

City of Saugatuck
Investment Policy

1.0 PURPOSE

It is the policy of the City of Saugatuck (“City”) to invest public funds in a manner which will ensure the preservation of principal while providing the highest return with maximum security. All investments must enable the City to meet its cash flow demands and conform to all applicable state statutes governing the investment of public funds.

2.0 SCOPE

This investment policy applies to all financial assets held by the City except for its employee pension funds and its employee deferred compensation funds which are organized and administered separately. These assets are accounted for in the City’s Comprehensive Annual Financial Report and include the following:

- General Fund
- Special Revenue Funds
- Internal Service Funds
- Capital Project Funds
- Debt Service Funds
- Trust and Agency Funds
- Any new fund created by the City Council, unless specifically exempted by State law.

This investment policy applies to all transactions involving the financial assets related activity of all the foregoing funds.

3.0 DELEGATION OF AUTHORITY

Authority to manage the investment program of the City of Saugatuck is granted to the City Treasurer in conformance with Section 6.5 of the City Charter and as required by state statute. Responsibility for the operation of the investment program is hereby delegated to the City Treasurer, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy.

3.1 Investment Procedures:

The City Treasurer shall establish written investment policy procedures for the operation of the investment program consistent with this policy. The written Investment Procedures Manual is included as “Appendix A” of 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 City Treasurer.

4.0 PRUDENCE

The standard of prudence to be used by the City Treasurer shall be the “prudent person” and/or “prudent investor” standard and shall be applied in the context of managing the overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall

City of Saugatuck
Investment Policy

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.

Investments shall be made with the 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.

5.0 INVESTMENT OBJECTIVES

The funds of the City of Saugatuck shall be invested in accordance with State of Michigan Public Act 20 of 1943, as amended, these policies and written administrative procedures. The primary objectives, in priority order, of the City's investment activities shall be:

5.1 Safety:

Safety of principal is the primary objective of the City's investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate risk.

5.1.1 Credit Risk

The City will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

- Limiting investments to the types of securities specified in Section 8.0 of this Investment Policy.
- Pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the City will do business.
- Diversifying the portfolio so that potential losses on individual securities will be minimized.

5.1.2 Interest Rate Risk.

The City will minimize the risk that the market value of the securities in the portfolio will fall due to changes in the general interest rates, by:

- Structuring the maturities of the portfolio to meet cash requirements of ongoing operations, thereby avoiding the need to liquidate securities prior to maturity.
- Investing operating funds primarily in short-term securities or investment pools.
- Only purchasing securities with the intent to hold until maturity.

5.1.3 Concentration Credit Risk.

The City will minimize the risk inherent in placing a large portion of the portfolio with a single security issuer by limiting such placement to 25% of the total portfolio defined as securities plus deposits and cash equivalents.

City of Saugatuck
Investment Policy

5.1.4 Custodial Credit Risk.

The City will minimize custodial risk by:

- Using only financial institutions and brokers meeting pre-established criteria.
- Holding all securities in the name of the City of Saugatuck.

5.2 Liquidity:

The investment portfolio of the City of Saugatuck will remain sufficiently liquid to enable the City to meet all operating requirements that may be reasonably anticipated.

5.3 Yield:

The investment portfolio of the City of Saugatuck shall be designed with the objective of attaining a benchmark rate of return throughout the budgetary and economic cycles, commensurate with the City's investment risk constraints and cash flow characteristics of the portfolio. The benchmark rate of return shall be the average U.S. Treasury Bill rate most closely approximating the average maturity of the portfolio.

6.0 ETHICS AND CONFLICT OF INTEREST

All participants in the City's investment process shall seek to act responsibly as custodian of the public trust. 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 their ability to make impartial investment decisions. Employees and investment officials shall disclose any material financial interests in financial institutions that conduct business with the City, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City's portfolio.

7.0 AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The City Treasurer shall maintain a listing of financial institutions and broker/dealers authorized to provide investment services. The Treasurer will conduct an annual evaluation of each financial institution and broker/dealer for credit worthiness to determine whether it should be on the "Qualified Institution" listing. The authorized listing of institutions, approved depositories, and broker/dealers shall be approved annually by a resolution of the City of Saugatuck City Council.

