

CITY OF NEWPORT INVESTMENT POLICY

I. PURPOSE

The purpose of this Policy is to develop an overall program for cash investments, designed and managed with a high degree of professionalism, worthy of the public trust; to establish that elected and appointed officials and employees are custodians of a portfolio which shall be subject to public review; to establish cash investment objectives, delegation of authority, standards of prudence, internal controls, authorized investments, selection process for investments, and broker representations.

II. POLICY

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

III. SCOPE

This Policy applies to the investment and deposit of all funds of the City.

A. Pooling of Funds

Except for cash in certain restricted and special funds, the City will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

IV. OBJECTIVE

At all times, investments of the City shall be in accordance with Minnesota Statutes Chapter 118A and amendments thereto. The primary objectives of the City's investment activities shall be in the following order of priority:

A. Safety of Principal

Safety of principal is the foremost objective of the investment portfolio. 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 credit risk, interest rate risk, and custodial risk.

Credit Risk: Credit Risk is the risk of loss due to failure of the security issuer or backer. Thus, designated depositories shall have insurance through the FDIC (Federal Insurance) or the SIPC (Securities Investor Protection Corporation). To ensure safety, it is the policy of the City that when considering an investment, all depositories under consideration be cross-checked against existing investments to make certain that funds in excess of insurance limits are not made in the same institution unless collateralized as outlined below. Furthermore, the City Council will approve all financial institutions, brokers, and advisers with which the City will do business.

Interest Rate Risk: Interest Rate Risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. The City will minimize Interest Rate Risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

Custodial Risk: The City will minimize deposit Custodial Risk, which is the risk of loss due to failure of the depository bank (or credit union), by obtaining collateral or bond for all uninsured amounts on deposit, and by obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law.

B. Liquidity

The investment portfolio shall remain sufficiently liquid to meet projected disbursement requirements. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Generally, investments shall have “laddered” maturities so that money becomes available on a regular schedule. Liquid funds will allow the City to meet possible cash emergencies without being penalized on investments.

C. Yield

The investment portfolio shall be designed to manage the funds to maximize returns consistent with items A and B above and within the requirements set forth in this Policy. Subject to the requirements of the above objectives, it is the policy of the City to offer financial institutions and companies within the City the opportunity to bid on investments; however, the City will seek the best investment yields.

V. DELEGATION OF AUTHORITY

Responsibility for the investment program is hereby delegated from the City Council to the Administrator/Clerk. Authority to conduct actual investment transactions may be delegated to the Administrator/Clerk, who shall act in accordance with procedures as established with this investment policy. The authorized individuals, when acting in accordance with this Policy and exercising due diligence, shall not be held responsible for losses, provided that the losses are reported immediately and that appropriate action is taken to control further losses.

VI. PRUDENCE

The standard of prudence to be used by investment officials shall be the “prudent investor”, and shall be applied in the context of managing the investments. All investment transactions shall be made in good faith with the degree of judgment and care, under the circumstances, that a person of prudence, discretion and intelligence would exercise in the management of their own affairs. This standard of prudence shall mean not for speculation, and with consideration of the probable safety of the capital as well as the probable investment return derived from assets.

VII. INTERNAL CONTROLS

Internal controls are designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes, or imprudent actions. Before the City invests

any surplus funds, competitive quotations shall be obtained. Written quotations from local financial institutions shall be obtained via fax, email or other form of written documentation, with all of them receiving the exact same rate request. Verbal quotations shall be received from all other brokers, along with a subsequent confirmation. If a specific maturity date is required, either for cash flow purposes or for conformance to maturity guidelines, quotations will be requested for instruments that meet the maturity requirement. If no specific maturity is required, a yield analysis will be conducted to determine which maturities would be most advantageous. Quotations will be requested from financial institutions for various options with regard to term and investment type. The City will accept the quotation, which provides the highest rate of return within the maturity required and within the limits of this Policy.

The Administrator/Clerk will report periodically to the City Council on the total of all funds invested and the total interest received on all securities year to date.

VIII. AUTHORIZED INVESTMENTS AND COLLATERALIZATION

All City investments and deposits shall be those allowable by Minnesota Statutes Chapter 118A and amendments thereto. In accordance with MN Statutes 118A, collateralization will be required on all demand deposit accounts, including checking, savings, and money market accounts, and non-negotiable certificates of deposit in excess of federal deposit insurance.

State law defines the types of securities that a financial institution may pledge as collateral for public deposits. These securities include:

1. United States Treasury Issues
2. Issues of US Government Agencies and Instrumentalities
3. Obligations of State and Local Governments
4. Time Deposits (Certificates of Deposits fully insured by the federal deposit insurance company or federal agency).

Since the amount a public entity has on deposit will vary from time to time, the financial institution needs sufficient amounts of pledged collateral to cover 110% of the uninsured amount on deposit during peak deposit times.

The City is authorized, under State Law Chapter 118A, to invest in the following securities:

1. U.S. Treasury Obligations (bills, notes, bonds)
2. U.S. Government Agency and Federally Sponsored Agency Securities, excluding mortgage backed securities that fail the "FFEIC" test. Callable agency securities, excluding new issues with call dates six (6) months or less, are authorized. Step-up agency securities are authorized investments.
3. In any security which is a) General obligations of the State of Minnesota or any of its municipalities, or b) a general obligation of any other state or any of its municipalities, or c) a general obligation of the Minnesota housing finance agency, or d) a general obligation of a housing finance agency of any other state that is a moral obligation of the state, or e) a revenue or general obligation of any agency or authority of the State of Minnesota other than the Minnesota housing finance agency. Investments under b), c), or d) must be rated A or better by a national rating agency. Investments under e) must be rated AA or better by a national rating agency.
4. Bankers Acceptances – eligible for purchase by the Federal Reserve.

5. Commercial Paper - issued by U.S. corporations or their Canadian subsidiaries that is of the highest quality (with highest credit rating of 2 of 3 national rating agencies) and matures in 270 days or less.
6. Certificates of Deposit – provided it is guaranteed by the FDIC, or is backed by collateral as required by M.S. 118A.
7. Repurchase agreements or Reverse Repurchase agreements – provided they are fully collateralized at 102 percent of market value by securities described in 1 or 2 above.
8. Mutual Funds – provided they only invest in 1 or 2 above and whose investments have final maturities of 132 months or less.
9. Guaranteed investment Contracts – provided they meet the requirements of M.S. 118A.
10. Local Government Investment Pools – the City currently uses the 4M Fund, sponsored by the League of Minnesota Cities as a source for short-term, liquid investments at a competitive rate of return. This fund, or any other local government pool specifically authorized by the City Council, is authorized investment for City funds.

IX. INVESTMENT PARAMETERS

The City's investments shall be diversified as to specific maturity, issuer and institution in order to minimize risk to the portfolio. Investments should be purchased to match expected cash flow needs, minimizing the market risk associated with the early sale of investments. Investments beyond two years should be related to debt payments, or other known expenditures. Up to twenty percent (20%) of the portfolio may be invested beyond five years, but no more than 10 years in maturity. Securities with a maturity of more than five years shall be fixed term securities and not securities whose term can be extended by changes in market conditions. NO more than 50 percent of the portfolio should be invested in any one security issuer, with the exception of U.S. Treasury obligations, which could represent 100 percent of the portfolio. Commercial paper is limited to 20 percent of the portfolio and no more than 2.5 percent of the portfolio should be invested in any one commercial paper issuer. No more than 50 percent of the portfolio shall be purchased from any one investment institution.

X. REPORTING AND REVIEW

The Administrator/City Clerk will provide at a minimum an annual report to the City Council. This report shall include the current status of the City's investment portfolio including:

1. Type of investment
2. Financial institution involved in the transaction
3. Yield
4. Purchase date and Maturity date
5. Amount invested

An annual report on the investment portfolio and its performance will be available within 30 days of fiscal year end. This report will reflect the annual activity of the portfolio, return on investment, gains or losses due to marking to market value and percentage breakdown of investments by type and maturity.

