Protection Corporation or excess insurance coverage in an amount equal or greater than the value of the securities held.

The City's ownership of all securities in which the fund is invested must be evidenced by written acknowledgements identifying the securities by the names of the issuers, maturity dates, interest rates, CUSIP number or other distinguishing marks.

Collateralization

In accordance with M.S. 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.

7. FINANCIAL INSTITUTIONS, SECURITY DEALERS, AND CONSULTANTS

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 in total assets 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 Financial Industry Regulatory Authority (FINRA) 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.

The broker/dealer must sign the Broker Notification and Certification form required by Minnesota Statutes 118A, including this investment policy, prior to any investment transaction with the City. The Broker Notification and Certification must be updated annually.

8. INVESTMENT PARAMETERS

DIVERSIFICATION

The investments shall be diversified by:

- limiting investments to avoid over concentration 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.

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.

Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding ten (10) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of funds.

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.

COMPETITIVE BIDS

The investment officer shall consider multiple competitive offerings on all purchases of investment instruments purchased. The investment officer shall have no obligation to purchase and may decline on any or offerings.

9. 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.

10. PERFORMANCE STANDARDS

The City's cash management portfolio shall be designed with the objective of meeting or exceeding the average return on three-month U.S. Treasury bills during a market/environment of stable interest rates. The portfolio will take into consideration investment risk constraints and cash flow needs.

11. REPORTING

Administration prepares two financial reports, a Monthly Cash and Investment Report and a Quarterly Financial Report (1st, 2nd & 3rd Quarter, the Audited Financial Statement serves as the fourth quarter report)

MONTHLY FINANCE CASH & INVESTMENT REPORT

- PURPOSE—MONTHLY RECONCILIATION OF ACCOUNTING SOFTWARE BALANCES WITH THE INSTITUTION BANK STATEMENTS (OR ON LINE REPORTING INFORMATION).
- INFORMATION PROVIDED—
 - ACCOUNTING SOFTWARE FUND BALANCES (CASH BASIS REPORTING)
 - RESERVE FUND "BUCKET" BALANCES
 - INSTITUTION CASH & MONEY FUND ACCOUNT BALANCES
 - INVESTMENT HOLDINGS (CD'S, BONDS, SECURITIES) BY MATURITY DATE, MARKET VALUE & ESTIMATED VALUE BASED ON FULL MATURITY
 - % OF PORTFOLIO BY INSTITUTION
 - PORTFOLIO ESTIMATED AVERAGE YIELD (BASED ON FULL MATURITY) COMPARED TO 3 MONTH TREASURY BILL
- DISTRIBUTED TO—
 - CITY ADMINISTRATOR
 - PERSONNEL BUDGET COMMITTEE (COUNCIL REPRESENTATIVES)

QUARTERLY FINANCIAL REPORT (DASHBOARD)

- PURPOSE—REVENUE & EXPENDITURE BUDGET TO ACTUAL ANNUALIZED ACTIVITY ANALYSIS AND YEAR END FUND OPERATIONAL GUIDELINES & POLICY CHECK POINTS MONITORING.
- INFORMATION PROVIDED—
 - FUND LEVEL BUDGET TO ANNUALIZED ACTUAL REVENUE & EXPENSE PROJECTIONS CHART
 - GENERAL FUND DEPARTMENTS BUDGET TO ANNUALIZED ACTUAL EXPENDITURE PROJECTION CHART (GENERAL REVENUE, LEGISLATIVE, ADMINISTRATION, MUNICIPAL BUILDING, POLICE, STREET MAINTENANCE, POOL, AND PARKS)
 - FINANCE OPERATIONAL GUIDELINES & POLICY CHECKPOINTS
 - OPERATIONS CHECK BOOK BALANCE TRACKING CHART—PROPOSED \$750,000 (3YR AVG MONTHLY OPERATIONS EXPENSES)
 - GENERAL FUND UNASSIGNED BALANCE TRACKING CHART
 - SPECIAL REVENUE OPERATIONS ASSIGNED & ENTERPRISE FUND CASH FLOW (CASH BASIS) | YEAR END 20-40% OF THE FOLLOWING YEARS BUDGETED EXPENSES
 - CASH & INVESTMENT BALANCE | PERFORMANCE
 - PORTFOLIO BALANCE TREND CHART
 - QUARTER END PORTFOLIO ESTIMATED YIELD | 3 MONTH TREASURY REPORT
 - QUARTER END PORTFOLIO BALANCE | BY INSTITUTION
- DISTRIBUTED TO—
 - CITY ADMINISTRATOR
 - DEPARTMENT HEADS
 - PERSONNEL BUDGET COMMITTEE
 - CITY COUNCIL

Adopted Sep 08, 2008

Amendment Adopted Jun 27, 2022

Adopted | Reviewed Jan 09, 2023

Adopted | Reviewed Jan 08, 2024

Adopted | Annual Review Dec 9, 2024 – Distribution Annual Meeting Jan 13, 2025

Adopted | Jun 24, 2025 – Reporting Section Updated. – Distribute at Annual Meeting Jan 12, 2026