CITY OF BURTON

BURTON CITY COUNCIL MEETING

FEBRUARY 2, 2015

AGENDA

Council Chambers	Committee of the Whole	6:00 PM

4303 S. CENTER ROAD
BURTON, MI 48519

A. CALL TO ORDER

B. STAFF PRESENT

C. AUDIENCE PARTICIPATION

A. Audience Discussion

D. COUNCIL DISCUSSION

1. Discussion and review of sample Municipal Financial Policies.

Burton City Council
4303 S. Center Road
Burton, MI 48519

SCHEDULED

Meeting: 02/02/15 06:00 PM
Department: Clerk's Office
Category: Discussion
Prepared By: Teresa M. Karsney
Department Head: Teresa M. Karsney

AGENDA ITEM (ID # 1317)

DOC ID: 1317

Discussion and review of sample Municipal Financial Policies.

ATTACHMENTS:

- InvestPolicy_BrokerQuest (DOC)
- City of Burton ACH Policy (DOC)
- Credit Card Policy (PDF)
- FUND BALANCE POLICY_City of Burton (DOC)
- Fund Balance Policy FINAL Grand Blanc (DOCX)
- Sample Fund Balance Policy (DOCX)
- Updated Burton Capitalization Policy (DOCX)
- IDENTITY THEFT PREVENTION (DOC)

CITY OF BURTON

INVESTMENT POLICY

TABLE OF CONTENTS

1. POLICY

It is the policy of the City of Burton to invest applicable funds in a manner which will provide the highest investment return with the maximum security while meeting daily cash flow needs and complying with all state and local statutes governing the investment of public funds.

2. SCOPE

The surplus funds of the City of Burton may be invested in accordance with Act 20 of the Public Acts of 1943, as amended, and the City's Code of Ordinances. This investment policy applies to all financial assets, investment activities and debt issues of the City of Burton. These assets are accounted for in the City's Comprehensive Annual Finance Report (CAFR) and include:

- General Fund
- Special Revenue Funds
- Internal Service Funds
- Capital Project Funds
- Enterprise Funds
- Trust and Agency Funds
- Debt Service Funds
- Fiduciary Funds
- All new funds created by the City, unless specifically exempted

3. PRUDENCE

The standard of prudence to be applied by the investment officer shall be the "prudent person" standard which states; "Investments shall be made with judgement 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 investment officer 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.

4. INVESTMENT OBJECTIVES

A. Safety of Principal

Safety of principal is the foremost objective of the City of Burton. Each investment transaction shall seek to ensure that capital losses are avoided, whether from institution default, broker-dealer default, or erosion of market value of securities. The City shall seek to preserve principal by mitigating the following types of risk, credit risk, interest rate risk and foreign currency risk.

1. Credit Risk. Credit Risk, defined as the risk of loss due to failure of an issuer of a security, shall be mitigated by investing in only very safe institutions and by diversifying the Fund so that the failure of any issuer would not unduly harm the City's cash flow.

2. Interest Rate Risk. The risk of market value fluctuations due to overall changes in the general level of interest rates shall be mitigated by limiting the weighted average maturity of the City's Fund to not more than five years and by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market.

3. Foreign Currency Risk. The City is not authorized to invest in investments which have this type of risk.

B. Liquidity

Liquidity is the second most important objective of the City of Burton. It is important that an investment contain the feature of being easily sold at any time with a minimal risk of loss of some portion of principal and interest. The City may experience unexpected or unusual circumstances that result in some investments needing to be sold to meet a contingency. Therefore, the City should maintain a high degree of liquidity in its Fund.

C. Return on Investment

The City's Fund shall be designed to attain a market-average rate of return through economic cycles. The market-average rate of return is defined as the average return on three-month U.S. Treasury Bills. Whenever possible, and consistent with the risk limitations as defined herein, and prudent investment principals, the Investment Officer shall seek to augment returns above the market average rate of return.

5. DELEGATION OF AUTHORITY

Authority to invest City of Burton funds is derived from Michigan Public Act 20 of 1943, as amended, Section 6.6 of the City of Burton Charter and City Council Resolutions. The Treasurer, or his assigns, is designated as investment officer. The Treasurer shall establish such additional procedures necessary for the operation of the investment program consistent with the City's Code of Ordinances.

6. 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 their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Council any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City of Burton's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the City of Burton, particularly with regard to the time of purchases and sales.

7. QUALIFIED DEALERS AND INSTITUTIONS

The City shall transact business only with banks, savings and loans, and registered investment security dealers. The purchase by the City of any investment other than those purchased directly from the issuer, shall be purchased either from an institution licensed by the State as a broker-dealer (who is a member of the National Association of Securities Dealers) or a brokerage firm designated as a Primary Government Dealer by the Federal Reserve Bank, a National or State Chartered Bank or a Federal or State Association. The Investment Officer shall investigate all institutions which wish to do business with the City, in order to determine if they are adequately capitalized, make markets in securities appropriate to the City's needs, and agree to abide by the conditions set forth in the City of Burton's Investment Policy. This investigation will be done annually and/or as needed by having Financial Institutions complete and return the appropriate questionnaire (See Attachment A). Also, an audited financial statement must be provided within 120 days of the Institution's fiscal year-end.

<u>Bank Considerations</u>

Ratings from relevant rating agencies such as Sheshunoffs will be considered in the selection of banks for investment and depository purposes. Only those banks, savings and loan institutions, or credit unions that are members of the FDIC, FSLIC or NCUA will be considered for investments and/or depository purposes.

8. AUTHORIZED INVESTMENTS

The City's investment of surplus funds is governed by the Michigan State Law, Act 20 of the Public Acts of 1943, as amended. Within the context of these limitations, the following investments are authorized, as further limited herein:

A. United States Treasury Bills, Notes, and Bonds, or those other obligations of the United States or an agency or instrumentality of the United States. There is no limitation as to the percentage of the Fund which can be invested in this category as the investments are both safe and liquid.

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/savings bank 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/savings bank 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.

   Purchases of negotiable certificates of deposit may not exceed 25% of the total portfolio.

C. Commercial Paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services. Commercial paper must mature not more than 270 days after the date of purchase. Purchases of eligible commercial paper may not exceed 50% of the market value of the portfolio. No more than 10% of the market value of the portfolio may be invested in commercial paper issued by any one corporation.

D. Repurchase agreements. The City may invest in repurchase agreements with banks and dealers with which the City has entered into a master repurchase contract which specifies terms and conditions of repurchase agreements. The maturity of repurchase agreements shall not exceed 90 days. The market value of securities used as collateral for repurchase agreements shall be monitored by the Investment Officer's staff and will not be allowed to fall below 100% of the value of the repurchase agreement. In order to conform with the provisions of the Federal Bankruptcy Code which provides for the liquidation of securities held as collateral for repurchase agreements, the only securities acceptable as collateral shall be eligible negotiable certificates of deposit, eligible banker's acceptances, or securities that are the obligation of the United States or an agency or instrumentality of the United States.

E. Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as banker's acceptances. Banker's acceptances purchased may not exceed 270 days to maturity or exceed 50% of the market value portfolio. No more than 10% of the market value of the portfolio may be invested in banker's acceptance issued by any one banking institution.

F. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.

G. Mutual funds registered under the investment company act of 1940, title 1 of chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation. Authorized mutual funds are limited to securities whose intention is to maintain a net asset value of $1.00 per share. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:

(i) The purchase of securities on a when issued or delayed delivery basis.

(ii) The ability to lend portfolio securities as long as the mutual fund receives collateral all times equal to at least 100% of the securities loaned.

(iii) The limited ability to borrow and pledge a like portion of the portfolio’s assets for temporary or emergency purposes.

No more than 15% of the portfolio may be invested in mutual funds.

H. Obligations described in subdivisions (a) through (g) if purchased through an inter-local agreement under the urban cooperation’s act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 TO 124.512.

I. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118 that are “no-load”; have a constant net asset value per share of $1.00; limit assets of the fund to securities authorized in M.C.L. 129.91 as legal investments for municipalities; have a maximum stated maturity and weighted average maturity in accordance with Rule 2a-7 of the Investment Company Act of 1940; and are rated either AAAm by Standard and Poor’s, Aaa by Moody’s or AAA/V1+ by Fitch. No more than 25% of the total portfolio may be invested in investment pools at any one time.

J. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to129.150.

Each investment transaction shall be competitively transacted with authorized broker/dealers. Whenever possible, at least three broker/dealers or issuers shall be contacted for each transaction and their bid and offering prices shall be recorded.

9. INVESTMENT POOLS

A thorough investigation of the pool fund is required prior to investing, and on a continual basis. There shall be a questionnaire developed which will answer the following general questions:

(a) A description of eligible investment securities, and a written statement of investment policy and objectives.

(b) A description of interest calculations and how it is distributed, and how gains and losses are treated.

(c) A description of how the securities are safeguarded (including the settlement processes), and how often are the securities priced and the program audited.

(d) A description of who may invest in the program, how often, what size deposit and withdrawal.

(e) A schedule for receiving statements and portfolio listings.

(f) A fee schedule and when and how it is assessed.

10. COLLATERALIZATION

The State of Michigan does not require collateralization, however, negotiable instruments transactions having a value greater than Securities Investor Protection Corporation (SIPC) or other applicable insurance, will be settled on a Delivery-vs.-Payment basis. A Trust (Safekeeping) Receipt and proof of the applicable insurance will be required. Non-negotiable, non-collateralized Certificates of Deposit, as is the law in the State of Michigan, shall be evidenced by a Safekeeping Receipt from the issuing bank.

11. SAFEKEEPING OF SECURITIES

All securities purchased by the City of Burton under this section shall be properly designated as an asset of the City and held in safekeeping. No withdrawal of such securities, in whole or part, shall be made from safekeeping except by the Treasurer or authorized staff.

Transactions in negotiable instruments which have a value exceeding "Securities Investor Protection Corporation" insurance protection and other insurance protection as applicable, with any one dealer, will be required to be settled on a Delivery-vs.-Payments basis. A Trust receipt from the contra-party and proof of SIPC and other insurance will be required when the transaction is covered by insurance. Non-negotiable, non-collateralized Certificates of Deposit, as in the law in the State of Michigan, shall be evidenced by a Safekeeping Receipt from the issuing bank.

12. DIVERSIFICATON

The City of Burton shall diversify its investments by security type and institution to reduce overall portfolio risks while attaining market average rates of return. With the exception of U.S. Treasury securities and authorized pools, no more the 50% of the total investment portfolio will be invested in a single security type or with a single financial institution.

13. MATURITIES

To the extent possible, investments will be scheduled to mature to match anticipated cash flow requirements.

14. INTERNAL CONTROL

The Treasurer shall developed a system of internal investment controls and a segregation of responsibilities of investment functions in order to assure an adequate system of internal control over the investment function.
External independent auditors review this system on an annual basis.

15. PERFORMANCE STANDARDS

The investment portfolio will be designed to obtain market average rate of return during budgetary and economic cycles, taking into account the City's investment constraints and cash flow needs. The basis for measurement used to determine whether market yields/rate of return is being achieved shall be the three-month U.S Treasury Bill.

16. REPORTING

A weekly report shall be rendered by the Investment Officer and filed with/by the Treasurer. This report shall include the type of investment, date of maturity, amount of deposit, current market value and rate of interest, and shall be used by the Treasurer or his designate for the purpose of conducting ongoing performance reviews of the investment function. The report will also indicate whether or not the investment program is in balance with the fund accounting system of the City. The investment officer quarterly shall provide a written report to the governing body (City Council) concerning the investment of the funds.

17. INVESTMENT POLICY ADOPTION

The City of Burton's investment policy shall be adopted by resolution of the City Council, and shall have immediate effect.

18. INVESTMENTS PORTFOLIO GUIDELINES AND GLOSSARY ARE ATTACHED

Amended: May 6, 2013

CITY OF BURTON

INVESTMENT PORTFOLIO GUIDELINES

A. GUIDELINES

These guidelines are established to direct and control investment activities in such a manner as to assure that the goals established in the Investment Policy are attained.

l. Cash Forecast. The cash flow of the City shall be updated daily with an analysis of cash receipts and expenditures and a review of the scheduled investment maturities to ensure that adequate cash will be available to meet the disbursement requirements.

2. Pooled Cash. Whenever practical, the City's cash should be consolidated into one bank account and invested on a pooled concept basis. Interest earnings may be allocated according to fund cash and investment balances.

3. Long-Term Maturities. As a general rule, long-term maturities should not represent a significant percentage of the total Fund, as the principal risk involved can outweigh the potential for higher earnings. However, if in the judgement of the Investment Officer, it is to the advantage of the City of Burton, investments may be made with maturities longer than five years. No more than 15% of the total fund may be invested in securities with maturities greater than five years.

4. Diversification. The Fund should consist of a mix of various types of securities, issuers, and maturities.

5. Competitive Bids. Purchase and sale of securities shall be made on the basis of competitive bids and offers with a minimum of two quotes being obtained, when practical.

6. Authorized Institutions. Investment transactions will only be executed with previously approved broker/dealers, banks, and savings and loans. A list of these institutions shall be authorized and maintained by the Investment Officer.

7. Certificate of Deposit Evaluation.

   (a) Time Certificates of Deposit (TCD) shall be evaluated in terms of Sheshunoff ratings and financial strength.
   (b) Negotiable Certificates of Deposit (NCD) shall be evaluated in terms of the credit worthiness of the issuer, as these deposits are uninsured and uncollateralized promissory notes.

8. Investment Transaction. Every investment transaction must be reviewed and authorized by the Treasurer or his designate. In his absence, the authority to execute investment transactions affecting the fund will be restricted to the Investment Officer or his/her assigns.

9. Automated Wire Transfers. Whenever possible, the City will use pre-formatted wire transfers to restrict the transfer of funds to pre-authorized accounts only. When transferring funds to the Bank Account not previously authorized, two authorized employees are required to utilize individual passwords in order to complete the transfer.