XI. CONFLICT OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions.

XII. BROKER REPRESENTATIONS

Municipalities must obtain from their brokers certain representations regarding future investments. Pursuant to Minnesota Statutes 118A, the City shall provide each broker with the City's investment policy, and the securities broker shall submit a certification annually to the City stating that the officer has reviewed the investment policies and objectives, as well as applicable state law, and agrees to disclose potential conflicts of interest or risk to public funds that might arise out of business transactions between the firm and the City. All financial institutions shall agree to undertake reasonable efforts to preclude imprudent transactions involving the City's funds.

CITY OF NEWPORT PURCHASING POLICY

I. PURPOSE:

The goal of the City of Newport's purchasing system is to make purchases in an efficient manner that follows all applicable laws and policies in order to effectively use public funds.

II. POLICY:

This policy, and its requirements, governs purchasing procedures and the use of purchase orders. The policy is intended to establish authority and controls over the purchasing process. This policy:

- (a) Assures that purchases are made in accordance with Minnesota State Statute and City policies.
- (b) Improves the accuracy of budget reports and accounting records by notifying the Finance Department of intended purchases and orders in process and that a liability has been incurred.
- (c) Assures the vendor that the purchase is authorized and that payment will be made in a timely manner.
- (d) Establishes adequate internal controls over the purchasing process.

III. GUIDELINES:

Planning for purchases should be done on a short-term and a long-term basis. Short-term purchases are programmed in the budget during annual budget deliberations. Long-term purchases are programmed in the Capital Improvement Plan for construction related projects and in the Equipment Replacement Schedule for capital purchases.

IV. DEFINITIONS:

Advertisement/Sealed Bid: Formal sealed bids including a notice published in the official newspaper at least 10 days prior to the date for submitting bids. Bids must be kept on file for 10 years (MS 13.37) and quotes for 1 year.

Blanket Purchase Order: A purchase order that does not specify a quantity for purchase, but rather leaves the amount open. Typically is used for bulk items purchased throughout the fiscal year.

Capital Outlay: Capital items which cost more than \$5,000 and have a service life longer than one year.

Designee: An employee authorized by a Department Head to sign for purchases and invoices subject to the approval requirements in Section IX.

Emergency Purchase: A purchase that results in correction of a situation that would suspend a critical City function for an unacceptable period of time or which is necessary to respond to a life or property threatening event.

Operation Expense: Goods and supplies used during the course of daily work activities.

Open Market: Direct negotiation with vendor.

Quotations: Direct negotiation with vendors obtaining two or more written quotations without advertising. Quotes must be kept on file for 1 year with purchase documentation.

Repair Expense: Repair of equipment, vehicles and buildings.

V. UNAUTHORIZED PURCHASES:

Unauthorized purchases are the sole responsibility of the Department Head or designee making the purchase. All purchases must be coded to the proper expenditure account. In no case shall purchases be coded to an improper account in order to use the budget amount in that account.

VI. OPEN PURCHASE ORDERS:

In certain cases, authorization shall be given to carry open purchase orders annually. All open purchase orders (blanket purchase orders) must be approved by the City Administrator.

VII. EXEMPT PURCHASES

The following purchases shall be exempt from the use of a purchase order. These purchases will, however, be subject to the approval requirements in Section IX.

- a) Professional contracted services (legal, engineering, auditing, animal control, janitorial, assessor's, special studies, etc). Request for Proposals shall be used, at such times as the City Council deems appropriate.
- b) Public improvement projects ordered by City Council (street paving, water/sewer/storm sewer, curb and gutter, streetlights, etc), which shall follow MN Statute 429 requirements.
- c) Routine expenditures including subscriptions, license renewals and maintenance agreements, utility costs, insurance payments, employer share of payroll related costs, SAC, surcharge, bond principal and interest, publication notices.
- d) Employee reimbursement for miscellaneous expenses, such as mileage, meals, travel and training, petty cash and parking. Receipts or other documentation must accompany reimbursement requests prior to payment. Refer to the most current version of the Travel, Training and Education Policy when seeking reimbursement for this type of expenditure.

VIII. PURCHASE ORDERS:

Purchase orders are required for all purchases of goods and services not included in the list of exempted purchases above that are \$250 or more. Discretion should be used in determining the use of purchase orders for purchases less than \$250. Purchase orders may be desired for documentation and control. The Account Payable Clerk will maintain a record of purchase orders.

The following steps apply to all purchases of goods and services requiring purchase orders.

Step 1 Purchaser prepares the purchase order, including vendor name, address, description of item ordered, cost and budget coding. If the purchase has been previously approved by the City Council, the date of such approval should appear on the purchase order.

Step 2 Purchaser obtains the approval required in Section IX.

Step 3 Purchaser places the order with the vendor.

Step 4 Purchaser checks the content of the order when received and signs and dates the receiving documentation.

Step 5 Upon receipt of the invoice, the purchaser attaches the purchase order and receiving documentation, and submits the invoice to the Department Head or designee for approval.

Step 6 Department Head or designee approves the invoice, attaches the purchase order and submits it, including other appropriate documentation, to the Accounts Payable Clerk for processing.

An invoice that is submitted to the Accounts Payable Clerk later than 30 days from the invoice date must be accompanied by a written explanation regarding the delay.

IX. OPERATING BUDGET PURCHASING LEVELS:

Purchases are divided into categories listed below. Department Heads are authorized to approve budgeted purchases (including repairs) under \$2,500.

Purchase orders that will result in a budget deficit for a category (commodities, contractual, capital outlay), or will be charged to a category with an existing deficit, must be noted as such and approved by the City Administrator.

Blanket Purchase Orders. Blanket purchase orders may be used for budgeted purchases from the same vendor that occur in similar increments during the fiscal year (i.e. uniform allowance, cleaning service, fuel, etc). One copy of the purchase order shall be filed with the Accounts Payable Clerk. The purchase order number shall be noted on each invoice.

Purchases are to be charged to the budget year that the good is received or the service rendered.

Operating Budgeted Purchases:

Expenditure Level	Required Documentation	Quote/Open Market	Required Approval	Advertising required?	MN State Statute
Under \$250	Discretionary	Open Market	Dept Head or designee	No	
\$250-\$999	Purchase Order	Open Market	Dept Head or designee	No	
\$1,000-\$2,499	Purchase Order	Open Market	Dept Head	No	
\$2,500-\$9,999	Purchase Order	Two Quotes	Administrator	No	

\$10,000-\$99,999	Purchase Order/Service Agreement	Two Quotes	Administrator with Council Approval	No	
\$100,000 or over	Contract	Sealed Bids	City Council	Yes	471.345

- A. Advertising for Improvement Projects: If the amount of the contract is estimated to exceed \$100,000, sealed bids shall be advertised in the newspaper and such other papers and for such length of time as the Council may deem advisable. If the estimated cost of the improvement is greater than \$100,000 then the publication shall be made in the official City newspaper and trade papers not less than three weeks before the bid submission date. The advertisement will specify the type of work and the time and place the bids are due and when they will be publicly opened.
- B. Bidding Requirements: Specifications for supplies and equipment, which are competitive in nature (i.e. computers, printers, cars, trucks and plows etc), cannot exclude one type of equipment or supplies. Proposals and specifications must allow free and full competition. Bidding requirements may not be avoided by splitting the purchase into several smaller projects, each of which is below the required levels in table VII above.
- C. Sealed bids are required for purchases over \$100,000. Sealed bid openings shall be under the supervision of the appropriate department head, City Clerk or City Administrator and will be held at the City Hall. Contracts must be awarded to the lowest responsible and responsive bidder or the contractor providing the best value proposal to the City. This does not mean that the contract is awarded to the lowest bidder in terms of dollars, but rather the lowest cost bidder who has the technical skill and financial responsibility, and demonstrated capabilities to perform the work. After work has been commenced on an improvement undertaken pursuant to a contract awarded on a unit price basis the council may, without advertising for bids, authorize changes in the contract so as to include additional units of work at the same unit price if the cost of the additional work does not exceed 20 percent of the original contract price. On unit cost contracts original contract price means that figure determined by multiplying the estimated number of units required by the unit price.
- D. Construction projects costing \$10,000-\$99,999 would be awarded by Council and a purchase order/service agreement. Additional documentation such as specifications, quotes, insurance and contract documents will be maintained in the City Clerk's Office. The City Clerk's Office will be responsible for updating and reviewing all insurance requirements prior to issuing a notice to proceed on the project.
- E. All contracts over \$100,000 shall have the final payment approved by Council with a resolution along with IC-134 documentation. The final pay request to Council shall be accompanied with a memo outlining the cost overruns or under runs for the project. Approval of the final payment signifies acceptance of the project by the City Council.

