

THE CITY OF MARY ESTHER, FLORIDA
INVESTMENT POLICY

1.0 POLICY

It is the policy of the City of Mary Esther, Florida to invest funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the entity and conforming to all statutes governing the investment of Mary Esther Funds (also referred to hereafter as "the City.")

2.0 SCOPE

This policy will pertain only to those funds in excess of those required to meet short-term expenses. It will not pertain to pension, trust, or bond funds where there are existing policies or indentures in effect.

3.0 STATUTORY AUTHORITY

The investment of Local Government surplus funds is administrated under Florida Statue Chapter 166.261, and amended under Chapter 21 Part IV, sections 218.40 through 218.45

4.0 ORGANIZATION

The organization of the investment functions of the City of Mary Esther shall consist of the City Council, a City Manager (CM) and a Finance Director (SA). The responsibilities of these groups are as follows:

1. The City Council

This group is the elected body responsible for the administration and investment of the assets of the City of Mary Esther. The City Council may acquire, hold, manage, purchase, sell, assign, trade, transfer, or dispose of any security, evidence of debt, or other investment in which the City's assets may be invested. To assist them in discharging their responsibilities, the City Council shall receive recommendations from the City Manager and the Finance Director.

2. The City Manager

The City Manager (CM) is the chief administrative officer for funds management. He/she is responsible for executing the investment policies of the City Council. In addition, the CM employs the members of the finance department and is responsible for their compliance with the Personal Conduct Standards. He/she recommends to the City Council an operating budget, and investment strategies based on the written investment policy. He/she is responsible for recommending investment dealers and brokers who are eligible to do business with the City. These recommendations are subject to the review and approval of the City Council.

The CM is also the investment officer of the City and is granted full authority and responsibility by the City Council in the purchase, sale assignment, exchange, and transfer of securities, and for the safe custody of security holdings, subject to Council policies, rules, regulations, and directives consistent with regulatory and statutory limitations.

3. The Finance Director

The Finance Director (SA) will review the investments of the City to be sure that they conform to the requirements of prudence and comply with statutory and regulatory requirements and with the investment objectives and policies adopted by the City Council. The SA shall review the previous quarter's investment transactions, investment performance, asset mix, and portfolio strategy and make recommendations to the City Manager for any changes deemed appropriate.

The SA is employed full time and is responsible to the CM. The SA interprets, administers, and advises the City Council on investment strategies, including specific investments for the City Portfolio. The SA maintains current information on securities owned or considered for ownership. The SA also executes transactions through selected broker-dealers, collects investment income, and prepares reports of an investment nature as may be required by the City Council and the City Manager.

Neither the Council members, CM, SA nor their organizations may receive any benefit, either through sale of goods or services or through brokerage commissions or other compensation, from the City.

5.0 INVESTMENT OBJECTIVES

The primary objectives, in priority order, of the City of Mary Esther's investment activities shall be:

1. Safety. Safety of principal is the foremost objective of the investment program. Investments of Mary Esther shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

2. Liquidity. The City of Mary Esther's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.

3. Return on Investment. The City of Mary Esther'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 City's investment risk constraints and the cash flow characteristics of the portfolio.

6.0 INVESTMENT OBJECTIVES BY TYPES OF FUNDS

Public Funds will be divided into three categories, and the investment objectives and policies vary with the nature of the fund:

1. Fund for Operating Expenses

Funds to provide for the ordinary operating expenses of the City of Mary Esther; Portfolio management is designed to balance the inflow and outflow of the principal of the funds, using income generated as a supplementary source of revenue.

A. Objective: The primary investment objectives of this portfolio are preservation of principal and liquidity; income is a secondary objective.

B. Risk Tolerance: Because most of the principal of the fund will be paid out over the course of the fiscal year, volatility of principal is not permitted, although moderate income volatility can be tolerated. Financial risk is not acceptable, and because of the short investment time horizon of the funds, exposure to interest rate risk and purchasing power will be minimal.

C. Rates of Return: The annual time-weighted rate of return of this portfolio should exceed the annual total return on three-month Treasury bills.