10. Telephone Wire Transfers. If an automated wire transfer cannot be processed, or in the judgement of the Investment Officer, a telephone wire transfer is more efficient, the Bank is required to call back to the Investment Officer's authorized employee for confirmation of the dollar amount and other pertinent information.

11. Safekeeping. Securities purchased from broker/dealers shall be held in third party safekeeping by the Trust Department of the Bank designated by the Investment Officer. Said securities shall be held in the name of the City of Burton with the trustee executing transactions as directed by the Investment Officer.

12. Strategy. Strategy refers to the plan of action for managing financial resources in the most advantageous manner. The Treasurer or his assigns may use the following elements in developing strategy:

    1. Economic Forecasts. Economic forecast information developed by economists and financial experts and obtained through bankers and brokers is used to assist the Investment Officer with the information of an investment strategy for the City.

    2. Investment Implementing. Execute only investment transactions which conform with anticipated cash flow requirements, economic condition and interest rate trends and are consistent with the established Investment Policy Statement.

    3. Rapport. A close working relationship with all City Departments having a significant impact on cash flow is maintained in order to maximize the efficiency of the City's cash management system and establish cash flow requirements.

    4. Preserve Portfolio Value. Develop yield standards in order to maintain earnings consistent with the market average rate of return to preserve the value of the portfolio.

5. <u>Golden Rule of Portfolio Management</u>.

   (a) Investment instrument characteristics should be known and understood **before** a purchase of the investment instrument is undertaken

   <u>and</u>

   (b) Recognizing that there are no firm and steadfast rules (strategies) for portfolio management due to the fact that investor expectations change by the day, hour and minute, and because of this market instability, prudent principles of fiscal management **<u>must</u>** be applied.

GLOSSARY

AGENCIES: Federal agency securities.

ASKED: The price at which securities are offered.

BANKERS' ACCEPTANCE (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BID: The price offered for securities.

BROKER: A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; he does not position. In the money market, brokers are active in markets in which banks buy and sell money and in interdealer markets.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the City of Burton. It includes five combined statements and basic financial statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

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

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) a certificate attached to a bond evidencing interest due on a payment date.

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

DELIVERY VERSUS PAYMENT: There are, two methods of delivery of securities: delivery versus payment and delivery versus- receipt (also called free). Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with-an exchange of a signed receipt for the securities.

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

DISCOUNT: The difference between the cost price of a security and its value at maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is 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 CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives and exporters.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 Regional Banks and about 5,700 commercial banks that are members of the system.

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

FEDERAL HOME LOAN BANKS (FHLB): The institutions that regulates and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-a-vis member commercial banks.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing & Urban Development (H.U.D.). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA OR Ginnie Mae): Securities guaranteed by GNMA and issued by mortgage bankers, commercial ' al banks, savings and loan associations and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by FHA, VA or FMHM mortgages. The term pass-through is often used to describe Ginnie Maes.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between 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 presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase-reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

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 (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PORTFOLIO: Collection of securities held by an investor.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the state-the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

PRIMARY DEALER: A group of government securities dealers that 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.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to- repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is, increasing bank reserves.

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.

SEC RULE 15C3-1: See uniform net capital rule.

SECURITIES & EXCHANGE COMMISSION: 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 BOND: Long-term U.S. Treasury securities having initial maturities of more than ten years.

TREASURY NOTES: Intermediate term coupon bearing U.S. Treasury securities having initial maturities of from one to ten years.

YIELD: The rate of annual income return on an investment, expressed as a percentage
(a) INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security. (b) 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.

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 rule and 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.

ATTACHMENT "A"

CITY OF BURTON

BROKER/DEALER QUESTIONNAIRE AND CERTIFICATION

1. Name of Firm ____

2. Local Address ____

   National Hdqtrs Address______________________________________

3. Telephone No. Local:_______________National Hdqtrs:______________________

4. Primary Representative: Manager/Partner-in-Charge

   Name___________________________ Name_________________________________

   Title_____________________________ Title_________________________________

   Telephone No.___________________ Telephone No._________________________

   # Years in Institutional Sales________ # Years in Institutional Sales____________

   # Years with Firm_________________ # Years with Firm_____________________

5. Are you a Primary Dealer in U.S. Government Securities? [ ] YES [ ] NO

6. Are you a Regional Dealer in U.S. Government Securities? [ ] YES [ ] NO

7. Are you a Broker instead of a Dealer, i.e., you <u>DO NOT</u> own positions of Securities?
   [ ] YES [ ] NO

8. What is the net capitalization of your Firm? ________________________________

9. What is the date of you Firm's fiscal year end? ______________________________

10. Is your Firm owned by a Holding Company? If so, what is its' name and net capitalization?____

11. Please provide your Wiring and Delivery Instructions. ___________________________

____

____

12. Which of the following instruments are offered <u>regularly</u> by your local desk?

[ ] T-Bills [ ] Treasury Notes/Bonds [ ] Discount Notes [ ] NCD's

[ ] Agencies (specify) ________________ ________________ _________________

[ ] BAs (Domestic) [ ] BAs (Foreign) [ ] Commercial Paper [ ] Mid-Term Notes

13. Which of the above does you firm specialize in Marketing?___________________________

____

14. Please identify you most directly comparable City Local Agency clients in our geographical area - Entity/Contact Person/Telephone No./Client Since?

____

____

____

15. What reports, transactions, confirmations and paper trail would we receive?

____

16. Please include samples of research reports or market information that your firm regularly provides to local agency clients.

17. What precautions are taken by your Firm to protect the interest of the public when dealing with government agencies as investors?

____

____

18. Have you or your Firm been censored or punished by a Regulatory State or Federal Agency for improper or fraudulent activities, related to the sale of securities?

[ ] Yes [ ] No

19. If yes, please explain ____

____

20. Attach certified documentation of your capital adequacy and financial solvency. In addition, an audited financial statement must be provided within 120 days of your fiscal year end.

CERTIFICATION

I hereby certify that I have personally read the City of Burton's investment policy and the laws of the State of Michigan pertaining to the investments of the City of Burton and have implemented reasonable procedures and a system of controls designed to preclude imprudent investment activities arising out of transactions conducted between our firm and the City of Burton. All sales personnel will be routinely informed of the City of Burton's investment objectives, horizon, outlook strategies and risk constraints whenever we are so advised. We pledge to exercise due diligence in informing the City of Burton's Investment Officer(s) of all foreseeable risks associated with financial transactions conducted with our firm. I attest to the accuracy of our responses to your questionnaire.

NOTE: Completion of Questionnaire is only part of the city of Burton's Certification process and DOES NOT guarantee that the applicant will be approved to do business with the City of Burton.

Signed:____________________________ Date: ______________________________

Countersigned: ____________________ Date: ______________________________
(Person in charge of government securities operations)

Amended: May 6, 2013

City of Burton
ACH Transaction Policy

Overview

Public Act 738, MCA 2002, ("the Act") authorizes and regulates electronic transactions and defines certain powers and duties. The Act allows for the designation of an Electronics Transaction Officer (ETO) by the City of Burton and defines parameters whereby the City Treasurer and/or the ETO may enter into ACH arrangements.