X. UNBUDGETED PURCHASES:

Unbudgeted purchases over \$1,000 shall be approved by the City Administrator prior to obtaining quotes. All other requirements in section IX apply.

XI. GENERAL CONSTRUCTION PROJECTS:

General Construction Projects are divided into categories listed below:

Expenditure Level	Required Documentation	Quote/Open Market	Required Approval	Advertising required?	MN State Statute
Under \$10,000	Purchase Order	Open Market	Administrator	No	
\$10,000 to \$49,999	Purchase Order/Service Agreement	Two quotes	Administrator with Council Approval	No	
\$50,000 to \$99,999	Purchase Order/Service Agreement	Two quotes & advertised in paper	Administrator with Council Approval	Yes	
\$100,000 or over	Contract	Sealed bids	City Council	Yes	471.345

- A Advertising for Improvements: If the estimated cost of the improvement is greater than \$50,000 but not more than \$100,000, then quotes shall be advertised in the newspaper and such other papers and for such length of time as the Council may deem advisable, which shall be not less than 10 days after the first publication. If the estimated cost of the improvement is greater than \$100,000 then the publication shall be made in the official City newspaper and a trade paper not less than three weeks before the bid submission date. The advertisement will specify the type of work and the time and place the bids are due and when they will be publicly opened.
- B Bidding Requirements: All bids must be accompanied by a bid bond, cash deposit, cashier's check or certified check payable to the City of Newport in the amount of 5% of the estimated cost. Plan deposits and distribution are undertaken by the City engineer, which will require a non-refundable plan fee for said costs. Invitations to bid on improvement projects must be published in the City's official newspaper and the Finance & Commerce's construction bid services as specified by applicable State law. In addition to the legal notice, the City must prepare instructions to bidders and general specifications for the sealed bids. The improvement will be awarded and a written contract executed with the lowest responsible and responsive bidder. Contracts may be modified from time to time. If a contract is a unit based contract, then it may be modified by the Council without advertising for bids at the same unit price if the cost of the additional work does not exceed 20% of the original contract price. Sealed bid openings will be held at City Hall. The City Clerk's Office will be responsible for updating and reviewing all insurance requirements prior issuing a notice to proceed on the project.
- C Construction projects costing \$10,000-\$99,999 would be awarded by Council and a purchase order/service agreement provided. Additional documentation such as specifications, quotes, insurance and contract documents will be maintained in the City Clerk's Office. The City Clerk's Office will be responsible for updating and reviewing all insurance requirements prior to issuing a notice to proceed on the project.
- D All construction contracts over \$100,000 shall have the final payment approved by Council with a resolution along with IC-134 documentation. The final pay request to Council shall be accompanied with a memo outlining the cost overruns or under runs for the project. Approval of the final payment and appropriate Certificate Of Acceptance, which may include conditions of approval, shall signify acceptance of the project by the City Council.

XII. CONSTRUCTION 429 PROJECTS:

Construction Projects under State Statute 429. Contracting for construction projects shall comply with MN Statute 429.041. Plans and specifications must be approved by City Council prior to advertising for bids on improvement projects over \$100,000.

- A. Advertising for Improvement Projects: If the estimated cost of the improvement is greater than \$50,000 but not more than \$100,000, then bids shall be advertised in the newspaper and such other papers and for such length of time as the Council may deem advisable, which shall be not less than 10 days after the first publication. If the estimated cost exceeds \$100,000, the publication shall be made no less than three weeks before the last day for submission of bids once in the newspaper and at least once in either a newspaper published in a city of the first class or a trade paper. The advertisement will specify the type of work and the time and place the bids are due and when they will be publicly opened.
- B. Bids: All bids must be accompanied by a bid bond, cash deposit, cashier's check or certified check payable to the City of Newport in the amount of 5 % of the estimated cost. In addition to the legal notice, the City must prepare instructions to bidders and general specifications for the sealed bids. The improvement will be awarded and a written contract executed with the lowest responsible and responsive bidder. The City Clerk's Office will be responsible for updating and reviewing all insurance requirements prior issuing a notice to proceed on the project. After work has been commenced on an improvement undertaken pursuant to a contract awarded on a unit price basis the council may, without advertising for bids, authorize changes in the contract so as to include additional units of work at the same unit price if the cost of the additional work does not exceed 20 percent of the original contract price. On Unit Cost Contracts original contract price means that figure determined by multiplying the estimated number of units required by the unit price.
- C. All contracts over \$100,000 shall have the final payment approved by Council with a resolution along with IC-134 documentation. The final pay request to Council shall be accompanied with a memo outlining the cost overruns or under-runs for the project. Approval of the final payment and appropriate Certificate of Acceptance, which may include conditions of approval, shall signify acceptance of the project by the City Council.

XIII. PERFORMANCE BONDS:

Performance and payment bonds shall be required from contractors for any works of construction as provided in and subject to all the provisions of Statute 574.26 to 574.31 except for contracts entered into by an authority for an expenditure less than \$50,000, which will follow MN Statute 469.015 requirements.

XIV. COOPERATIVE PURCHASING

This policy allows for contracting for the purchase of supplies, materials and equipment without regard to the competitive bidding requirements of Statute 471.345 if the purchase is through a national municipal association's purchasing alliance or cooperative created by a joint powers agreement that purchases items from more than one source on the basis of competitive bids or

competitive quotations per 471.345 sub 15. Purchases for items such as auto, trucks, etc., costing between \$15,000 and \$50,000 are subject to the approval requirements in Section IX and will submit the quote with the invoice for payment.

XV. OUT OF STATE CONTRACTORS

Minnesota Statutes 290.9705. requires that 8 percent of payments made to out-of-state contractors be withheld once cumulative payments made to the contractor for work done in Minnesota exceed \$50,000 in a calendar year, unless an exemption is granted by the Department of Revenue.

XVI. NON DISCRIMINATION

Minnesota Statutes Chapter 363 Minnesota Human Rights Act. Requires that all public services be operated and contracts awarded in such a manner that does not discriminate against any person in the access to, admission to, full utilization of or benefit from such public service.

XVII. PROMPT PAYMENT OF SUBCONTRACTORS

City contracts that involve a prime contractor must require the prime contractor to pay subcontractors within ten days of the prime contractor's receipt of payment from the city for undisputed services provided by the subcontractor. The contract must require the prime contractor to pay interest of 1.5 percent per month or any part of a month to the subcontractor on any undisputed amount not paid on time.

CITY OF NEWPORT
ENVIRONMENTALLY PREFERABLE PURCHASING POLICY

I. PURPOSE:

The goal of the City of Newport's environmentally preferable purchasing policy is to encourage and increase purchasing that reflects the City's commitment to sustainability. Benefits of the policy include:

- Conserving natural resources
- Minimizing environmental impacts such as pollution, water usage, and energy waste
- Identifying environmentally preferable products and distribution systems
- Setting an example of environmental sustainability and energy conservation for residents and businesses in the City of Newport
- Lowering overall costs to the City by addressing full cost accounting such as purchase, operation, maintenance, disposal, staff time, and labor

II. DEFINITIONS

- A. **Environmentally Preferable Products and Services:** Defined by the United States Environmental Protection Agency (US EPA) as products or services that have a lesser or reduced effect on human health and the environment when compared with competing products or services that serve the same purpose. This applies to raw materials, manufacturing, packaging, distribution, use, reuse, operation, maintenance, and disposal.
- B. **Energy Star:** The US EPA's energy efficiency product labeling program
- C. **Energy Efficient Product:** A product that: 1) Meets the Department of Energy and Environmental Protection Agency's criteria for use of the Energy Star ® Trademark label; or 2) Is in the upper 25% of efficiency for all similar products as designated by the Department of Energy's Federal Energy Management Plan.
- D. **Financially Feasible:** A product has lower costs over its entire lifecycle as determined by full cost accounting
- E. **Minnesota Great Printers:** An initiative of the Printing Industry Midwest (PIM) Organization for printers to demonstrate their commitment to minimize their company's impact on human health and the environment while producing quality printed products for their customers. MN Great Printers must meet the following criteria in order to be certified:
1. Commit to the PIM Great Printer Environmental Initiative Principles.
 2. Complete an Environmental, Health & Safety Compliance Audit annually or once every 36 months
 3. Pursue Beyond Compliance Projects
- F. **Practicable:** Whenever possible and compatible with State and Federal law, without reducing safety, quality, or effectiveness.
- G. **Post-Consumer Recycled Material:** Material that has served its intended use and has been discarded for disposal or recovery, having completed its life as a consumer item, and is used as a raw material for new products.
- H. **Sustainable Green Printing Partnership:** A non-profit certification organization devoted to the promotion of sustainable business practices in the print and graphic communications industry.

