Village of Lake Isabella
INVESTMENT AND PORTFOLIO POLICY

SCOPE

This investment policy applies to activities of the Village of Lake Isabella, hereinafter called the Village, with regard to investing the financial assets of all funds, including, but not limited to, the following:

General Fund
Special Assessment Revenue Funds
Capital Project Funds
Enterprise Funds (Sewer, Airport and Water Funds)
Debt Service Funds
Internal Service Funds
Trust and Agency Funds

OBJECTIVES

Funds of the Village will be invested in accordance with Act No. 20 of the Public Acts of 1943, as amended, and as otherwise restricted by this policy.

SAFETY: Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective of preservation of capital, diversification is required and speculation is prohibited.

LIQUIDITY: The Finance Committee shall ensure that funds are constantly available to meet immediate payment requirements including payroll, accounts payable and debt service. Since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets.

YIELD: The investment portfolio shall be designed to attain a market average rate of return throughout budgetary and economic cycles, taking into account investment risk constraints and the cash flow characteristics of the portfolio. The core investments are limited to low-risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity except for the following reasons.

1. A security with declining credit may be sold early to minimize loss of principal.
2. A security swap would improve the quality, yield, or target duration in the portfolio.
3. Liquidity needs of the portfolio require that the security be sold.

DELEGATION OF AUTHORITY

The Village of Lake Isabella Treasurer is designated as the Investment Officer of the Village and is responsible for depositing Village funds and carrying out investment decisions and activities only at the direction of the Finance Committee, and in consultation with the Village Manager. The Treasurer may delegate and assign the duty of securing investments allowed by Public Act 20 of 1943, as amended, to the Village Manager. In the absence of the Finance Committee, all duties shall be performed by the Village Council.

PRUDENCE

The standard of prudence to be applied by the Finance Committee shall be the "*prudent investor*" rule, which states:

"Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

Village officials when exercising diligence shall be relieved of personal responsibility for an individual security's performance provided that deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

ETHICS

Members of the Village Council and the Village Manager 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. Members of the Village Council and the Village Manager shall disclose to the public any material financial interests in financial institutions that conduct business within the Village, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the Village's portfolio. Members of the Village Council and the Village Manager shall subordinate their personal investment transactions to those of the Village, particularly with regard to the timing of purchases and sales.

This standard of ethics shall in no way be interpreted to be a prohibition to the acceptance of campaign contributions from officers or employees of institutions accepting deposits from the Village.

MONITORING AND ADJUSTING THE PORTFOLIO

The Finance Committee will routinely monitor the contents of the portfolio, the available markets and the relative values of competing instruments, and will adjust the portfolio accordingly with the approval of the Village Council. The Village Manager will cause to be prepared and submitted to the Village Council a report detailing the fund activity and investment summary for the preceding month as part of the regular financial reports presented to the Village Council.

ARBITRAGE

The Tax Reform Act of 1986 provides limitations on the Village's yield from investing tax-exempt bond proceeds and debt service funds. These arbitrage rebate provisions along with those in the 1989 Omnibus Budget Reconciliation Act require that the Village compute earnings on investments from each issue of bonds on an annual basis to determine if a rebate is required. To determine the Village's arbitrage position, the Village is required to calculate the actual yield earned on the investment of the funds and compare it to the yield that would have been earned if the funds had been invested at a rate equal to the yield on the bonds sold by the Village. The rebate provisions state that periodically (not less than once every five years, and not later than sixty days after maturity of the bonds), the Village is required to pay the U.S. Treasury a rebate of any excess earnings. These restrictions require extreme precision in the monitoring and record keeping of investments, particularly in computing yields to ensure compliance. Failure to comply can dictate that the bonds become taxable, retro-actively from date of issuance.

The Village's investment position relative to the arbitrage restrictions is to continue pursuing the maximum yield on applicable investments while maintaining the tax-exempt status of any tax-exempt bond proceeds and ensuring the safety of capital and liquidity. It is a fiscally sound position to continue maximization of yield and to rebate excess earnings, if necessary.

INTERNAL CONTROLS

The Finance Committee may establish a system of written internal controls in addition to this policy, which shall be reviewed annually by the independent auditor. The controls shall be designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes or imprudent actions. The Finance Committee shall report any significant changes in the Village portfolio to the Village Council at the earliest opportunity.

INSTRUMENTS

The Investment Officer**,** as directed by the Finance Committee, shall invest surplus funds of the Village as follows:

(a) In bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States with remaining maturities of two years or less, unless purchased for a Debt Retirement or other long-term investment account (e.g. Post-retirement Health Care).

(b) In certificates of deposit or investment savings accounts of a bank or credit union which is a member of the FDIC or the NCUA.

(c) Money market mutual funds regulated by the Securities and Exchange Commission, whose portfolios consist only of dollar-denominated securities, and limited to securities whose intention is to maintain a net asset value of $1.00 per share, or whose net asset value per share may fluctuate on a periodic basis.

(d) In United States government or federal agency obligation repurchase agreements, considering bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.

(e) In investment pools composed of investment vehicles which are legal for direct investment by local units of government in Michigan in accordance with Act No.367 of the Public Acts of 1982, as amended.

Notwithstanding the above, the Village shall not deposit or invest funds in a financial institution that is not eligible to be a depository of funds belonging to the State of Michigan under a law or rules of the State of Michigan or the United States.

DIVERSIFICATION

Investments shall be diversified to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. Diversification by instrument shall be subject to limits set in the section above titled "Instruments."

SAFEKEEPING AND CUSTODY

All security transactions shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third-party custodian designated by the Finance Committee and evidenced by safekeeping receipts.

PERFORMANCE EVALUATION AND REPORTING

A yearly report to the Council shall be provided by the Village Manager as required by law, and shall be included as part of the annual budget.