ACH Transactions Definition

"ACH transactions" means an electronic payment, debit or credit transfer, processed through an Automated Clearing House of the National Automated Clearing House Association, the Federal Reserve System, or an alternative national or governmental organizations that has authority to process electronic payments in the United States. ACH transactions are banking transactions that can functionally replace checks for payment transactions. They can be used to transfer monies between bank accounts, provide a means to accept incoming payments for amounts due the City of Burton or other governmental agencies and for the disbursal of monies deposited in City of Burton accounts for the payment of amounts due to vendors, schools, and other payees.

City of Burton ACH Administration

In recognition of the duties assigned the Controller, it is desirable to herby designate the Controller the Electronics Transaction Officer (ETO). It is also recognized that the City Treasurer shall have all the powers and duties as provided for in the Act to utilize ACH transactions for fulfill the duties assigned the City Treasurer's Office.

All ACH arrangements and/or agreements shall be reviewed and approved by the City Treasurer and Controller prior to being executed. The Controller or his/her designee is responsible for payment approval, accounting, reporting, and overseeing compliance with the ACH policy for transactions processed by the Controller's Office. The City Treasurer or his/her designee is responsible for ACH approval, accounting, reporting, and overseeing compliance with the ACH policy for transactions processed by the Treasurer's Office.

Receipts of payments due the City of Burton

Payments due the City of Burton Treasurer's Office shall be made via ACH transactions as required by law. In addition, upon establishment of procedures by the City Treasurer of his/her designee, certain parties may remit payments or have their bank account debited by the City Treasurer or his/her designee upon execution of a written agreement with the City. In addition, as other specific circumstances occur, the City Treasurer of his/her designee may accept ACH remittances provided said remittance is in compliance with the City's ACH arrangement and it is deemed in the City's best interest to accept a remittance of an ACH transaction.

The Controller or his/her designee will be provided all agreements for review prior to implementation. Particular attention shall be directed to issues of security, internal control, and compliance with the Act in developing such procedures.

The City reserves the authority to establish a fee or charge to customers for the right to utilize ACH transactions for remitting payments to the City of Burton. Said fees may be implemented to provide for the extra expense in processing ACH transactions over and above the fees, charge, and other costs which are associated with the receipt and processing of a check. The City Treasurer of his/her designee is responsible for determining when such additional fees are appropriate and how they will be assessed.

The City Treasurer is responsible for establishing procedures, which address issues for his/her office in regards to security, internal control, and compliance with the Act to assure the accurate receipt of funds by ACH transfer.

Payments by ACH in Lieu of Issuing Checks

Payments by ACH in lieu of issuing accounts payable, payroll, or other checks are allowed, as designated by the Controller. Said payments may be made upon execution of a written agreement with the City. Particular attention shall be given to issues of security, internal control, and compliance with the Act in developing such procedures. All such disbursements are subject to the normal approval and internal control processes applied to payments, which would otherwise be made, by check or other means.

The Controller is responsible for establishing procedures, which address issues for his/her Office in regards to security, internal control, and compliance with the Act to assure the accurate disbursal of funds by ACH transfer.

Amendment of Policy

This policy may be amended from time to time by submitting the revised policy to City Council.

City of Burton

CHARLES SMILEY
MAYOR

DEPARTMENT OF PUBLIC WORKS
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CITY POLICY #71

City Credit Cards

1. The City Purchasing Agent or in his/her absence, the Treasurer, is responsible for issuing, accounting for, monitoring, retrieving, and generally overseeing compliance with the City's credit card policy.

2. City Credit Cards may be used only by an officer or employee of the City for the official business of the City. The use of a credit card is limited to the following circumstances:

   a. purchase of goods and services in an amount not in excess of $1,000.00
   b. travel, meals, and accommodations pertaining to City business
   c. gas, oil, and other necessary expenses incurred in operating a vehicle while on City business

3. City officers and employees who use a City credit card shall, as soon as possible, submit a copy of the vendor's credit slip to the City Purchasing Agent with a completed request for payment form. If no credit card slip was obtained which describes the transaction, the officer or employee shall submit a signed voucher which shows the name of the vendor or entity from which goods or services were purchased, the date and the amount of the transaction, the official business that required the transaction, and the request for payment form indicating the fund and account number to which the transaction is to be charged. Vouchers shall also include a statement why a credit card slip was not obtained.

4. An official or employee who is issued a credit card is responsible for its protection and custody. If a card is lost or stolen, the City Purchasing Agent shall be notified as soon as possible. The entity issuing the lost or stolen credit card shall be immediately notified to cancel the card.

5. An officer or employee issued a credit card shall return the credit card to the City Purchasing Agent upon the termination of his or her term of office or upon the termination of his or her employment.

4-5-98
JMM/jmb

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CITY POLICY #71 (cont'd)

6. The City Purchasing Agent shall maintain a list of all credit cards issued to the City, along with the name of the office or employee who has been issued the credit card, the credit limit established, the date issued, and the date returned. The officer or employee shall acknowledge by signature that the credit card has been issued, and that the employee had received and read a copy of this policy.

7. The City Purchasing Agent shall review each credit statement as soon as possible upon receipt by the City to ensure compliance with this policy. Any transaction which appears on the statement that is not documented with a credit card slip or a signed voucher shall be immediately investigated. Transactions which do not appear to comply with this policy shall be reported to the Mayor.

8. The City Purchasing Agent shall not approve payment to the entity issuing the credit card of any transaction which has not been verified.

9. The balance, including any interest due, on an extension of credit under the credit card arrangement shall be paid within sixty (60) days of the initial statement date.

4-5-98
JMM/jmb

City of Burton
County of Genesee, State of Michigan

Fund Balance Policy (Governmental Funds)

Background:

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54 regarding the classification of fund balance in governmental funds. The City of Burton will comply with this Statement effective in the fiscal year beginning July 1, 2010 and ending June 30, 2011.

Fund Balance Classification:

Governmental funds in the City of Burton accounts and financial statements will include the following classifications of fund balance:

1. Non-spendable fund balance: represents those resources that cannot be used to liquidate current liabilities because the related assets are either not in spendable form (e.g. prepaids, inventory) or are required to be maintained intact (e.g. the principal of an endowment).

2. Restricted fund balance: represents amounts that can be spent only for the specific purposes stipulated by external resource providers or through enabling legislation. Effectively, restrictions may be changed or lifted only with the consent of resource providers.

3. Committed fund balance: represents amounts that are designated to be used for specific purposes determined by formal action of the City's highest level of decision-making authority. Such action must occur prior to the end of the fiscal year for which such amounts are being reported. Commitments may be changed or lifted only by the same formal action that imposed the constraint originally.

The City Council, as the City's highest level of decision-making authority, is the only entity capable of designating a committed fund balance for a specific purpose. Such action shall be performed in a properly called and conducted meeting of the Council and shall require a majority vote of Council members.

4. Assigned fund balance: In the General Fund represents amounts that are intended to be used for specific purposes, but have not been so designated by the governing body. Such designations shall be the prerogative of the City Treasurer or the Mayor.