- I. **US EPA Comprehensive Procurement Guidelines:** Current policies established by the US EPA for federal agency purchases.
- J. **Water-Saving Products:** Products that are in the upper 25% of water conservation for all similar products, or achieves a WaterSense label/certification.

III. POLICY

The following policies are to be followed by the City of Newport:

A. Recycled Paper Products

- 1. The City of Newport will endeavor to purchase paper products containing the highest post-consumer content practicable, but no less than minimum recycled content standards established by the US EPA Comprehensive Procurement Guidelines.

B. Energy and Water Savings

- 1. Where applicable, energy-efficient equipment will be purchased with the most up-to-date energy efficient functions.
- 2. All appliances and products purchased by the City and for which the US EPA Energy Star certification is available will meet Energy Star certification. Typically, this would include lighting systems, exhaust fans, water heaters, computers, exit signs, and appliances such as refrigerators, dishwashers, and microwave ovens. If Energy Star labels are not available, appliances and products that are in the upper 25% of energy efficiency as designated by the Federal Energy Management Program shall be considered for purchase.
- 3. The City will purchase water-saving products whenever practicable. This includes, but is not limited to, high-performing fixtures such as toilets, waterless urinals, low-flow faucets and aerators, and upgraded irrigation systems.

C. Fuel-Efficient Vehicles

- 1. The City of Newport will endeavor to purchase fuel-efficient vehicles when replacing its Public Works, Police and Fire vehicles.
- 2. When applicable, the City will "Right Size" its fleet by eliminating vehicles that are no longer needed.

D. Printing Services

- 1. The City of Newport will endeavor to utilize companies certified by the MN Great Printers or by the Sustainable Green Printing Partnership for its printing services, which include, but are not limited to, quarterly newsletters, brochures, posters, and mailings.

CITY OF NEWPORT RESERVE FUNDS POLICY

I. PURPOSE

The purpose of the City's reserve funds are to provide a stable funding source for expenditures that fluctuate significantly each year (i.e., equipment acquisitions and replacements,) to provide working capital to maintain a sufficient cash flow, and to maintain a stable or improved credit rating.

II. POLICY

The City's goal is to maintain a General Fund designated reserve balance between 50 percent of the General Fund's current total budgeted expenditures to provide working capital between semi-annual property tax settlements. The fund balance also includes amounts reserved for prepaid items and amounts designated for special purposes. At the end of the fiscal year, any undesignated remaining reserves in excess of 50 percent of the next year's total budgeted expenditures will be designated for a specific use or transferred to other funds for the funding of future improvement projects or equipment purchases.

Special revenue funds typically do not receive property tax revenues. Expenditures are limited to the resources provided by other revenues. Unreserved, undesignated fund balances will vary depending upon the timing of projects and expenditures, especially in the tax increment financing funds.

Typically, the fund balance in a debt service fund will be designated entirely for servicing the related debt. Any fund balance remaining in a debt service fund once the debt is fully retired will be transferred to another active debt service fund.

Fund balances in the capital projects funds will vary annually, depending upon the timing of the related project(s). Generally, the City does not plan for an unreserved, undesignated fund balance in the capital project funds. In most cases, available funds will be designated for a specific project. However, due to the various phases involved in establishing a project, funds that are not yet legally designated for projects may exist as unreserved and undesignated.

In the enterprise funds, the goal for the fund balance designated for working capital is 25% to maintain adequate cash flow for a quarterly billing cycle, particularly in the Utility Fund. Retained earnings will vary, depending upon the amount invested in capital assets and infrastructure replacement programs.

CITY OF NEWPORT DEBT MANAGEMENT POLICY

I. PURPOSE

The following debt management policy should be used to provide the general framework for planning and reviewing debt proposals. City Council recognizes there are no absolute rules or easy formulas that can substitute for a thorough review of all information affecting the City's debt position. Debt decisions should be the result of deliberative consideration of all factors involved.

II. GENERAL DEBT POLICY

- A. The City shall seek to maintain and improve its current A1 bond rating so borrowing costs are minimized and access to credit is preserved. It is imperative that the City demonstrate to rating agencies, investment bankers, creditors and taxpayers that City officials are following a prescribed financial plan.
- B. Every bond issue proposal will be accompanied by an analysis of the sources and uses of funds for the project to be financed with the bond proceeds and sources of funding for the repayment of the bonds. The analysis will reflect how the new bond will fit with the City's existing debt structure.
- C. The City will confine long-term borrowing to capital improvements or projects that cannot be funded from operating revenues and/or a reasonable amount of other resources. The City has developed a closed debt service fund which acts as a bridge to internally finance construction costs until property owner assessments or other third party revenues are received. Internal financing should significantly reduce the City's need to sell bonds and incur undue interest costs.
- D. Bonds will be sold on a competitive basis unless it is in the best interest of the City to conduct a negotiated sale. Competitive sales will be the preferred method. Negotiated sales may occur when selling bonds for a defeasance of existing debt, for current or advanced refunding of debt or for other appropriate reasons.

III. TAXPAYER EQUITY

- A. Newport's property taxpayers and citizens who benefit from projects financed by bonds should be the source of the related debt service funding. This principle of taxpayer equity should be a primary consideration in determining the type of projects selected for financing through bonds. Furthermore, the principle of taxpayer equity shall be applied for setting rates in determining net revenues for bond coverage ratios.

IV. USES

- A. Acceptable uses of bond proceeds can be viewed as items which can be capitalized. Non-capital furnishings and supplies will not be financed from bond proceeds.
- B. Bond proceeds should be limited to financing the costs of project planning and design, land acquisition, buildings and other permanent structures, attached fixtures, equipment acquired as part of the construction project and/or other costs as permitted by law. Utility revenue bond proceeds may be used to establish a debt service reserve as allowed by State law. Refunding bond issues designed to restructure currently outstanding debt are an acceptable use of bond proceeds.

- C. The City will not use short term borrowing to finance operating needs except in the case of an extreme financial emergency which is beyond its control or reasonable ability to forecast. Recognizing that bond issuance costs add to the total interest costs of financing; bond financing should not be used if the aggregate cost of projects to be financed by the bond issue does not exceed \$1,000,000.
- D. The City will not issue “interest only” debt.

V. DECISION ANALYSIS

- A. Whenever the City is contemplating a possible bond issue, information will be developed concerning the following categories commonly used by rating agencies assessing the City’s creditworthiness. The subcategories are representative of the types of items to be considered. This information will be presented by the Finance Director to the City Administrator and City Council.

i. Debt Analysis

- 1. Debt capacity analysis
- 2. Purpose for which debt is issued
- 3. Debt structure
- 4. Debt burden
- 5. Debt history and trends
- 6. Adequacy of debt and capital planning
- 7. Obsolescence of capital plant

ii. Financial Analysis

- 1. Stability, diversity, and growth rates of tax or other revenue sources
- 2. Trend in assessed valuation and collections
- 3. Current budget trends
- 4. History and long term trends of revenues and expenditures
- 5. Fund balance status and trends in operating and debt funds
- 6. Cash flow projections

iii. Economic Analysis

- 1. Population and demographics
- 2. Economic environment and trends

- B. The City may use the services of qualified internal staff and outside advisors to assist in the analysis, evaluation and decision process, including bond counsel and financial advisors. This policy is intended to insure that potential debt complies with all laws and regulations, as well as sound financial principles.

