

POLICY: # 121
ADOPTED: 06/21/2010
REVIEWED/REVISED: 06/21/2010
SUBJECT: INVESTMENT & CASH MANGEMENT

I. POLICY

It is the policy of the Swartz Creek Area Fire Authority to invest public funds in a manner that will provide the highest investment return with the maximum security while meeting long term major equipment purchasing needs of the Swartz Creek Area Fire Department. The policy will conform to all State statutes and local ordinances governing the investment of public funds.

II. SCOPE

This investment policy applies to all financial assets of the Swartz Creek Area Fire Authority. These funds are accounted for in the Swartz Creek Area Fire Authority's Annual Financial Report.

III. INVESTMENT OBJECTIVES

The following investment objectives, in priority order, will be applied in the management of the Swartz Creek Area Fire Authorities funds.

Safety

The primary objective of the Swartz Creek Area Fire Authority's investment activity is the preservation of capital in the overall portfolio and the protection of investment principal.

The authorized investment staff will employ mechanisms to control risks and diversify investments regarding specific security types or individual financial institutions.

Liquidity

The investment portfolio will remain sufficiently liquid to enable the Swartz Creek Area Fire Authority to meet equipment purchasing requirements, which might be reasonably anticipated.

Return on Investment

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow characteristics of the portfolio. Return on investments shall be of secondary importance compared to the safety and liquidity objectives above.

IV. PRUDENCE

In managing its investment portfolio, Swartz Creek Area Fire Authority officials shall avoid any transaction that might impair public confidence. 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 above standard is established as the standard for professional responsibility and shall be applied in the context of managing the overall portfolio. Investment officers of the Swartz Creek Area Fire Board, acting in accordance with State statute, this investment policy, written procedures as may be established, and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion, and appropriate action is taken to control adverse developments.

DELEGATION OF AUTHORITY

Authority to manage Swartz Creek Area Fire Authority investment program is derived from the following: P.A. 1943, No. 20., as amended by P.A. 1988 No. 285 SS1.

Management responsibility for the investment program is hereby delegated to the Fire Chief and in the absence of the Fire chief the Accounting/Clerical Specialist who shall establish written procedures for the operation of the investment program consistent with this investment policy. Oversight will be provided by the Swartz Creek Area Fire Authority through the Board Treasurer. Procedures should include reference to: safekeeping, PSA repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Swartz Creek Area Fire Authority. The Swartz Creek Area Fire Authority shall be responsible for all transactions undertaken.

V. ETHICS AND CONFLICTS OF INTEREST

Officers and employees 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-or create the appearance of an impairment on-their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Fire Chief and the Board Treasurer any material financial interests in financial institutions that conduct business with the unit, and they shall further disclose any large personal financial investment positions that could be related to the performance of the Swartz Creek Area Fire Authority's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the Swartz Creek Area Fire Authority, particularly with regard to the time of purchases and sales.

VI. SAFEKEEPING AND CUSTODY

Authorized Financial Dealers and Institutions – The Fire Chief will maintain a list of financial institutions approved by the Swartz Creek Area Fire Authority. In addition, a list will also be maintained of approved security broker/dealers selected by credit-worthiness, who maintain an office in the State of Michigan or who are “primary” dealers or regional dealers that qualify under Securities and Exchange Commission rule 15C3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by State law.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Investment Officer with the following: audited financial statements for the most recent fiscal year; certification of having read and agreeing to abide by the Swartz Creek Area Fire Authority's investment policy and the pertinent State statutes; proof of national Association of Security Dealers certification; and proof of State of Michigan registration, where applicable.

An annual review of the financial condition and registration of qualified bidders will be conducted by the Swartz Creek Area Fire Authority through the Fire Chief. Information indicating a loss or prospective loss of capital on existing investments must be shared with the Swartz Creek Area Fire Board immediately upon notification.

VII. INTERNAL CONTROLS

The Fire Chief shall establish a system of internal controls, documented in writing, which is designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the Swartz Creek Area Fire Board. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefit likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

The Fire Chief shall initiate an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

All securities purchased by the Swartz Creek Area Fire Authority under this section shall be properly designated as an asset of the Board and held in safekeeping by a third party custodial bank or other third party custodial institution, chartered by the United States government or the State of Michigan, and no withdrawal of such securities, in whole or in part, shall be made from safekeeping except by the Fire Chief as authorized herein, at the direction of the Swartz Creek Area Fire Authority. Internal controls will also encompass at a minimum the additional issues:

Separation of functions including transaction authority from accounting and record-keeping, delegation of authority to subordinate staff members written confirmation of telephone transactions, specific guidelines regarding securities losses and remedial action, documentation of decisions made by the Swartz Creek Area Fire Authority and avoidance of physical delivery securities. Further all confirming written transactions shall be signed by the Fire Chief and the Board Treasurer or in his/her absence the Board Chairman.