2. Fund for Capital Expenditures

Funds to provide for major expenses, capital outlays, and other specified nonrecurring long-term purposes: This portfolio is managed to ensure that funds are available as needed, preserve the principal, and generate income that can supplement other funding sources.

A. Objective: The primary investment objectives of this fund are preservation of principal and sufficient liquidity to meet funding of capital or other special projects as required. Income is a secondary objective.

B. Risk Tolerance: No principal volatility is tolerated, the fund will be invested in nonvolatile, liquid investments to ensure payment for projects when due. Moderate income volatility is permitted. Financial risk is unacceptable, and because the investment time horizon of the fund is relatively short, exposure to interest rate and purchasing power risk will be minimal.

C. Rates of Return: The annual time-weighted rate of return on this portfolio should exceed the total return on six-month Treasury bills.

3. Surplus Funds

Surplus funds that have no designated purpose and that may be set aside for contingencies or emergencies or may be used to supplement the other two funds as necessary; Portfolio management is designed to generate income and preserve the principal so that it will be available when needed.

A. Objective: The primary investment objective is to provide income (and perhaps principal) for future uses. Preservation of principal is a primary objective also.

B. Risk Tolerance: Minimal volatility of principal is acceptable in order to obtain additional income. Financial risk is unacceptable, and interest rate risk and purchasing power risk will be minimal. Income volatility can be moderate.

C. Rate of Return: The rate of return should equal or exceed the return on an index of government securities with an equal duration measured over a complete market cycle.

7.0 PERFORMANCE MEASUREMENT

On a quarterly basis the Finance Director will provide the City Manager and the City Council a performance report indicating each type of investment instrument and their return. This information will be analyzed to guide the Finance Director in the mix of investments for the following quarter.

8.0 ETHICS

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. 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 the 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 appropriate action is taken to control adverse developments.

9.0 INVESTMENT POLICY GUIDELINES

The following investment policy guidelines are adopted:

1. Maturity and Liquidity Requirements. Sufficient cash equivalent investments will be held to enable the City to meet day to day obligations for the next six months. Investments will be made in accordance with known and anticipated cash needs and cash-flow requirements.
2. Permissible Investments. The City may invest funds in the following:
 - a. The local Government Surplus Funds Trust Fund.
 - b. Negotiable direct obligations of, or obligations the principal and interest of which are unconditionally guaranteed by, the United States Government at the then prevailing market price for such securities.
 - c. Savings accounts or certificates of deposit in state-certified qualified public depositories.
 - d. Money market mutual funds that restrict investments to United State Government Obligations.
 - e. Obligations of the federal farm credit banks; the Federal Home Loan Mortgage Corporation, including Federal Home Loan Mortgage Corporation participation certificates; or the Federal Home Loan Bank or its district banks or obligations guaranteed by the Government National Mortgage Association.
 - f. Obligation of the Federal National Mortgage Association, including Federal National Mortgage Association participation certificates and mortgage pass-through certificates guaranteed by the Federal National Mortgage Association.
3. Prohibited Investments and Investment Practices. The following are prohibited.
 - a. Purchases on margin or short sales.

b. Derivative securities that are, in effect, a leveraged bet on future movements of interest rates or some price index. Collateralized mortgage obligations, because of their complexity and prepayment rate uncertainties, are prohibited.

c. Lending securities with an agreement to buy them back after a stated period of time (reverse purchase agreements from the perspective of the public body).

4. Diversification

The investment portfolio will be diversified to avoid incurring undue concentration in securities of one type or securities of one financial institution, so that no single investment or class of investments can have a disproportionate impact on the total portfolio. This restriction does not apply to U.S. Treasury securities or the Local Government Surplus Trust Fund.

10.0 AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS

The Finance Director will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment services in the state of Florida. No public deposit shall be made except in a qualified public depository as established by state laws.

The approved list will be developed in accordance with these Investment Policies.

For banks and savings and loan associations to be included on the approved list, they must be a Qualified Public Depository, as determined by the State of Florida. A listing of the Qualified Public Depositories is available on a quarterly basis from the Florida Administrative Weekly.