VI. DEBT PLANNING

- A. General obligation bond borrowing should be planned and the details of the plan must be incorporated in the City’s Five Year Capital Improvement Plan.
- B. General obligation bond issues should be included in at least two Capital Improvement Plans proceeding the year of the bond sale. The first inclusion should contain a general description of the project, its timing and financial limits; subsequent inclusions should become increasingly specific.

- C. The annual debt levy required by the total of all City debt shall not comprise more than 15% of annual General Fund operating expenses.

VII. COMMUNICATION AND DISCLOSURE

- A. Financial reporting and disclosure requirements will be fulfilled annually according to the disclosure guidelines of the Government Finance Officers Association of the U.S. and Canada.

VIII. GENERAL OBLIGATION BONDS

- A. Every project proposed for financing through general obligation debt should be accompanied by a full analysis of the future operating and maintenance costs associated with the project.
- B. Bonds cannot be issued for a longer maturity schedule than a conservative estimate of the useful life of the asset to be financed. The City will attempt to keep the average maturity of general obligation bonds at or below 20 years.
- C. The City will limit the total of its net (general obligation) direct debt to 1.00% of full market value of properties in the City.

IX. REVENUE BONDED DEBT

- A. It will be a long term goal that each utility or enterprise will ensure future capital financing needs are met by using a combination of current operating revenues and revenue bond financing.
- B. Each utility or enterprise should provide adequate debt service coverage. A specific factor is established by the City Council that the net of enterprise revenues and expenditures (exclusive of depreciation/amortization) shall be a minimum of 1.25 times the annual debt service costs.

City of Newport, Minnesota
(the “Issuer” or “City”)
Post-Issuance Tax Compliance Procedures
For Tax-Exempt Bonds
Dated: November 1, 2011

I. Purpose

These procedures are adopted by the Issuer to ensure that interest on tax-exempt bonds of the Issuer (or “Bonds”) remains excludable from gross income under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”).

These written procedures are intended to formally memorialize certain policies and practices of the Issuer previously adopted or followed by the Issuer in connection with its issuance of Bonds. The Issuer reserves the right to use its discretion as necessary and appropriate to make exceptions to these procedures as facts and circumstances warrant.

II. Expenditure/Use of Bond Proceeds

- A. Expenditure of Bond proceeds will be regularly reviewed by the City Administrator and/or Accounting Department for consistency with the Bond documents, including any Bond Resolution or Trust Indenture and the Issuer’s Tax Certificate.
- B. The Issuer’s Accounting Department has separately established a form and procedures for preparation and review requests for Bond proceeds as part of its accounting system.
- C. Requests must identify the Bond-financed property in conformity with the Issuer’s Tax Certificate executed at closing of the Bonds, including the character of the Bond-financed property. Such information is contained as part of the Issuer’s accounting system.
- D. None of the proceeds of the Bonds will be used to reimburse the Issuer for costs paid prior to the date of issuance of the Bonds unless the Issuer shall have fully complied with Section 1.150-2 of the Treasury Regulations with respect to such reimbursed amounts, which section is summarized in Exhibit A hereto.
- E. Staff costs may be financed with Bond proceeds only to the extent that they are properly capitalized as a cost of a capital project under generally accepted accounting principles and federal tax law.
- F. Requests for expenditures will be summarized in a “final allocation” of Bond proceeds to uses not later than 18 months after the in-service date of the Bond-financed property (and in any event not later than 5 years and 60 days after the issuance of the Bonds and not later than 60 days after earlier retirement of the issue) in a manner consistent with the Code and Treasury Regulations and the applicable Tax Certificate.
- G. Expenditure of proceeds of the Bonds will be measured against the Issuer’s Tax Certificate expectation to spend or commit 5% of net sale proceeds within 6 months, to spend 85% of net sale proceeds within 3 years, and to proceed with due diligence to complete the capital project and fully spend the net sale and investment proceeds. In

the event that exceptions under the Code are not met, calculations of rebate liability will be performed or caused to be performed by as provided herein.

- H. If there are any Bond proceeds remaining other than in a reserve or debt service fund established pursuant to the Bond Resolution or Trust Indenture after completion of the project, such proceeds shall be applied in a manner consistent with the applicable Bond Resolution or Trust Indenture and Tax Certificate or pursuant to advice from Bond Counsel.
- I. [In the event that Bond proceeds are to be used to make a grant to an unrelated party, a grant agreement will be reviewed prior to execution for compliance with the Code. Such agreement will be approved by the City Administrator, with advice or consent of Bond Counsel, as necessary. The repayment of any portion of a grant by the grantee shall be treated as unspent Bond proceeds.]
- J. [In the event that Bond proceeds are to be loaned to a conduit borrower, such conduit borrower will be required to agree to all terms of the Tax Certificate and provide evidence of post-issuance tax compliance procedures deemed adequate and consistent with those set forth herein; and all such obligations for post-issuance tax compliance shall be assumed by such conduit borrower. The City Administrator shall be the primary for all conduit borrowers and related compliance matters.]

III. Use of Bond-Financed Property

- A. Use of Bond-financed property when completed and placed in service will be reviewed by the Public Works Superintendent, who shall be trained regarding restrictions on the use of Bond proceeds and facilities financed thereby and instructed to consult with the City Administrator regarding any third-party contract concerning use of the facilities, including without limitation leases, use, management or service contracts, and research contracts.
- B. Upon issuance of Bonds, there shall be no expectation that the Bond-financed property will be sold or otherwise disposed of by the Issuer during the term of the Bonds, except for replacement due to normal wear and tear or obsolescence.
- C. Agreements with third parties for lease, use, management, or any other service agreement or research contract with respect to, or non-governmental use in respect of, Bond-financed property will be reviewed prior to execution for compliance with the Code. Such agreement will be approved by the City Administrator, who will be responsible for determining whether the proposed agreement (1) results in private business use of the facilities, and (2) if applicable, meets the compensation, term and other requirements under Revenue Procedures 97-13 (included as Exhibit B) and 2007-47; all upon advice of Bond Counsel, as necessary.
- D. No item of Bond-financed property will be sold or transferred by the Issuer without approval of the City Administrator, who shall seek advice of Bond Counsel, to provide guidance as to “remedial action” that may be required under the applicable Treasury Regulations if Bonds financing such property remain outstanding as of the date of sale or transfer of such property. Remedial action is summarized in Exhibit C hereto.

- E. The Issuer acknowledges that any sale, transfer, change in use, or change in users of the Bond-financed property may require remedial action, as previously described, or resolution pursuant to the IRS Voluntary Closing Agreement Program (or “VCAP”) to assist in resolving violations of the federal tax laws applicable to the Bonds.

IV. Investments

- A. Investment of Bond proceeds in compliance with the arbitrage and rebate requirements of the Code and applicable Treasury Regulations will be managed and supervised by the Accounting Department, with the advice of outside consultants, as needed.
- B. Guaranteed investment contracts (“GICs”) will be purchased according to the fair market value provisions of applicable Treasury Regulations, including bid requirements and fee limitations.
- C. Calculations of rebate liability will be performed by outside consultants and reviewed by the Accounting Department. Such calculations shall be made annually, as necessary, and prior to each 5 year anniversary of the date of issue of the Bonds.
- D. Upon final expenditure of the gross proceeds of Bonds, and in any event promptly following the fifth anniversary of the date of issuance of the Bonds or earlier retirement of the Bonds, the Accounting Department will consult a qualified professional to prepare a spending exception report or an arbitrage rebate computation (as applicable) for the issue of Bonds.
- E. Rebate payments, as required based upon the advice of a qualified professional, will be made with Form 8038-T no later than 60 days after (a) each fifth anniversary of the date of issuance of the Bonds and (b) the final retirement of the Bond issue.