In governmental funds other than the General Fund, assigned fund balance includes all residual amounts not restricted or committed. This indicates that resources in funds, other than the General Fund, are intended to be used to support a specific purpose (e.g. Sidewalk, Property Replacement, Building Department).

5. Unassigned fund balance: represents all residual amounts, not restricted, committed or assigned in the General Fund, and are available for any purpose.

Fund Balance Spending Order Prioritization

As required by GASB 54, the City's policy shall be that when multiple classifications are available and appropriate for a specific purpose, fund balance will be used first from the most restrictive category (Non-spendable) in order, to the least restrictive (unassigned fund balance).

Minimum Fund Balance:

For the General Fund, the budget shall be prepared and activities managed to result in an ending unassigned fund balance of at least $ 500,000, except in case of emergency or financial distress. Circumstances of emergency or distress shall be reported to the City Council at the earliest practical time. Upon such reports, Council may direct that additional action be taken to preserve the minimum fund balance.

Status of this Policy: The terms and conditions of this policy shall supersede and replace other statements by the City of Burton on this subject. This policy shall remain in force and effect until replaced or contradicted by later action of the Burton City Council or other competent authority.

City of Grand Blanc
Fund Balance Policy

Purpose

The purpose of this policy is to specify the size and composition of the City's desired fund balance and to identify certain requirements for classifying fund balance in accordance with GASB Statement No. 54. It is essential that the City maintain adequate levels of unreserved fund balance to mitigate risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures and similar circumstances. The fund balance also provides cash flow liquidity for the City's general operations and working capital for community development and improvement projects.

Policy

Fund balance is created from excess revenues over expenditures. It is a fund's net assets, mostly made up of cash and investments and, unless otherwise restricted, available for investment spending such as real estate or may be used for interfund loans. There are five components of fund balance, namely:

1. **Nonspendable Fund Balance**. This portion of fund balance is *nonspendable* because of its form, for example inventory and non-financial assets, or because of legal or contractual requirements.

2. **Restricted Fund Balance**. This portion of fund balance is *restricted* due to external limitations placed on the use of the funds. The restriction typically comes from outside the local government as a condition of the revenue source.

3. **Committed Fund Balance**. Fund balance is *committed* if a limitation is set in place by formal action of the City Council prior to the end of the fiscal year. The limitation remains binding until the City Council takes formal action to remove it.

4. **Assigned Fund Balance**. Fund balance may be *assigned* to reflect the intended use of the resource. The assignment of funds may come from the City Council or from a designee of the City Council. Less formality is needed to impose, remove, or modify a constraint reflected in *Assigned Fund Balance*. No funds other than the General Fund may have Unassigned Fund Balance, therefore any amounts remaining in excess of Nonspendable, Restricted, or Committed funds in funds other than the General Fund will automatically be reported as *Assigned Fund Balance*. If any portion of existing fund balance will be used to eliminate a projected deficit in the subsequent year's budget, this amount will also be categorized as *Assigned Fund Balance*.

5. **Unassigned Fund Balance**. The General Fund, and no other governmental fund, may have resources that cannot be classified in one of the four categories described above. Only the General Fund can report a surplus, an *Unassigned Fund Balance*.

Because Nonspendable and Restricted fund balances are not available for spending due to external enforceable conditions, this fund balance policy is focused on the appropriate level of General Fund Unrestricted fund balances, those classified as Committed, Assigned and Unassigned.

Proceeds of any real estate sales must be returned to fund balance to be recorded in the fund income statement (this could be a net against the general fund expenditure should the sale occur during the year of a deficit budget).

Utilization of Fund Balance

The policy regarding fund balance shall be that when multiple classifications are available and appropriate for particular expenditures, fund balance will be utilized first from the most restrictive category working toward unassigned fund balance. Relative "restrictiveness" of fund balance shall proceed from the most to least in order of the five classifications listed in this policy, from one to five above.

Minimum Fund Balance

For the General Fund, the budget shall be prepared and activities managed to result in an ending unassigned fund balance of at least 50% of the average of the past three (3) fiscal year general fund expenses, except in the case of emergency or financial distress. Circumstances of emergency or financial distress shall be reported to the City Council at the earliest practical time.

When fund balance approaches its minimum threshold the following measures, in priority order, shall be used to build up fund balance:

1. Cut or delay pay-as-you-go capital improvements.
2. Cut general operating expenses.
3. Increase rates and charges funding specific services to make them self-sufficient where possible.
4. Increase millage.

Maximum Fund Balance

In the event that Unassigned Fund Balance exceeds the maximum of 100% of the general fund expenses, the excess may be utilized for a one-time millage reduction utilizing the excess within the fund in which it was generated. In order to minimize the long term effect of such use, the excess shall be appropriated to fund one time expenditures or expenses which do not result in reoccurring operating costs, or other one-time costs including the establishment or increase in legitimate reservations or designations of fund balance.

Other Provisions

Maintenance. In the event the unassigned general fund balance is so calculated to be less than the policy anticipates, the City shall plan to adjust the budget resources in the subsequent fiscal years to restore the balance. Except in extraordinary circumstances, unassigned fund balance should not be used to fund any portion of the ongoing and routine year-to-year operating expenditures of the

City. It should be used to primarily insure adequate assigned balances, to respond to unforeseen emergencies, to provide cash flow and overall financial stability.

Administrative Responsibilities. The Finance Director shall be responsible for monitoring and reporting the City's various assignments. The City Manager is directed to make recommendations to the Finance Committee of the City Council on use of the unassigned funds both as an element of the annual budget submission and from time to time throughout the year as needs may arise.

Annual Report. The Finance Director shall annually submit a report to the Finance Committee of the City Council outlining the status of the City's various components of the fund balance. This report shall be submitted within thirty days of receipt of the annual financial audit. The Finance Director shall also provide status reports at other times to the Finance Committee or the City Council as may be requested.

May 9, 2012

Let it be resolved that the goal of the Council shall be to maintain a minimum unassigned fund balance of no less than 40% of General Fund expenditures. For purposes of this calculation, "expenditure" will be the annual budgeted expenditures amount less non-recurring capital expenditures.

If unassigned fund balance levels fall below 40% of expenditures, the General Fund budget for the following year will be adjusted to restore fund balance to the 40% level. If unassigned fund balance approaches a level that greatly exceeds 60% of expenditures, the City Council will consider using unassigned fund balance for the following purposes: funding OPEB Trust, funding pension, pay down future debt, transfer funds to Capital Projects fund for future Capital improvements and other future obligations of the City. Fund balance levels will be analyzed each fiscal year after the financial statement audit.

CITY OF BURTON, MICHIGAN
CAPITALIZATION POLICY

This policy defines dollar thresholds and descriptions for categories of capital assets for the City of Burton, Michigan.

Capital Assets Definition

Capital assets include land, land improvements, buildings, building improvements, construction in progress, machinery and equipment, vehicles, infrastructure, easements, works of art and historical treasures acquired by the City for use in providing services to its citizens. General capital assets, which arise from governmental activities, are to be reported and depreciated in the government-wide financial statements. In the government-wide financial statements, assets that are not capitalized are expended in the year of acquisition. For proprietary funds and internal service funds, capital assets are recorded as assets in the fund when purchased.

