

Village of Dexter Washtenaw County, Michigan Investment Policy

1.0 Mission Statement:

It is the policy of the Village of Dexter ("the Village") to invest public funds in a manner which will provide the maximum security with best investment return, while meeting the daily cash flow demands of the Village and conforming to all federal, state and local statutes governing the investment of public funds.

2.0 Scope

This investment policy applies to all financial assets of the Village, including those of discreet component units such as the Downtown Development Authority ("DDA"). Except for certain designated debt retirement and savings accounts, the Village will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles. These funds are accounted for in the Village's Comprehensive Annual Financial Report and include:

2.1 Funds Included in this Policy

- 2.1.1 General Fund (Fund 101)
- 2.1.2 Major Streets Fund (Fund 202)
- 2.1.3 Local Streets Fund (Fund 203)
- 2.1.4 Municipal Streets Fund (Fund 204)
- 2.1.5 Downtown Development Authority Fund (Fund 248)
- 2.1.6 Debt Retirement Fund (303)
- 2.1.7 DDA Debt Fund (394)
- 2.1.8 Equipment Replacement Fund (402)
- 2.1.9 DDA Project Fund (494)
- 2.1.10 Sewer Fund (590)
- 2.1.11 Water Fund (591)
- 2.1.12 Any new fund created by the Village, unless specifically exempted by the Village Council. This includes temporary construction funds.

2.2 Funds Excluded from this Policy

- 2.2.1 Trust and Agency Fund (701): Trust and agency deposits do not earn interest income.
- 2.2.3 Retiree Health Care Fund (736): The Village's other post retirement benefits ("OPEB") funds are invested with the Michigan Municipal

League's Health Care Funding Vehicle. Investments may be made in conformance with the Uniform Resolution establishing the OPEB fund, which was approved by the Village Council on January 26, 2009.

2.2.4 Payroll Fund (750): The Payroll Fund does not earn interest income.

2.2.5 Retirement/Pension Fund: The Village's retirement/pension funds are invested with the Michigan Municipal Employees Retirement System. Their Investment Policy may be reviewed on their website at www.mersofmich.com.

3.0 Standards of Care

3.1 Prudence

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 standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy, and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

3.2 Ethics and Conflicts of Interest

Officers and employees involved with 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. Employees and investment officials shall disclose to the Village Manager any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Village.

3.3 Delegation of Authority

Authority to manage the Village's investment program is granted to the Treasurer, hereinafter referred to as the Investment Officer. This authority is derived from the following: The General Law Village Act, 1895 PA 3, as amended, and the Village of Dexter Code of Ordinances. Responsibility for the operation of the investment program is hereby delegated to the investment officer, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy.

A Finance Committee shall be established to provide internal control as well as a broad oversight of investment activities and procedures. This committee shall consist of three members appointed by the Village Council, including the Investment Officer.

Procedures shall be developed by the Investment Officer and reviewed as necessary by the Finance Committee. They should include references to the following: safekeeping, investment accounting including internal control, wire transfer agreements, banking services, and depository agreements.

No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Investment Officer. In the event that investment activities are delegated by the Investment Officer to other staff member(s), ultimate responsibility for the transactions shall remain with the Investment Officer.

4.0 Objectives

The primary objectives, in priority order, of the Village's investment activities are safety, liquidity, and return on investment.

4.1 Safety

Safety of principal is the foremost objective of the investment program. Investments of the Village shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the Village will diversify by investing funds among a variety of investment types and financial institutions.

4.1.1 Credit Risk

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

- Limiting investments to the safest types;
- Researching the stability and ratings of the financial institutions, broker/dealers, and advisors with which the Village will do business;
- Diversifying the investment portfolio so that potential losses will be minimized.

4.1.2 Interest Rate Risk

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

- Structuring the portfolio so that investments mature to meet cash requirements for ongoing operations, thereby avoiding the need to terminate them prior to maturity;
- Investing operating funds primarily in vehicles with limited maturities as set forth in paragraph 7.2.

4.2 Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that maturities are concurrent with anticipated cash flow demands. A portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.

