VILLAGE OF LAKE ISABELLA
INVESTMENT AND PORTFOLIO POLICY
Adopted by Resolution 2001-02, Amended by Resolution 2004-31

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.

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
In accordance with MCLA 41.77, 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 Finance Committee shall develop and maintain written administrative procedures for the operation of the investment program, consistent with

these policies. 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."

The members Finance Committee acting in accordance with written procedures and 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 prepare and submit to the Village Finance Committee a report detailing the fund activity and investment summary for the preceding six (6) months in May and November of each calendar year.

ARBITRAGE

The Tax Reform Act of 1986 provides limitations on the Village's yield from investing tax-exempt General Obligation and Utility bond proceeds and debt service funds. These new 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 new arbitrage restrictions is to continue pursuing the maximum yield on applicable investments while ensuring the safety of capital and liquidity. It is a fiscally sound position to continue maximization of yield sand to rebate excess earnings, if necessary.

INTERNAL CONTROLS

The Finance Committee shall establish a system of written internal controls, 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 which is a member of the Federal Deposit Insurance Corporation.

(c) Money market mutual funds regulated by the Securities and Exchange Commission, whose portfolios consist only of dollar-denominated securities, a 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. Total portfolio investments in money market mutual funds shall not exceed 25% of the total investment principal of the Village.

(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. Total portfolio investment shall not exceed 25%.

(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. Total investment portfolio shall not exceed 60%, exclusive of assets held in Trust and Agency Accounts.

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
The Finance Committee shall diversify use of investment instruments 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’.

Diversification by Financial Institution shall be as follows: No more than 25 percent of the total portfolio in any one institution unless invested in **c**ertificates of deposit or bank investment savings accounts or:

Bankers Acceptances: No more than 10 percent of the total portfolio in any one institution.
Investment Pools: No more than $10,000,000 in any one institution, exclusive of Trust and Agency.
Repurchase Agreement: No more than 10 percent of the total portfolio in any one institution.
Maturity Scheduling: Investment maturities shall be scheduled in coincides with projected cash flow needs, taking into account large routine expenditures, as well as considering sizeable blocks of anticipated revenue.

QUALIFIED INSTITUTIONS
The Village shall maintain a list of financial institutions which are approved for investment purposes. In addition, a list of approved security broker/dealers selected by creditworthiness will also be maintained. All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

. Audited financial statements
. Proof of National Association of Securities Dealers certification
. Proof of state registration
. Completed broker/dealer questionnaire
. Certification of having read and understood and agreeing to comply with the Village’s investment policy

An annual review of the financial condition and registration of qualified financial institutions and broker/dealers will be conducted by the investment officer.

The Village of Lake Isabella Council will approve all qualified institutions.

Depositories shall meet the following criteria in addition to any previously mentioned:

(1) Assets of at least $100 million.

(2) A Sheshunoff rating of at least 30, OR Primary Capital as a percent to Total assets as follows:

5.50% for > = $500 million total assets
7.00% for $300 -$499 million total assets
7.25% for $100 – $299 million total assets
7.75% for $50 – $99 million total assets
8.50% for $50 million total assets

Selection of the depository shall be based on the institution offering the most favorable terms and conditions for the handling of Village funds consistent with requirements previously stated (e.g. diversification).

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

The Finance Committee shall produce quarterly reports for the Village Council, listing by fund each investment within the fund. The report shall show the amount of investment, the institution, maturity date, and interest rate. A summary of all investments shall be shown at the end of each report, listed by institution and type of investment. A yearly report to the Council shall be provided as required by law.