Infrastructure assets are long-lived capital assets that normally can be preserved for a significant greater number of years than most capital assets and are normally stationary in nature. Examples include roads, bridges, sidewalks, tunnels, drainage systems, water and sewer systems, and dams. Infrastructure assets do not include buildings, driveways, parking lots or any other examples given above that are incidental to property or access to the property. However, acquisitions of water and sewer infrastructures are added to the utility fixed asset inventory based on current costs of construction and are depreciated accordingly.

Inventory Record

The City shall inventory all capital assets. Each inventory record should include: description, year of acquisition, method of acquisition (e.g. purchase, donation, etc.) funding source, cost or estimated cost, salvage value, and estimated useful life. The inventory record will also identify the function(s) that use the asset. The existence, location, and condition of all fixed assets should be verified by periodic physical inventory every 12-18 months.

Recording Land

Land is to be capitalized but not depreciated. It is recorded at historical cost and remains at that cost until disposal. All costs for legal services incidental to the acquisition and other charges in preparing the land for use shall be included in the cost. If there is a gain or loss on the sale of land, it is reported as a special item in the statement of activities.

Recording Land Improvements

Land improvements include items such as excavation, non-infrastructure utility installation, driveways, sidewalks, parking lots, flagpoles, retaining walls, fencing, signs, outdoor lighting, and other non-building improvements intended to make the land ready for its intended purpose. Land improvements can be further categorized as non-exhaustible and exhaustible.

Computer Software

The City will regard the purchase software programs as capital assets subject to the capitalization policy below, and will amortize over an estimated useful life of 3 years. Costs associated with software maintenance and customer support are considered expenditures and will not be capitalized.

Non-Exhaustible Expenditures for improvements that do not require maintenance or replacement expenditures to bring land into condition to commence erection of structure, expenditures for improvements not identified with structures, and expenditures for land improvements that do not deteriorate with use or passage of time are additions to the cost of land and are not exhaustible and therefore not depreciable.

Exhaustible Other improvements that are part of the site, such as parking lots, landscaping and fencing, are usually exhaustible and are depreciable. Depreciation of site improvements is necessary if the improvement is exhaustible.

Recording Buildings

Buildings should be recorded at either their acquisition cost or construction cost. The cost of new construction should be carefully evaluated because projects usually consist of major components such as land, land improvements, building construction (including professional fees and permits), furniture, fixtures and equipment. In addition, buildings include components such as roof, air conditioner system, etc. that should be recorded separately when significant because these building components have different useful lives. The value of each component needs to be determined and placed within its own category.

Recording Building Improvements

Building improvements that extend the useful life should be capitalized. Examples of building improvements include roofing projects, remodeling or replacing major building components.

Recording Construction in Progress

This is primarily used in conjunction with Capital Projects. Capital Project costs are accumulated until completion, when cumulative costs are transferred to the appropriate fixed asset account. Construction in progress should be capitalized and not depreciated. It should be reported with land and other non-depreciating assets at the government-wide level. Unspent debt proceeds from capital assets related debt are reported in the net position section of the statement of net position as “restricted for capital projects”.

Recording Machinery and Equipment (Including Office Equipment)

Assets such as furniture, machinery and equipment (that meet threshold levels) should be capitalized and inventoried. These items are described as tangible property not permanently affixed to real property, which are needed in carrying out the operations of the City. Installation cost should be included in the capitalized amount. Some assets, individually, may fall below the capitalization threshold but may be purchased in large quantities by the City e.g. computers, books. City staff should aggregate such assets and consider the materiality and significance of them and if material or significant capitalize such items either individually or in the aggregate.

Recording Vehicles

Vehicles are described as all equipment that must be titled by the Michigan Secretary of State and bear a license tag. Cars, trucks and trailers are examples. Vehicles should be identified, inventoried and depreciated.

Recording Easements

An easement is an interest in land owned by another that entitles its holder to a specific limited use of the land. Therefore, easements are not required to be reported unless the City paid for the easement.

Recording Works of Art and Historical Treasures

Works of art and historical treasures should be recorded at historical costs. Depreciation is not required for collections or works of art that are inexhaustible.

Establishing and Setting the Threshold Levels for Recording Capital Assets

The following elements of useful life and asset costs are established for capitalization of assets.

Estimated Useful Life The first criterion is useful life. An asset must have an estimated useful life greater that one (1) year from the date of the purchase to be considered for capitalization and depreciation. Assets that are consumed, used-up, habitually lost or worn-out in one year or less will not be capitalized.

Asset Cost The second criterion for determining depreciable capital assets is cost. The capitalization threshold shall be established as follows for per individual asset item.

Land	Capitalize Only
Construction in Progress	Capitalize Only
Land Improvements – Improvements other than Buildings $5,000 and over	Capitalize & Depreciate
Buildings and Building Improvements $10,000 and over	Capitalize & Depreciate
Infrastructure $10,000 and over	Capitalize & Depreciate
Machinery and Equipment $5,000 and over	Capitalize & Depreciate
Vehicles $5,000 and over	Capitalize & Depreciate

Aggregate Purchases

Capitalization policies adopted by a government should find an appropriate balance between ensuring that all material capital assets, collectively, are capitalized and minimizing the cost of record keeping for capital assets. It may be appropriate for a government to establish a capitalization policy that would require capitalization of certain types of assets whose individual acquisition costs are less than the threshold for an individual asset. Computers and furniture are assets that may be immaterial for capitalization on an individual basis, yet might be considered material collectively. As such, the City will evaluate aggregate purchases to ensure that significant purchases are capitalized.

Obtaining an Asset's Cost of Acquisition Value

Capital assets are reported at historical cost and should include the cost of freight, site preparation, architect and engineering fees, etc. If something other than cash is used to pay for the asset, then the fair-market value of the non-cash payment or consideration determines the asset's cost or acquisition value. When the value of the consideration paid can't be determined, the asset's fair-market value determines its cost. With few exceptions, an asset's cost should also include necessary costs incurred to place the asset in service. Costs include the invoice price plus incidental costs (insurance during transit, freight, capitalized interest as described below, duties, title search, registration fees, and installation costs). Exceptions to this rule include interest expenses associated with deferred payments and real estate taxes paid, if any, in the acquisition of property.

Capitalized Interest

Interest costs incurred during the period of construction of proprietary fund capital assets should be capitalized. The costs of capital assets for governmental activities do not include capitalized interest. However, interest is capitalized on:

Assets that are constructed or otherwise produced for an Enterprise Fund's own use.
Assets intended for sale or lease that are constructed or otherwise produced as discrete projects.

Depreciation Definition

Depreciation is the process of allocating the cost of tangible property over a period of time rather than deducting the cost as an expense in the year of acquisition.

It is the City's policy to use the straight-line depreciation method. The basis of the asset is written off evenly over the estimated useful life of the asset. The same amount of depreciation is taken each year. In general, the amount of annual depreciation is determined by dividing an asset's depreciable cost by its estimated life. The total amount depreciated can never exceed the asset's historic cost less salvage value. At the end of the asset's estimated life, the salvage value will remain.