VIII. DELIVERY VS. PAYMENT

All trades will be executed by delivery vs. payment to ensure that securities are deposited in an eligible financial institution prior to release of funds. Securities will be held by a third-party custodian as evidenced by safekeeping receipts.

The Swartz Creek Area Fire Authority will execute third party custodial agreement(s) with its bank(s) and depository institution(s). Such agreements will include letters of authority from the Swartz Creek Area Fire Authority, details as to responsibilities of each party, notification of security purchases, sales, delivery, repurchase agreements and wire transfers, safekeeping and transactions costs, procedures in case of wire failure or other unforeseen mishaps including liability of each party.

IX. AUTHORIZED AND SUITABLE INVESTMENTS

1. The Swartz Creek Area Fire Authority is empowered by State statute (1988 Public Act 239, M.C.L. 129.91) to invest in the following types of securities:
 - a. Bond, securities, and other obligations of the United States, or an agency or instrumentality of the United States including securities issued or guaranteed by the Government National Mortgage Association;
 - b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the federal deposit insurance corporation or a savings and loan which is a member of the federal savings and loan insurance corporation or a credit union which is insured by the national credit union administration, but only if the bank, savings and loan or credit union is eligible to be a depository of surplus funds belonging to the state under section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended;
 - c. In United States government or federal agency obligation repurchase agreements.
 - d. In banker's acceptances of United States banks;
 - e. Mutual funds registered under the investment company act of 1940, title I of chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by the Board. This authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share.
 - f. Investment pools through an inter-local agreement under the urban cooperation act of 1967, 1967 (Excess) PA 7, MCL 124.501 to 124.512. All of the pools are limited to investments described in Sections a-f.
 - g. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.11 to 129.118. All of the pools are limited to investments described in Sections a-f.

2. The Investment Officer is restricted to investments that meet the statutory restrictions above and limitations on security issues and issuers as detailed below:
 - a. Repurchase agreements shall be negotiated only with dealers or financial institutions with whom the Swartz Creek Area Fire Authority has negotiated a Master Repurchase Agreement or with the Swartz Creek Area Fire Authority's primary bank. Repurchase Agreements must be signed with the bank or dealer and must continue provisions similar to those outlined in the Public Security Association's model master Repurchase Agreement.
 - b. Certificates of Deposit shall be purchased only from financial institutions, which qualify under Michigan law and are consistent with Opinion No. 6168, Opinions of the Attorney General (1982).
 - c. To the extent possible, the Fire Chief will attempt to match investments with anticipated cash flow requirements. Specific Swartz Creek Area Fire Authority's approval is necessary for investments exceeding eighteen months. Unless matched to a specific cash flow requirement, the Swartz Creek Area Fire Board will not directly invest in securities maturing more than 10 years from the date of purchase. No more than 25 percent of the Swartz Creek Area Fire Authorities total investment portfolio shall be placed in securities maturing in more than 10 years. No more than 50 percent of investment vehicles maturing in any given month shall be of non-liquid nature (non-negotiable CDs, commercial paper, etc.)
 - d. Up to 50 percent may be invested in commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase; Commercial Paper held in the portfolio which subsequently receives a reduced rating shall be closely monitored and sold immediately if the principal invested may otherwise be jeopardized.
 - e. Investments will be diversified by security type and institutions. With the exception of U.S. treasury securities and authorized investment pools (as a long-term investment program), no more than 50 percent of the total investment portfolio will be invested in a single security type or with a single financial institution. With the exception of using affiliates of the major Banking Institute and upon receipt of written confirmation that funds are fully insured when held by the affiliates.

X. PERFORMANCE STANDARDS

The Swartz Creek Area Fire Authority's investment strategy is passive. Given this strategy, the basis used by the Fire Chief to determine whether market yields are being achieved shall be the three (3) month U.S. Treasury bill and the average Federal Funds rate.

XI. REPORTING

All investment transactions shall be recorded in the various funds of the Swartz Creek Area Fire Authority in accordance with Generally Accepted Accounting Principles as declared by the Government Accounting Standards Board.

The Fire Chief shall submit a semi-annual investment report to the Swartz Creek Area Fire Authority that provides the principal and type of investment, annualized yield, earnings for the period, market price and a summary report of cash and investments maintained in each financial institution.

Material deviations from performance standards (section XIII) shall be reported immediately to the Swartz Creek Area Fire Authority.

XII. INVESTMENT POLICY ADOPTION

The Swartz Creek Area Fire Authority investment policy shall be adopted by resolution of the Swartz Creek Area Fire Authority. Modifications made at any time or when necessitated by State statutory revision must be approved by the Swartz Creek Area Fire Authority. Investments conforming to the investment policy guidelines prior to any amendatory act are hereby validated.