7.1 Financial Institutions

All financial institutions ([Commercial Banks, Savings & Loans and Credit Unions](#)) utilized by the City of Saugatuck shall maintain an office within the State of Michigan and meet the following requirements and financial criteria:

7.1.1 Assets of at least \$50,000,000.

7.1.2 Equity to asset ratio of at least 5.5%.

City of Saugatuck
Investment Policy

- 7.1.3 Filed with the City an “Acknowledgement of Receipt of the Investment Policy of the City of Saugatuck and Agreement to Comply” (Appendix C).
- 7.1.4 Yearly submission of, or electronic access to, audited annual financial statements.

7.2 Brokers & Dealers

All broker/dealers utilized by the City of Saugatuck shall meet the following requirements and financial criteria:

- 7.2.1 Minimum capitalization of \$100,000,000.
- 7.2.2 Minimum of five years of continuous operation.
- 7.2.3 Qualify under Securities and Exchange Commission Rule 15C3-1.
- 7.2.4 Certified by the National Association of Securities Dealers.
- 7.2.5 Filed with the City an “Acknowledgement of Receipt of the Investment Policy of the City of Saugatuck and Agreement to Comply” (Appendix C).
- 7.2.6 Yearly submission of, or electronic access to, audited annual financial statements.

8.0 AUTHORIZED INVESTMENTS

The City Treasurer is limited to investments authorized by Public Act 20 of 1943, as amended, and may invest in the following types of securities:

- 8.1 Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States (not to include collateralized mortgage obligations).
- 8.2 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 & 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.
- 8.3 Commercial paper rated at the time of purchase within the two highest classifications by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- 8.4 Banker’s acceptances of United States banks.
- 8.5 Repurchase agreements, consisting of instruments listed in (8.1).
- 8.6 Obligations of the State of Michigan, or any of its political subdivisions, that at the time of purchase are rated as investment grade by not less than two standard rating services.
- 8.7 Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 78915 U.S. 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 local units of government in the State of Michigan. This authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share.
- 8.8 Obligations described in subdivisions 8.1 through 8.7 if purchased through an inter-local agreement under the urban cooperation act of 1967, (Ex. Sess.) PA7, MCL 124.501 to 124.512.

City of Saugatuck
Investment Policy

8.9 Investment pools organized under the surplus funds investment pool act, 1982 Public Act 367, MCL 129.111 to 129.118.

8.10 Investment pools organized under the local government investment pool act, 1985 Public Act 121, MCL 129.141 to 129.150.

9.0 INVESTMENT POOLS/MUTUAL FUNDS

The City Treasurer shall thoroughly investigate each investment pool/mutual fund prior to investment of City funds. A questionnaire shall be completed by each pool/fund utilized in the investment program. The questionnaire shall include:

9.1 The investment policy and objectives of the pool/fund.

9.2 A description of eligible investment securities.

9.3 A description of interest calculation and distribution.

9.4 [A description of how funds are safeguarded and securities priced.](#)

9.5 Identity of the pool/fund auditor and audit frequency.

9.6 A description of any limitations on deposits or withdrawals.

9.7 A fee schedule.

9.8 A schedule for receiving statements and portfolio listings.

9.9 A description of the use of reserves or retained earnings if applicable.

9.10 Disclosure as to whether the pool/fund is eligible to receive bond proceeds.

10.0 COLLATERALIZATION

Collateralization of certificates of deposit may be required, at the discretion of the City Treasurer. Collateralization will be required on authorized repurchase agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level shall be 102% of the market value of principal and accrued interest. The collateral shall be subject to the custody and safekeeping provisions of this investment policy.

11.0 MAXIMUM MATURITIES

It is the objective of the City's investment policy to schedule maturities to coincide with projected cash flow needs. Unless matched to a specific cash flow, the City of Saugatuck will not directly invest in securities maturing more than two years from the date of purchase. Debt funds may be invested in securities exceeding two years if the maturity of the investments are made to coincide as nearly as practicable with the expected use of the funds.

12.0 DIVERSIFICATION

It is the policy of the City of Saugatuck to maintain a diversified investment portfolio. All cash and cash equivalent assets of the City will be diversified to eliminate the risk of loss resulting from an over-concentration of assets in a specific maturity, individual financial institution(s), or a specific class of securities. Diversification strategies shall be determined and revised periodically by the City Treasurer.