To calculate depreciation on a capital asset, the following five factors must be known:

1. The year the asset was placed in service.
2. The asset's cost or acquisition value.
3. The asset's salvage value.
4. The asset's estimated useful life.
5. The depreciation method.

Depreciation Method – Straight Line over the following useful lives:

Asset	Useful Life in Years
Buildings	40-60
Land and building improvements	15-30
Sewer and water system	50-75
Vehicles	3-5
Office equipment	3-5
Machinery and equipment	7
Federal grant equipment	3-5
Street, drains, bridges, signals	20-50

Establishing Classes of Assets

The City establishes the following major categories of capital assets:

Land
Land Improvements—Improvements other than buildings
Buildings and Building Improvements
Construction in Progress
Vehicles
Machinery and Equipment (Including Office Equipment)
Infrastructure

Leases

Operating Leases are not capitalized. A lease is an operating lease if it does not transfer the benefits and risk of ownership to the local governmental unit. Operating lease payments are recognized as expenses/expenditures to the local governmental unit when they become payable.

Capital Leases will meet one of the following criteria:

a. The lease transfers ownership of the property to the governmental unit by the end of the lease.
b. The lease contains a bargain purchase option (an option extending to the lease the right to purchase the leased property at a price so favorable that the exercise of the option appears, at the inception of the lease, to be reasonably assured).
c. The term is 75% or more of the estimated life of the leased property.
d. The present value, at the beginning of the lease term, of the minimum lease payments is at least 90% of the fair market value of the leased property to the lessor.

Capital leases should be capitalized at an amount equal to the present value at the beginning of the lease term of minimum lease payments during the lease term, excluding that portion of the payments representing executory costs such as insurance and maintenance to be paid by the lessor, together with any gain thereon. However, if the amount so determined exceeds the fair value of the leased property at the inception of the lease, the amount recorded as the asset and obligation should be the fair value.

Items Not Considered to be Fixed Assets

In order to clarify the question of asset classification, the following list of specific examples is provided.

MAINTENANCE AND REPAIR REPLACEMENTS: An expenditure that keeps the property in ordinary efficient operating condition. The cost of the repair does not add to the value or prolong the life of the asset. All repair expenditures are charged to the appropriate department and fund.

SUPPLIES: Any supply, regardless of cost, that is not permanent and will be consumed within a year is not considered a fixed asset.

Examples of Repairs vs. Improvements

Repairs = Expenditures	Improvements = Capitalized Assets
All items—life less than one year	Life of more than one year
All items under $5,000 or $10,000 based on circumstances	All items $5,000/$10,000 or more, depending on the category
Property maintenance, wall repair	Property rebuilding
Replacement of machine parts to keep machine in normal operating condition	Replacement of motor and parts that prolong the useful life
Property restoration (rebuilding) for normal operations	Property restoration for something different or better
Existing building repairs	Building regulation conformity
Replacement of small sections of wiring, pipes or light fixtures	Major replacement of wiring, lighting, pipes or sewer

Patching walls, minor repair of floors, painting, etc.	Installation of floor, wall, roof, wall-covering, etc.
Patching driveways	New driveway or major repair
Cleaning drapery, carpet, furniture	New drapery, carpets, furniture

Communication to Controller

Annually, department heads will be provided with the listing of capital assets and will be responsible for the following:

- Communicating if there are assets that are impaired
- Communicating if there are assets that are no longer owned by the City
- Reviewing the useful life of each asset to the City's actual experience with a similar asset to determine if an adjustment to the depreciation schedule is required

The department head shall initial the listing to document the review has been performed and return it to the Controller by August 1st of each year.

Evaluating Impairments
Not every decline in service utility qualifies as an impairment. To qualify, a decline in service utility must be both:

• Significant (in relation to the asset's current service utility) and
• Unexpected (not part of the normal life cycle of the asset or foreseeable at the time the asset was acquired).

Moreover, an impairment must be permanent. A merely temporary decline in the service utility of an asset would not qualify as an impairment (for example, suboptimal use of a capital asset for a short period, such as a school building used as storage space for one year). The government, however, has the burden of proof that a decline in service utility is merely temporary.

The department head will report any present indicators of impairment to the Controller including the following:

•Physical damage where action would be needed to restore lost service utility;
• Changes in laws, regulations, or other environmental factors that negatively affect service utility;
• Technological developments that negatively affect service utility, or evidence of obsolescence;
• A change in the manner or duration of use of a capital asset that negatively affects its service utility (for example, putting an asset to a suboptimal use rather than to the use for which it was originally intended or deciding to use a capital asset for less than its estimated useful life);
• Stoppage of construction; or
• Stoppage of development (for internally generated intangible assets).

Disposals
No capital assets shall be disposed until the department head signs a form authorizing such disposal which shall be provided to the Controller.

City of Burton, Michigan
Administrative Policy

Identity Theft Prevention Program

I. OBJECTIVE

The purpose of this Identity Theft Prevention Program (Program) is to protect customers of the City of Burton utility services from identity theft. The Program is designed to comply with the Federal Trade Commission's (FTC) Identity Theft Red Flag Rule and is intended to establish reasonable policies and procedures to facilitate the detection, prevention and mitigation of identity theft in connection with the opening of new Covered Accounts and activity on existing Covered Accounts.

II. SCOPE

All utilities are required to comply with the FTC's "Identity Theft Fed Flag Rule" even if only nominal information such as name, phone number and address are collected. This Program applies to the creation, modification and access to Identifying Information of a customer of the utilities operated by the Municipality (water and sewer) by any and all personnel of the Municipality, including management personnel. The primary purpose of the rule is to protect against the establishment of false accounts and ensure existing accounts are not being manipulated. This regulation does not address or require utilities to adopt measures that will protect consumer information and prevent unauthorized access. Although the true risk established through the risk assessment activity may not require any changes to existing policies or procedures, implementation of good management practices to protect personal consumer data can prevent identity theft. This Program does not replace or repeal any previously existing policies or programs addressing some or all of the activities that are the subject of this Program, but rather it is intended to supplement any such existing policies and programs.

III. DEFINITIONS

When used in this Program, the following terms have the meanings set forth opposite their name, unless the context clearly requires that the term be given a different meaning:

<u>Creditor:</u> According to the Rule, a municipal utility is a creditor subject to the Rule requirements. The Rule defines creditors "to include finance companies, automobile dealers, mortgage brokers, utility companies, and telecommunication companies. Where non-profit and government entities defer payment for goods or services, they, too, are to be considered creditors." (16 CFR 681.2(b)(5).

Covered Account: The term “covered account” means an account that the City of Burton offers or maintains, primarily for personal, family or household purposes that involves or is designed to permit multiple payments of transactions. (16 CFR 681.2(b)(3)(i)). A utility account is a “covered account.” The term “covered account” also includes other accounts offered or maintained by the Municipality for which there is a reasonably foreseeable risk to customers the Municipality or its customers from identity theft. (16 CFR 681.2(b)(3)(ii)).