4.3 Return on Investment

The Village's investment policy shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account this policy's safety and liquidity requirements. Investments shall not be redeemed or sold prior to maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal;
- Unforeseen circumstances require that non-liquid investments be terminated in order to provide emergency cash flow.

5.0 Safekeeping and Custody

5.1 Authorized Financial Dealers and Institutions

The Investment Officer will maintain a list of authorized financial institutions and broker/dealers. This list will be established based on the guidelines set forth in paragraph 4.1.1 of this policy.

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 (NASD) certification;
- Proof of state registration;
- Certification of having read, understood and agreed to compliance 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. A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the Village invests.

5.2 Internal Controls

The investment officer is responsible for establishing and maintaining an internal control procedure designed to ensure that the Village is reasonably assured of being protected from loss, theft or misuse. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

Accordingly, the investment officer shall establish a process for quarterly review of internal controls by the Finance Committee to assure compliance with investment policies and procedures. In addition, internal controls shall be reviewed by the Village's independent auditor as a part of the annual comprehensive audit.

The internal control investment procedures shall address the following points:

- Control of collusion
- Separation of transaction authority whenever practical
- Custodial safekeeping
- Avoidance of physical delivery mature investments
- Written authority for who is authorized to make transactions
- Written confirmation of all forms of investment transactions

6.0 Suitable and Authorized Investments

6.1 Investment Types

The following investments will be permitted by this policy and are those defined by state and local law where applicable:

- a. U.S. government obligations, U.S. government agency obligations, and U.S. government instrumentality obligations, which have a liquid market with a readily determinable market value;
- b. Certificates of deposit and other evidences of deposit at financial institutions, banker's acceptances, and commercial paper, rated in the higher tier (e.g., A-1,P-1,F-1, or D-1 or higher) by a nationally recognized rating agency;
- c. Investment-grade obligations of state and local governments and public authorities;
- d. Money market mutual funds regulated by the Securities and Exchange Commission and those portfolios consist only of dollar-denominated securities;
- e. Local government investment pools, either state-administered or through joint powers statutes and other intergovernmental agreement legislation; and
- f. Certificates of Deposit through the CDARS program as authorized by Michigan statute.

Investment in derivatives are not allowed.

6.2 Collateralization

Collateralization is not required by Michigan Public Act 20, however if it is available under the CDARS program it should be utilized.

6.3 Repurchase Agreements

Repurchase agreements are not allowed.

7.0 Investment Parameters

7.1 Diversification

The investments shall be diversified by:

- Avoiding over concentration in any one financial institution, broker/dealer, or specific security issuer (excluding U.S. Treasury securities),
- Limiting investments that have higher credit risks,
- Varying investment maturities; and
- Continuously investing a portion of the portfolio in readily available funds such as local government investment pools, money market funds or other approved short-term funding vehicles to ensure that appropriate liquidity is maintained.

7.2 Maximum Maturities

To the extent possible, the Village shall attempt to match its investments with anticipated cash flow requirements. The Village shall adopt weighted average maturity limitations (which often range from 90 days to 3 years), consistent with the investment objectives.

Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding five (5) years if the maturity of such investments are made to coincide as nearly as practicable with the expected use of funds. The intent to invest in longer maturities shall be disclosed in writing to the Village Council or DDA Board prior to making the investment.

8.0 Reporting

8.1 Methods

The investment officer shall prepare a quarterly investment report that provides the status of the current investment portfolio. This report will be prepared in a manner which will allow the Village Council to ascertain whether investment activities during the reported period have conformed to the investment policy. The report will include a listing of individual

investments held at the end of the reported period; the distribution of investments across funds, in the case of pooled and other shared accounts; a listing of investment by Maturity Date; and the percentage of the total portfolio which each type of investment represents.

The Finance Committee shall meet quarterly to review the Investment Officer's report and any significant underlying transactions as a part of their review of internal controls.

8.2 Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates.

9.0 Policy Considerations

9.1 Exemption

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

9.2 Amendments

This policy shall be reviewed on an as-needed basis, but no longer than every five years. Any changes must be approved by the Village Council.