12.1 Diversification by Instrument

<u>Instrument</u>	<u>Maximum % of Accounts/Funds</u>
U.S. Treasury Obligations	100%
U.S. Gov. Agency Securities & Instruments	75%
Pool Funds	50%
Gov. Short-term Investment Trust Funds	50%
Certificates of Deposit	50%
Money Market Funds	50%
Mutual Funds	50%
Commercial Paper	50%
Banker's Acceptance	50%

12.2 Diversification by Security Issuer

<u>Issuer</u>	<u>Maximum % of Accounts/Funds</u>
Commercial Paper Issuer	5%
Bank and Savings & Loan CDs	5%
U.S. Gov. Agency	20%
Individual Pool Accounts	25%
U.S. Treasury Obligations	100%

13.0 SAFEKEEPING AND CUSTODY

Investment securities purchased by the City of Saugatuck shall be held in third party safekeeping by an institution previously approved by the City Council. The City Treasurer has the authority to execute a third party safekeeping agreement if necessary. The agreement shall include the responsibilities of each party, provisions for delivery vs. payment, procedures in case of failure or other mishaps, including the liability of each party.

14.0 INTERNAL CONTROLS

The City Treasurer shall maintain a system of internal controls which shall conform to generally accepted accounting principles and be designed to minimize losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets or imprudent actions by employees and officers of the City of Saugatuck. The City's annual financial audit shall include a review of the City's investments.

15.0 PERFORMANCE STANDARDS

The investment portfolio shall be managed to obtain a market average rate of return during a market/economic environment of stable interest rates, taking into account the City's investment risk constraints and cash flow needs. The City's investment strategy is passive. Therefore, the basis used by the City Treasurer to determine whether market yields are being achieved shall be the average U.S. Treasury Bill rate most closely approximating the average maturity of the portfolio.

16.0 COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS

A minimum of three competitive bids shall be solicited prior to the investment of surplus City funds. Relative to the City's position regarding concentration risk and diversification objectives, bids shall be requested from financial institutions for various options with regard to terms and instruments. The City will accept the bid that provides the highest rate of return with respect to maturity requirements and within the parameters of the City's investment policy. Records of bids offered and bids accepted shall be kept by the City Treasurer.

17.0 COMBINING FUNDS

The City Treasurer may combine money from two or more funds for the purpose of making an investment. In the event of a combination of funds, investment earnings shall be prorated between the funds based on principal contribution.

18.0 REPORTING

The City Treasurer shall prepare a quarterly investment report, including a management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed during the previous quarter. Reports shall indicate any areas of policy concern and suggested or planned revision(s) of investment strategies. The quarterly report shall include:

- A summary of investments by type.
- A summary of available funds and percentage invested.
- A summary of interest income and average invested balances by fund.
- An analysis of investment by maturity dates.
- A list of all open investments by type; including fund, investment amount, rate, purchase date and maturity date.

The City Treasurer shall prepare a comprehensive annual report on the investment program within 120 days of the end of the fiscal year. The annual report shall include:

- The information included in the quarterly reports.
- A 12 month comparison of investment returns.
- Proposed improvements to the investment policy, if needed.
- A concentration risk report.
- A "marked to market analysis" of the investment portfolio at fiscal year end.

19.0 POLICY CONSIDERATIONS

Any investment currently held by the City that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such funds shall be reinvested only as provided by this policy.

City of Saugatuck
Investment Policy

20.0 INVESTMENT POLICY ADOPTION

The City of Saugatuck investment policy shall be adopted by resolution of the Saugatuck City Council. The policy shall be reviewed annually by the City Treasurer. Any modifications made to the investment policy must be approved by City Council.

21.0 GLOSSARY

In order to facilitate a thorough understanding of this investment policy, a glossary of related investment terminology has been incorporated as Appendix B of this investment policy.

Appendix A

INVESTMENT PROCEDURES MANUAL

1. Purpose

The purpose of the investment procedures manual is to assist treasury staff with day-to-day investment operations, consistent with the Investment Policy of the City of Saugatuck.

2. Cash Review

Reference:

- 1.0 Purpose
- 2.0 Scope
- 3.0 Delegation of Authority

The City Treasurer, or designee thereof, must review the cash balances and portfolio daily, or as needed. Resources to be referenced and reviewed include:

- A. Cash Summary Report – Listing of balances, by fund, in: checking, savings, money market funds, certificates of deposit, investment pools, mutual funds, commercial paper investments, and US Treasury/Agency investments.
- B. Investment Calendar – Listing investment maturities by date, fund, amount and security type.
- C. Debt Payment Schedule – Estimated debt payments and transfers by fund.
- D. Payroll and payables schedules.
- E. Annual calendar of sizable receipts and payments by fund, type and amount.
- F. Historical Cash Fund Summary Reports – Average monthly balances for the year by fund.
- G. Current year and proposed budget documents, as needed.
- H. Current rates of return and economic trends.