Identity Theft: The term “identity theft" means a fraud committed or attempted using the identifying information of another person without authority. (16 CFR §681.2(b)(8) and 16 CFR §603.2(a)).

Identifying Information: The term “identifying information” means any name or number that may be used, alone or in conjunction with any other information, to identify a specific person, including any name, social security number, date of birth, official State or government issued driver's license or identification number, alien registration number, government passport number, employer or taxpayer identification number. Additional examples of “identifying information” are set forth in 16 CFR §603.2(a).

Red Flag: The term “Red Flag” means a pattern, practice or specific activity that indicates the possible existence of identity theft.

Certain terms used but not otherwise defined herein shall have the meanings given to them in the FTC’s Identity Theft Rules (16 CFR Part 681) or the Fair Credit Reporting Act of 1970 (15 U.S.C. §1681 et seq.), as amended by the Fair and Accurate Credit Transactions Act of 2003 into law on December 4, 2003. (Public Law 108-159).

IV. POLICY

Administration of the Program

This Program is intended to identify red flags that will alert employees when new or existing accounts are opened using false information, protect against the establishment of false accounts, methods to ensure existing accounts were not opened using false information, and measures to respond to such events.

The Senior Management Person responsible for this program is:
City Treasurer
Phone number: (810) 743-1500

Identity Theft Prevention Elements

Identification of Relevant Red Flags

The City of Burton has considered the guidelines and the illustrative examples of possible Red Flags from the FTC's Identity Theft Rules and has reviewed the Municipality's past history with instances of identity theft, if any. The municipality hereby determines that the following are the relevant Red Flags for purposes of this Program given the relative size of the Municipality and the limited nature and scope of the services that the Municipality provides to its citizens:

A. **The presentation of suspicious documents**.

  1. Documents provided for identification appear to have been altered or forged.
  2. The photograph or physical description on the identification is not consistent with the appearance of the applicant or customer presenting the identification.
  3. Other information on the identification is not consistent with information provided by the person opening a new covered account or customer presenting the identification.
  4. Customer fails to provide all information requested.

B. **The presentation of suspicious personal identifying information, such as a suspicious address change.**

  1. Personal information provided is inconsistent with information on file for a customer.
  2. Applicant cannot provide information requested beyond what could commonly be found in a purse or wallet.

C. **Notice of Possible Identity Theft.**

  1. The Municipality is notified by a customer, a victim of identity theft, a law enforcement authority, or any other person that it has opened a fraudulent account for a person engaged in identity theft.

Detection of Red Flags.

The employees of the City of Burton that interact directly with customers on a day-to-day basis shall have the initial responsibility for monitoring the information and documentation provided by the customer and any third-party service provider in connection with the opening of new accounts and the modification of or access to existing accounts and the detection of any Red Flags that might arise. Management shall see to it that all employees who might be called upon to assist a customer with the opening of a new account or with modifying or otherwise accessing an existing account are properly trained such that they have a working familiarity with the relevant Red Flags identified in this Program so as to be able to recognize any Red Flags that might surface in connection with the transaction. An Employee who is not sufficiently trained to recognize the Red Flags identified in this Program shall not open a new account for any customer, modify any existing account or otherwise provide any customer with access to information in an existing account without the direct supervision and specific approval of a management employee. Management employees shall be properly trained such that they can recognize the relevant Red Flags identified in this Program and exercise sound judgment in connection with the response to any unresolved Red Flags that may present themselves in connection with the opening of a new account or with modifying or accessing of an existing account. Management employees shall be responsible for making the final decision on any such unresolved Red Flags.

Response to Detected Red Flags

Any employee of the City of Burton that may suspect fraud or detect a Red Flag will implement the following response as applicable. All detections or suspicious Red Flags shall be reported to the Treasurer.

1. Ask the applicant for additional documents.
2. Contact the customer (existing accounts).
3. Notify internal manager: Any utility employee who becomes aware of a suspected or actual fraudulent use of a customer or potential customer's identity must notify the Treasurer.
4. Notify law enforcement: The Treasurer or designee will notify the City of Burton Police Department of any attempted or actual identity thefts.
5. Do not open the account.
6. Close the account.

V. PROGRAM MANAGEMENT AND ACCOUNTABILITY

Initial Risk Assessment – Covered Accounts

Utility accounts for personal, family and household purposes are specifically included within the definition of "covered account" in the FTC's Identity Theft Rules. Therefore, the City of Burton determines that with respect to its residential utility accounts it offers and/or maintains covered accounts. The Municipality also performed an initial risk assessment to determine whether the utility offers or maintains any other accounts for which there are reasonably foreseeable risks to customers or the utility from identity theft. In making this determination the Municipality considered (1) the methods it uses to open its accounts, (2) the methods it uses to access its accounts, and (3) its previous experience with identity theft, and it concluded that it does not offer or maintain any such other covered accounts.

Program Updates – Risk Assessment

The Program, including relevant Red Flags, is to be reviewed as often as necessary but at least annually to reflect changes in risks to customers from Identity Theft. Factors to consider in the Program update include:

1. An assessment of the risk factors identified above.
2. Any identified Red Flag weaknesses in associated account systems or procedures.
3. Changes in methods of Identity Theft.
4. Changes in methods to detect, prevent, and mitigate Identity Theft.
5. Changes in business arrangements, including mergers, acquisitions, alliances, joint ventures, and service provider arrangements.

Training and Oversight

All city staff performing any activity in connection with one or more Covered Accounts are to be provided appropriate training and receive effective oversight to ensure that the activity is conducted in accordance with policies and procedures designed to detect, prevent, and mitigate the risk of Identity Theft.

For the effectiveness of Identity Theft prevention programs, the Red Flag Rule envisions a degree of confidentiality regarding the City's specific practices relating to Identity Theft detection, prevention and mitigation. Therefore, under this Program, knowledge of such specific practices are to be limited to the Program Administrator, appropriate senior management staff and those employees who need to know them for purpose of preventing Identity Theft. Because this Program will be publicly available, it would be counterproductive to list these specific practices here. Therefore, only the Program's general red flag detection, implementation and prevention practices are listed in this document.

VI. RESPONSIBILITY

The initial adoption and approval of the Identity Theft Prevention Program shall be by administrative policy approved by the Mayor. Thereafter, changes to the Program of a day-to-day operational character and decisions relating to the interpretation and implementation of the Program may be made by the Treasurer (Program Administrator). Major changes or shifts of policy positions under the Program shall be approved by the Mayor.

Development, implementation, administration and oversight of the Program will be the responsibility of the Program Administrator. The Program Administrator may, but shall not be required to, appoint a committee to administer the Program. The Program Administrator shall be the head of any such committee. The Program Administrator will report at least annually to the Mayor regarding compliance with this Program.

Issues to be addressed in the annual Identity Theft Prevention Report include:

1. The effectiveness of the policies and procedures in addressing the risk of identity Theft in connection with the opening of new Covered Accounts and activity with respect to existing Covered Accounts.
2. Significant incidents involving Identity Theft and management's response (if any).
3. Recommendations for material changes to the Program, if needed for improvement.