V. Record Management and Retention

- A. Management and retention of records related to Bond issues will be supervised by the City Administrator.
- B. Records for Bonds will be retained for not less than the life of the Bonds, plus any refunding bonds, plus three years. Such records may be in the form of documents or electronic copies of documents, appropriately indexed to specific Bond issues and compliance functions.
- C. Retainable records pertaining to Bond issuance shall include a transcript of documents executed in connection with the issuance of the Bonds and any amendments; and copies of rebate calculations and records of payments, including Forms 8038-T.
- D. Retainable records pertaining to expenditures of Bond proceeds include requisitions; trustee statements, if applicable; and final allocation of proceeds.
- E. Retainable records pertaining to use of Bond-financed property include all third-party contracts concerning use of the facilities, including (without limitation) leases, use, management or service contracts, and research contracts.

- F. Retainable records pertaining to investments include GIC documents under the Treasury Regulations, records of purchase and sale of other investments, and records of investment activity sufficient to permit calculation of arbitrage rebate or demonstration that no rebate is due.

VI. Overall Responsibility

- A. Overall administration and coordination of this policy and the procedures set forth herein are the responsibility of the City Administrator.
- B. Review of compliance with this policy and the procedures set forth herein shall be undertaken periodically, and in any event, not less than annually.
- C. The Issuer understands that failure to comply with these policies and procedures could result in the retroactive loss of the exclusion of interest on Bonds from federal gross and Minnesota taxable net income; and, thus, it would be advisable to consult with Bond Counsel in advance regarding deviations from the facts and expectations as set forth in the closing certifications relating to any issue of Bonds.
- D. Any violations or potential violations of federal tax requirements shall promptly be reported to the City Administrator, and the City Administrator will engage qualified consultants and bond counsel to further investigate potential violations or undertake appropriate remedial actions, which actions shall be approved by the governing body of the Issuer.

EXHIBIT A
REIMBURSEMENT BOND SUMMARY

Following is a general summary of the requirements relating to bonds that are issued to reimburse expenditures that were paid prior to the date of issuance of bonds (“Reimbursement Bonds”).

Reimbursement Bond proceeds cannot be used to reimburse expenditures paid more than 60 days prior to the adoption of the declaration of official intent/reimbursement resolution, which must contain:

- a general functional description of the property to which the reimbursement relates or an identification of the fund or account from which the expenditure is to be paid and a general functional description of the purposes of such fund or account; and
- the maximum principal amount of debt to be issued.

Reimbursement Bonds must be issued not later than 18 months after the later of (i) the date on which the original expenditure is paid, or (ii) the date on which the property is placed in service, but in any case not more than three years after the date on which the original expenditure is paid. If possible, actual reimbursement should be made within 30 days of the date of issuance of the Reimbursement Bonds.

Note that there are exceptions for “de minimis” amounts (not in excess of the lesser of \$100,000 or 5% of proceeds of the issue) and for “preliminary expenditures” (such as architectural, engineering, surveying, soil testing and similar costs and costs of issuance), so long as such preliminary expenditures do not exceed 20% of the aggregate issue price.

EXHIBIT B
SUMMARY OF REVENUE PROCEDURE 97-13

Background

A management, service or incentive payment contract with a private service provider with respect to tax exempt bond-financed property may result in private business use of that property, based on all facts and circumstances. None of the compensation may be based on a share of net profits.

Revenue Procedure 97-13 establishes conditions under which a management contract generally does not result in private business use. Issuers and bond counsel typically attempt to satisfy, or substantially satisfy, one of these “safe harbors” because of uncertainty as to the treatment of nonconforming contracts. Below is a brief summary of the provisions of Rev. Proc. 93-17, as modified by Rev. Proc. 2001-39.

Rev. Proc. 93-17 establishes conditions based on (1) the compensation arrangements and the term of the agreement, and (2) whether the service provider has any role or relationship with the “qualified user”¹ that substantially limits the qualified user’s ability to exercise its rights under the contract.

General Rules

In all events, the contract must provide for reasonable compensation for services rendered, with no compensation based, in whole or in part, on a share of net profits from the operation of the facility. Reimbursement of the service provider for actual and direct expenses paid by the service provider to unrelated parties is not by itself treated as compensation.

The compensation, with the percentage determined by the term of the contract, subject to additional conditions, as described under “Compensation Safe Harbors” below, generally may be computed by:

- A. a periodic fixed fee, which is a stated dollar amount for a specified period of time²;
- B. a percentage fee, which is a percentage of gross revenues (or adjusted gross revenues) of the facility or a percentage of expenses of the facility, but not both;
- C. a capitation fee, which is a fixed periodic amount for each person for whom the service provider or the qualified user assumes the responsibility to provide all needed services for a specified period so long as the quantity and type of services actually provided to covered persons varies substantially³;

¹ A “qualified user” of the financed property is a state or local governmental unit (or instrumentality thereof) or a 501(c)(3) organization if the financed property is not used in an unrelated trade or business under section 513(a) of the Internal Revenue Code.

² A periodic fixed fee may include an automatic increase based on a specific, objective, external standard that is not linked to the output or efficiency of the facility in question.

³ A capitation fee may include an automatic increase based on a specified, objective, external standard that is not linked to the output or efficiency of the facility. A capitation fee may also include a variable component of up to 20 percent of the total capitation fee designed to protect the service provider against risks such as catastrophic loss.

- D. a per-unit fee, which is a fee based on a unit of service specified in the contract or otherwise specifically determined by an independent third party or the qualified user⁴; or
- E. a productivity reward equal to a stated dollar amount based on increases or decreases in gross revenues (or adjusted gross revenues), or reductions in total expenses (but not both increases in gross revenues (or adjusted gross revenues) and reductions in total expenses) in any annual period during the term of the contract.

The service provider must not have any role or relationship with the qualified user that, in effect, substantially limits the qualified user's ability to exercise its rights, including cancellation rights, under the contract based on all facts and circumstances. The relationship does not limit the qualified user's ability to exercise its rights if the following conditions are satisfied: (1) not more than 20 percent of the voting power of the governing body of the qualified user in the aggregate is vested in the service provider and its directors, officers, shareholders, and employees, (2) overlapping board members do not include the chief executive officers of the service provider or its governing body or the qualified user or its governing body, and (3) the qualified user and the service provider are not related parties.

COMPENSATION SAFE HARBORS

A management contract generally will not result in private business use if the compensation arrangement meets the criteria in one of the following categories:

50% Periodic Fixed Fee Contracts

- At least 50 percent of the compensation for services for each annual period during the term of the contract is based on a periodic fixed fee;
- the term of the contract, including all renewal options⁵ in favor of the service provider, does not exceed 5 years; and
- the contract is terminable by the qualified user of the facility on reasonable notice, without penalty or cause, at the end of the third year of the contract term.

80% Periodic Fixed Fee Contracts

- At least 80 percent of the compensation for services for each annual period during the term of the contract is based on a periodic fixed fee; and
- the term of the contract, including all renewal options in favor of the service provider, does not exceed the lesser of 80 percent of the reasonably expected useful life of the financed property and 10 years.

For purposes of this safe harbor (but not the 50% periodic fixed fee safe harbor), a one-time incentive award during the term of the contract under which compensation automatically increases by a single, stated dollar amount when a gross revenue or expense target (but not both) is reached may be considered part of a fixed fee arrangement.

95% Periodic Fixed Fee Contracts

⁴ A periodic fee may include an automatic increase based on a specified, objective, external standard that is not linked to the output or efficiency of the facility.

⁵ A provision under which a contract is automatically renewed absent cancellation by either party is not a renewal option (even if it is expected to be renewed).

- At least 95 percent of the compensation for services for each annual period during the term of the contract is based on a periodic fixed fee; and
- the term of the contract, including all renewal options in favor of the service provider, does not exceed the lesser of 80 percent of the reasonably expected useful life of the financed property and 15 years.

For purposes of this safe harbor (but not the 50% periodic fixed fee safe harbor), a one-time incentive award during the term of the contract under which compensation automatically increases by a single, stated dollar amount when a gross revenue or expense target (but not both) is reached may be considered part of a fixed fee arrangement.