3. Investment Selection

Reference:

- 4.0 Prudence
- 5.0 Investment Objectives
- 8.0 Authorized Investments
- 11.0 Maximum Maturities
- 12.0 Diversification

The City Treasurer or authorized designee shall determine how much of the cash balance is available for investment and shall select the area of the yield curve that most closely matches the possible maturity date(s). In determining the maturity date(s), the investment officer should consider liquidity, cash flow and projected expenditures. A review of available financial information sources should be made to determine whether the investments should be placed to match projected expenditures

or shorter, or take advantage of current and expected interest rate environments.

The investment selection should be accomplished by reviewing the current diversification of the portfolio, authorized investment instruments that meet the diversification criteria, and the authorized security issuers that meet the diversification criteria.

4. Purchasing an Investment

Reference:

- 7.0 Authorized Financial Dealers and Institutions
- 8.0 Authorized Investments
- 9.0 Investment Pools/Mutual Funds
- 10.0 Collateralization
- 11.0 Maximum Maturities
- 12.0 Diversification
- 13.0 Safekeeping and Custody
- 16.0 Competitive Selection of Investment Instruments
- 17.0 Combining Funds

The Treasurer shall establish with whom the City of Saugatuck is going to conduct business. This should be accomplished by reviewing the current authorized financial dealers and institutions that can provide the financial service required, within the constraints of the portfolio diversification requirements. Based upon the prevailing economic conditions, the investment officer, as a matter of practice, may employ more restrictive diversification requirements than the norm. A minimum of two brokers/dealers shall be selected for competitive quotes for treasury and/or commercial paper investments. A minimum of three qualified institutions shall be selected for competitive quotes for certificates of deposit.

The following must be determined prior to contacting the providers:

- A. Type of security(s) to be quoted.
- B. Targeted maturity range.
- C. Amount
- D. Settlement – rollover or cash, same day or date certain.

Before concluding the transaction, the Treasurer shall:

- A. Verify that the security selected for purchase meets all criteria, including portfolio diversification, collateralization (if appropriate) and maturity. If the security contains any imbedded options, such as call provisions or coupon adjustments, these should also be reviewed.
- B. Verify yield calculations.
- C. Verify that total purchase cost does not exceed funds available for investment.
- D. Advise the successful provider that their offering has been selected for purchase and confirm the particulars of the security purchased (type, identification number, maturity date, price, yield cost, par value, etc.).

City of Saugatuck
Investment Policy

After consummation of the transaction, and prior to settlement, the Treasurer and the securities provider should exchange and review the following information to ensure prompt and uninterrupted settlement.

- A. Name of third-party safekeeping agent.
- B. ABA number for safekeeping agent.
- C. Safekeeping account number(s).
- D. Confirmation amount of transaction.
- E. Confirmation of settlement date.
- F. CUSIP/CD number of security deposit.

5. Settlement and Follow-through

Reference:

3.0 Delegation of Authority.

14.0 Internal Controls

It is the Treasurer's responsibility to forward to and confirm the receipt of, all wire instructions (incoming or outgoing wire transfers) with the City's primary bank. Should the transaction fail to take place for any reason, the City's primary bank will notify the City Treasurer immediately after it has been notified.

Once the security transaction has been consummated, the Treasurer shall:

- A. Create an investment record for the security.
- B. Place the original investment record into the investment binder. For investment redemptions, place the records in the redeemed investments binder.
- C. Manually update the investment calendar.

6. Segregation of Duties

Reference:

14.0 Internal Controls

Electronic wire transfers of funds for investment purposes shall require the authorization of the City Manager as well as that of the City Treasurer. All City of Saugatuck banking resolutions shall contain this provision.

The City Manager shall receive confirmation of all investment transactions, including purchases, sales and transfers of investments. Confirmation may be electronic and/or written. The City Manager shall maintain a file of investment transaction confirmations that shall be provided to the City's auditor's in the performance of the annual city audit.