Only brokers and dealers (or their agents) included on the Federal Reserve Bank of New York's list of primary government securities dealers will be included on the City's approved list. Other non-primary dealers can be used provided that the dealer is approved by the City Council, City Manager and Finance Director and a memo indicating this approval is contained in the investment files and records.

11.0 SAFEKEEPING OF SECURITIES - POLICIES

To protect against potential fraud and embezzlement, the investment securities of the City shall be secured through third-party custody and safekeeping procedures. Copies of the current custody and safekeeping agreements must be included in the investment files and records.

Physical delivery type securities will be held in safekeeping at the appropriate location and the City's interest in the security will be clearly indicated in all confirmations and reports received from the dealer and the safekeeping bank. All physical delivery securities will be kept separate from the institutions' own assets.

Book-entry type securities will be held by the third party bank for the interest of The City of Mary Esther, and these securities will be kept separate and apart from the institutions' own assets.

Investments held in custody and safekeeping by the Federal Reserve Bank of Jacksonville or any other Reserve Bank will qualify as third-party safekeeping. Pledged securities under a repurchase agreement must contain provisions that the security has been pledged to The City of Mary Esther. Other banks may qualify as third-party banks for safekeeping provided the securities are held in the Trust Department of the bank, and the total assets of the bank are in excess of \$4 billion.

Certificates of deposit and other time deposits do not need to be placed with a third-party custodian, since they are collateralized through Chapter 280 of the Florida Statutes. However, they must be protected against physical damage from fire, flood, or theft.

Prior to any securities being transferred to a third-party custodian bank, a custodian/safekeeping agreement will be executed by both parties and placed on file.

12.0 BID REQUIREMENTS - POLICIES

The City of Mary Esther shall analyze and select one or more optimal types of investment, and the security will be competitively bid when feasible and appropriate.

13.0 INTERNAL CONTROL - POLICIES

A written system of internal and operational control procedures are contained in the Internal Control and Standard Operating Procedures Manual. The internal controls are designed to prevent loss of funds due to fraud, employee error, misrepresentation by third parties or imprudent actions of city employees. These controls shall be subject to review in conjunction with financial audits of the City by independent auditors.

14.0 REPORTING

The Finance Director shall prepare an investment report at least quarterly,

including a succinct management summary that provides a clear picture of the status of the current investment portfolio and transaction made over the last quarter. This management summary will be prepared in a manner that will allow the City to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will be provided to the City Manager, and the City Council.

15.0 ALTERNATIVE INVESTMENT GUIDELINES

In addition to the policy guidelines listed above, the City of Mary Esther may invest in the following instruments at prevailing market rates/prices:

- a. Local Government Surplus Funds Trust Funds, or any intergovernmental investment pool authorized through the Florida Interlocal Cooperation Act.
- b. SEC registered money market funds with the highest credit quality rating from a nationally recognized rating company.
- c. Savings accounts in state-certified, qualified public depositories.***
- d. Certificates of Deposit (CD's) in a state-certified, qualified public depositories.***
- e. Direct obligations of the U.S. Treasury.***
- f. Federal Agencies and instrumentalities.***

*** Shall be invested to match investment maturities with known cash needs and anticipated cash-flow requirements.

16.0 PERSONAL CONDUCT

The City Council of the City of Mary Esther is acutely aware of the responsibilities that the staff has in administering the investment assets of the City. Therefore, the integrity of the staff and all others involved in making investment decisions must be unquestionable.

Members of the City Council, the City Manager, and Finance Director may not have a direct or indirect interest in the gains or profits of any investment made by the City and may not receive any pay or emolument for services other than as designated compensation and authorized expenses.

All persons responsible for investment decisions or who are involved in the management of the City's assets shall be governed in their personal investment activities by the codes of conduct established by the applicable state statutes,

the National Association of Securities Dealers, and the Securities and Exchange Commission, and the Code of Ethics and Standards of Professional Conduct of the Association for Investment Management and Research.

All persons responsible for investment decisions or who are involved in the management of the City's assets are prohibited from accepting invitations to functions if the cost is borne by brokers or dealers, corporations, or the system local clearing banks. Exceptions to this rule are invitations that have been extended to other members of the investment community and are made for the express purpose of presenting topics pertinent to the investment of the City's assets.