Capitation Fee Contracts (with or without fixed fees)

- All of the compensation for services is based on a capitation fee or a combination of a capitation fee and a periodic fixed fee;
- the term of the contract, including all renewal options in favor of the service provider, does not exceed 5 years; and
- the contract is terminable by the qualified user of the facility on reasonable notice, without penalty or cause, at the end of the third year of the contract term.

Per-unit Fee Contracts (with or without fixed fees)

- All of the compensation for services is based on a per-unit fee or a combination of a per-unit fee and a periodic fixed fee;
- the term of the contract, including all renewal options in favor of the service provider, does not exceed 3 years; and
- the contract is terminable by the qualified user of the facility on reasonable notice, without penalty or cause, at the end of the second year of the contract term.

Percentage of Revenue or Expenses

- All the compensation for services is based on a percentage of fees charged or a combination of a per-unit fee and a percentage of revenue or expense fee;
- the term of the contract, including all renewal options in favor of the service provider, does not exceed 2 years; and
- the contract is terminable by the qualified user of the facility on reasonable notice, without penalty or cause, at the end of the first year of the contract term.

During the start-up period, however, compensation may be based on a percentage of either gross revenues, adjusted gross revenues, or expenses of a facility. The contract must be terminable by the qualified user on reasonable notice, without penalty or cause, at the end of the first year of the contract term. This safe harbor applies only to contracts under which the service provider primarily provides services to third parties and management contracts involving a facility during an initial start-up period for which there have been insufficient operations to establish a reasonable estimate of the amount of the annual gross revenues and expenses (for example, a contract for general management services for the first year of operations).

Revision of Compensation Arrangements

Please note that if the compensation arrangements of a management contract are materially revised, the compensation arrangements are “retested” as of the date of the material revision, and the management contract is treated as one that was newly entered into as of the date of the material revision.

EXHIBIT C
REMEDIAL PROVISIONS APPLICABLE TO BONDS

The Issuer acknowledges that any deliberate action by the Issuer after Bond issuance that results in a satisfaction of the private business tests or the private loan test will result in private activity bond status unless one or more qualifying remedial actions are taken by the Issuer. Specifically, Treasury Regulations provide that actions are not treated as deliberate actions if (A) five conditional requirements are met, and (B) one of three remedial actions is taken, with respect to the disposition proceeds and nonqualified bonds*:

CONDITIONAL REQUIREMENTS

1. Reasonable Expectations – The issuer reasonably expected on the issue date that it would not meet the private business tests or the private loan test for the whole term of the bonds; and
2. Reasonable Bond Maturity – The term of the issue must not be unreasonably long; this requirement is met if the weighted average maturity of the bond issue is not greater than 120% of the expected economic life of the property financed; and
3. Fair Market Value Consideration – The terms of any agreement (relating to satisfaction of a private activity bond test) must be bona fide and at arm's-length, and the new user must pay a fair market value consideration for the use of the bond-financed property; and
4. Disposition Proceeds Are Gross Proceeds – The Issuer must treat any disposition proceeds as gross proceeds subject to arbitrage/rebate restrictions; and
5. Proceeds Spent for Authorized Purpose – Except as described with respect to redemption and defeasance options below, prior to deliberate actions, the affected proceeds must have been spent for the authorized purposes under the applicable bond documents.

REMEDIAL ACTIONS – Under Treasury Regulations, Sections 1.141-12(d), (e) and (f):

1. Redemption of Non-Qualified Bonds – Under the general rule, all nonqualified bonds of the issue must be redeemed. Tax-exempt bond proceeds (i.e., refunding bond proceeds) cannot be used unless the tax-exempt bonds are qualified bonds, taking into account the purchaser's use of the facility. The bonds must be redeemed within 90 days of the date of the deliberate action or a defeasance escrow for the bonds must be established within such 90-day period. Special rules apply to transfers exclusively for cash and to defeasance escrows.
2. Alternative Use of Disposition Proceeds – To meet this requirement, all disposition proceeds must be in cash, the issuer must reasonably expect to expend the proceeds within 2 years, the new use must not meet the private business tests or the private loan

* The portion of the outstanding bonds in an amount that, if the remaining bonds were issued on the date on which the deliberate action occurs, the remaining bonds would not satisfy the private business use test or the private loan financing test, as applicable. The amount of private business use is the highest percentage of business use in any one-year period, commencing with the deliberate action

test (and the issuer cannot take any action subsequent to the date of the deliberate action to cause the tests to be met), and any unused proceeds must satisfy the redemption requirement in the preceding paragraph.

3. Alternative Use of Facility – This remedial action is satisfied if the bond-financed property itself (as distinguished from the proceeds of the issue) is used in an alternative manner (e.g., for a different purpose or by a different person); the nonqualified bonds are treated as reissued on the date of the deliberate action and independently meet all of the requirements for tax exemption under Sections 141 through 150 of the Code, except the arbitrage and rebate rules of Section 148, for the remaining term of the nonqualified bonds; the deliberate action does not involve a transfer of the property to a purchaser that finances the acquisition with the proceeds of another issue of tax-exempt bonds; and any disposition proceeds, other than those arising from an agreement to provide services, resulting from the deliberate action are used to pay debt service on the bonds on the next available payment date or escrowed within 90 days of receipt and yield restricted to pay debt service on the next available payment date.

The above is only a brief summary of remedial actions, and additional special rules may be applicable. As provided in the Issuer's Compliance Procedures for Tax-Exempt Bonds, the City Administrator shall seek advice of Bond Counsel as necessary to provide guidance as to "remedial action" that may be required under the applicable Treasury Regulations.

The Commissioner of the IRS may, by publication, provide for additional remedial actions. In addition, the IRS provides a program in which issuers/borrowers which cannot meet a listed remedial action can enter into a closing agreement with the IRS to avoid private activity bond status. The closing agreement program includes several conditions, including providing for the redemption of the bonds and paying the IRS an amount based on an assumption that the non-qualified bonds are taxable from the date of the subsequent act until they are redeemed.

**CITY OF NEPWORT
INTERNAL CONTROLS PROCEDURE**

I. PURPOSE

The City of Newport seeks to balance its internal accounting control in such a way as to ensure public confidence and maintain the integrity of its financial systems and assets, without unduly inhibiting the ability to efficiently carry out its mission.

II. CASH DISBURSEMENTS

A. Goal

The goal in establishing an internal control system for cash disbursements is to safeguard the assets of the city and ensure an appropriate level of fiduciary responsibility.

B. Objective

The objective in meeting this goal is to ensure that cash is disbursed only upon proper authorization of management for valid governmental purposes, and that all disbursements are properly recorded.

C. Procedures

1. **Segregation of Duties.** No financial transaction shall be handled by only one person from beginning to end.
 - a. Payment of all claims shall be authorized by the appropriate department supervisor, the City Administrator, and the City Council. ACH and wire transfers shall be processed by the Accountant/Bookkeeper with authorization from the City Administrator.
 - b. Payments shall be coded by the appropriate department supervisor or the Accountant/Bookkeeper.
 - c. Payments shall be recorded by the Accountant/Bookkeeper and presented to the City Administrator for accuracy and completeness.
 - d. All checks shall be stamped with the signatures of the Mayor and City Administrator by the City Administrator. In the absence of the City Administrator, the Accountant/Bookkeeper can authorize the signatures of the Mayor and City Administrator to be stamped on the checks. All checks shall require two signatures.
 - e. Financial reports and bank reconciliations shall be prepared by the Accountant/Bookkeeper and presented to the City Administrator for review on a monthly basis.
 - f. Properly signed and approved checks shall be mailed by the Accountant/Bookkeeper or the Executive Analyst.