City of Saugatuck
Investment Policy

7. Reporting

Reference:

15.0 Performance Standards

18.0 Reporting

The Treasurer shall provide the Mayor and City Council with a written quarterly investment report within 31 days of the end of each quarter. The quarterly report shall include the following:

- A. Analysis of the prior period's economic and market activity.
- B. Investment Maturity Calendar.
- C. Report of Investments by Fund.
- D. Report of Investments by Banks/Brokers/Dealers.
- E. Analysis of investments by type.
- F. Analysis of available and invested balances by fund.
- G. Interest income and average invested balances by fund.
- H. Analysis of investments by maturity date (exclusive of pooled funds).

The Treasurer shall prepare a comprehensive annual report on the investment program within 120 days of the end of the fiscal year. The annual report shall include:

- A. The information included in the quarterly reports.
- B. A concentration risk report.
- C. A "marked to market" analysis of the investment portfolio at fiscal year end.
- D. A 12 month comparison of investment returns.
- E. Proposed improvements to the investment policy, if needed.

All investment related documents and reports shall be retained for a minimum of one year after the completion of the annual city audit. All investment records shall be retained in accordance with applicable State and City retention schedules.

The City Treasurer shall cooperate fully with the City's auditors in regard to all aspects of the City's investment program. The Treasurer shall incorporate into the investment policies and procedures recommendations made by the auditors when they are required by statute, ordinance or recommended best practices for investment programs. Changes to the City's Investment Policy require a Resolution of Approval by the City of Saugatuck City Council.

Appendix B GLOSSARY

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

ASKED: The price at which securities are offered.

BANKER'S ACCEPTANCE (BA): A draft or bill of 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 of risk tolerance of the investment portfolio. A benchmark should represent a close correlation to 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 for a commission.

COMMERCIAL PAPER: A short term, unsecured debt obligation issued by a bank holding company, finance company, utility or industrial company to raise short term cash.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a Certificate. Large denomination CD's are typically 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.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the governmental entity.

COUPON: The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his/her own account.

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

DELIVERY VERSUS PAYMENT (DVP): There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with exchange of money for the securities. Delivery

City of Saugatuck
Investment Policy

versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DERIVATIVES: Financial instruments whose return profile is linked to, or derived from the movement of one or more underlying indices or securities, and may include a leveraging factor.

DISCOUNT: The difference between the cost price of a security and its maturity when quoted lower than face value. A security selling below original offering price shortly after sale is also considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g. U.S. Treasury Bills.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to \$100,000 per deposit.

FEDERAL FUNDS RATE: The rate of interest at which Fed Funds are traded. The Federal Reserve sets this rate through open market operations.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district bank.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): A congressionally chartered corporation which buys mortgages on the secondary market, pools them and sells them as mortgage-backed securities to investors on the open market. Monthly principal and interest payments are guaranteed by FNMA but not by the U.S. government.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA): A government owned agency which buys mortgages from lending institutions, securitizes them, and then sells them to investors. Because the payments to investors are guaranteed by the full faith and credit of the U.S. government, they return slightly less interest than other mortgage backed securities.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without substantial loss of value. In the money market, a security is said to be liquid if the spread between the bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and could likely be purchased or sold.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments are issued and traded.

OFFER: The price asked by a seller of securities.

PORTFOLIO: Collection of securities held by an investor.

PREMIUM: The difference between the cost of a security and its maturity value when quoted at higher than face value. A security selling above its original offering price shortly after sale also is considered to be at a premium.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) registered securities broker-dealers, banks and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard in which a trustee may invest in a security if it is one that would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price.

REPURCHASE AGREEMENT (RP OR REPO): A contractual arrangement, not a security, between a financial institution or dealer and an investor. The investor puts up his funds for a certain number of days at a stated yield, and in return takes title to a given block of securities as collateral. At maturity the securities are returned and the funds repaid plus interest.

SAFEKEEPING: A service to customers rendered by banks for a fee, whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION (SEC): Agency created by Congress to protect investors in securities transactions by administering securities legislation.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months or one year.

TREASURY BONDS: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than ten years.

TREASURY NOTES: Medium-term coupon-bearing U.S. treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to ten years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1. Also called net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD: The rate of annual income return on an investment, expressed as a percentage. Income Yield is obtained by dividing the current dollar income by the current market price for the security. Net Yield or Yield to Maturity is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

Appendix C

**ACKNOWLEDGEMENT OF RECEIPT OF INVESTMENT
POLICY AND AGREEMENT TO COMPLY**

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

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

By: _____

Title: _____

Date: _____