- 2. Accounting Controls.** The following common internal controls relate to paying bills:
- a. All disbursements, except those from petty cash, will be made by pre-numbered check or by authorized ACH withdrawals from designated accounts.
 - b. It is not permissible to draw checks payable to Cash.
 - c. Under no circumstances will blank checks be signed in advance. A disbursement voucher shall be prepared for each invoice or request for reimbursement that details the date, the payee, the amount, description of expense account to be charged, authorization signature or initials, and be accompanied with related source documents.
 - d. Expenditures must be approved in advance by authorized persons.
 - e. Reimbursements to City staff and the recurring expenditures listed below shall be paid immediately. The checks will be listed on next available list of bills for the City Council's approval.
 1. Human Resource Payments
 - i. Delta Dental
 - ii. PERA
 - iii. Standard Insurance
 - iv. SW/WC Services
 - v. Select Account Monthly Fee
 2. IT Payments
 - i. Atomic, excluding overages
 - ii. Century Link
 - iii. Comcast
 - iv. Leaf
 - v. Verizon
 3. Utilities Payments
 - i. On-Site Sanitation
 - ii. Tennis Sanitation
 - iii. Xcel Energy
 - iv. Metropolitan Council Monthly Fee
 4. Public Works, Police and Fire Payments
 - i. G&K Services
 - ii. St. Paul Park Refining
 5. Miscellaneous
 - i. Petty Cash Replenishment
 - ii. Holstad and Knaak Monthly Fee
 - f. All signed checks shall be mailed promptly by the Accountant/Bookkeeper or Executive Analyst.

- g. The individuals authorized to sign the checks shall review each cash disbursement voucher for the proper approved authorization and supporting documentation of the expense.
- h. Paid invoices will have the check stub attached.
- i. Invoices and requests for reimbursement will be checked for accuracy and reasonableness before approval.
- j. A cash disbursement journal will be prepared that details the date of the check, check number, amount of check, and description of expense account to be charged.
- k. Unpaid invoices shall be maintained in an unpaid invoice file by the Accountant/Bookkeeper.
- l. Advance payments to employees or vendors shall be recorded as receivables in the general ledger.
- m. Expense reports for travel related expenses shall be submitted on a timely basis.
- n. Checks by which claims are paid shall have printed on the reverse side, above the space for endorsement: "The undersigned payee, in endorsing this check order, declares that the same is received in payment of a just and correct claim against the City of Newport, and that no part of such CLAIM has heretofore been paid."
- o. In accordance with M.S. 471.425, subd. 2, claims of the city shall be paid within 35 days from the date of receipt, or as otherwise stipulated by the terms of a contract. Claims not paid with this time frame will be subject to penalty and interest charges assessed by the vendor, as provided for in M.S. 471.425, subd. 4.
- p. Disallowed claims shall be so marked and kept in a file for an appropriate time period.
- q. Credit card purchases shall not be allowed except as legally provided under M.S. 471.382 and by authorization of the City Council.

III. PETTY CASH FUND

A. Goal

The goal in establishing an internal control system for Petty Cash Fund is to safeguard the assets of the city and ensure an appropriate level of fiduciary responsibility.

B. Objective

The objective in meeting this goal is to provide guidelines for use, safekeeping and reporting standards of the Petty Cash Fund, while allowing for small purchases or reimbursements to be made from the Petty Cash Fund.

C. Procedures

1. **Segregation of Duties.** The Petty Cash Fund is available to staff to make small purchases or reimbursements, in cash, for items such as stamps, office supplies, parking, etc. The following guidelines shall apply:
 - a. The Executive Analyst shall be the custodian of the Petty Cash Fund and is the person to make disbursements from the fund. In the absence of the Executive Analyst, the Accountant/Bookkeeper will have limited authority to disburse petty cash funds.
 - b. The custodian of the Petty Cash Fund shall be responsible for reconciling the fund on a quarterly basis at a minimum.
 - c. The Accountant/Bookkeeper shall make the appropriate entries to record the expenses and arrange for replenishment of the Petty Cash Fund.
 - d. The Executive Analyst must approve all withdrawals from the Petty Cash Fund.
2. **Accounting Controls.** The following guidelines will govern the use and keeping of the Petty Cash Fund:
 - a. The Petty Cash Fund will not exceed the amount of \$75.
 - b. The Petty Cash Fund will be kept by the Executive Analyst in a locked box. The locked box shall be kept in a secure place.
 - c. Withdrawals from the Petty Cash Fund will be made only by completing a Petty Cash Voucher. The voucher must state the date and amount of the withdrawal, the reason the cash was withdrawn, the expenditure account to which the expense should be charged, and the name and signature of the person receiving the cash. The voucher shall also contain the signature of the Executive Analyst approving the withdrawal.
 - d. Supporting documentation (receipts, invoices) must be attached to each Petty Cash Voucher.
 - e. Unannounced counts of petty cash and change will be made on occasion by the Finance Officer.
 - f. No staff member shall be allowed to cash personal checks, including paychecks, in the petty cash or change funds of the city.
 - g. Under no circumstances shall staff members be permitted to borrow from petty cash or change funds for personal use.

IV. CASH RECEIPTS

A. Goal

The goal in establishing an internal control system for cash receipts is to safeguard the assets of the city and ensure an appropriate level of fiduciary responsibility.

B. Objective

The objective in meeting this goal is to ensure that all cash intended for the city is received, promptly deposited, properly recorded, reconciled, and kept under adequate security.

C. Procedures

1. **Segregation of Duties.** No financial transaction shall be handled by only one person from beginning to end.
 - a. The Executive Analyst will be responsible for receiving cash payments to the city, whether by mail or in person. In the absence of the Executive Analyst, the Accountant/Bookkeeper or City Administrator may receive cash payments.
 - b. The Executive Analyst will be responsible for reconciling the receipts for deposit on a daily basis.
 - c. The Executive Analyst will prepare the bank deposit.
 - d. A Newport Police officer will deposit the funds at the bank.
 - e. The Accountant/Bookkeeper or the Executive Analyst will record Utility Billing receipts and post the revenue to the general ledger. The Accountant/Bookkeeper will record all other cash receipts in the general ledger.
 - f. Financial reports and bank reconciliations shall be prepared by the Accountant/Bookkeeper and presented to the City Administrator for review on a monthly basis.
 - g. Invoices for city services shall be prepared by the Executive Analyst. An accounts receivable register for utility billing will be maintained by the Accountant/Bookkeeper.
2. **Accounting Controls.** The following internal controls relate to cash receipts:
 - a. All payments to the City shall be accompanied by numbered cash receipt, stating the date of the receipt, the amount of the receipt, a description of the item or service being paid for, and a description of the revenue account the revenue should be allocated to. The receipt shall indicate whether the payment is cash or check. For payments made by check, the check number will be included on the receipt. Cash shall be deposited in the City's bank account.
 - b. Cash Receipts shall be kept in a in a secure place until deposit.
 - c. Cash receipts shall be reconciled on a daily basis by the designated staff person. Any discrepancies shall be reported immediately to the City Administrator.

- d. ACH deposits into the City's account will be recorded by the Accountant/Bookkeeper.

V. CREDIT CARDS

A. Authorized Users and Procedures

1. The City Administrator is responsible for assignment and designation of credit cards or purchasing cards to certain departments to allow for more efficient purchasing and to make purchases at businesses that do not offer open accounts.
2. The City Administrator, Department Heads and Lead Staff are issued and authorized to use a corporate credit card and/or purchasing card to procure goods and services on behalf of the City of Newport as authorized by the City Council. The City Administrator may authorize employees to use a credit card on the City's behalf.
3. The cards may only be used for city-related purchases pursuant to the adopted budget. The corporate credit card or purchasing card is not intended to replace or circumvent the City's Purchasing Policy.
4. Each card holder will be responsible for maintaining accurate and complete records. Use of city credit cards for personal purchases is strictly prohibited. A receipt, or other documentation, of each purchase must be retained and given to the Accountant.
5. The City Administrator or a designee will be responsible for development and administration of credit card and purchasing card procedures.

VI. CHARGE ACCOUNTS

A. Authorized Users and Procedures

1. In certain situations, it may be advantageous to use charge accounts with local businesses and vendors which allow authorized employees to purchase goods and services with periodic (usually monthly) billing to the City. Employees must sign sales slips or other vendor documentation at the time of the sale and submit documentation to their supervisor.

VII. DISCIPLINARY ACTION

Any employee violating this policy may be subject to disciplinary action.