

## Investment Policies for Surplus Funds

### What is an investment policy?

A written investment policy serves as a working document that directs the investment activities of a public corporation, including a city or village, and attempts to protect the corporation from potential losses stemming from unsuitable investment practices. It is required under section 5 of the Investment of Surplus Funds of Political Subdivisions Act, MCL 129.91 et seq. Section 5 became effective December 30, 1997. It can limit liability and address problems inherent in the investment function before newsworthy losses take place.

Municipal finance directors and treasurers typically manage the investment of a municipality's surplus funds. (These are not surpluses in the budgetary sense, but funds not required for immediate operating needs). The foundation to a successful investment program is establishing a municipal investment policy. Elected officials, chief administrators, finance officers, and treasurers must work together to develop the policy.

### Developing an investment policy

- Gain support for the development of a formal investment policy from top management
- Involve the elected officials and make the policy development an educational process for the council.
- Gather documentation (i.e. current procedures/state law/ordinance/current investment agreements).
- Once written, have the policy approved by the governing body as an ordinance or resolution.

### Recommended components of an investment policy

1. **Scope** – Include a broad statement describing its scope and identifying what funds are included or excluded from the policy.
2. **Objectives** – Include a concise statement of objectives.
3. **Delegation of Authority** – Investment decisions generally come from local ordinances and charters. Identify those ordinances and charters that are being followed.
4. **Prudence** – Language regarding ethics and conflicts of interest.
5. **Investment Instruments** – Lay out specifically which instruments are allowable investments for the government.
6. **Selection of Investments** – Specify whether selected on a competitive basis or by real-time market data via electronic information sources.
7. **Qualified Institutions** – Must conduct an investigation of each institution.
8. **Diversification** – Address three areas of diversification: diversification by investment instrument, by financial institution, and by maturity.
9. **Safekeeping and Custody** – Clearly identify the government's safekeeping and collateralization requirements and procedures.
10. **Collateralization** – Should specify what types of collateral will be acceptable and what limits are required.
11. **Internal Controls** – Should require the development of written internal controls in the form of a separate procedures manual.
12. **Monitoring and Adjusting the Portfolio** – Indicate that the portfolio is monitored and adjusted periodically.

13. **Accounting Requirements** – Include a statement on the accounting method used.
14. **Reporting Requirements** – Specify what types and frequency of reports will be generated on a regular basis and who will review the reports.
15. **Investment Committee** – If an investment committee is to be used, include a discussion of the number, make up, and authority of the committee.
16. **Performance Evaluation** – Include a section on performance evaluation that identifies minimum yield standards or a benchmark against which investment return can be measured.

**VILLAGE OF ONTONAGON  
INVESTMENT POLICY  
ADOPTED JULY 9, 2012**

**Purpose:** It is the policy of the Village of Ontonagon to invest its funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow needs of the Village and comply with all State statutes governing the investment of public funds.

**Scope:** This investment policy applies to all financial assets of the Village. These assets are accounted for in the various funds of the Village and include the general fund, special revenue funds, debt service funds and capital project funds (unless bond ordinances and resolutions are more restrictive), enterprise funds, internal service funds, trust and agency funds and any new fund established by the Village.

**Objectives:** The primary objectives, in priority order, of the Village's investment activities shall be:

***Safety*** – Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to insure the preservation of the capital in the overall portfolio.

***Diversification*** – The investments will be diversified by security type and institution in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

***Liquidity*** – The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.

***Return on Investment*** – The investment portfolio shall be designed with the objective of obtaining a rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

**Delegation of Authority to Make Investments:** Authority to manage the investment program is derived from the following:

The Village Council's most current resolution designating depositories and MCL 64.9 requiring the Village Treasurer to be the custodian of the Village's funds. Management responsibility for the investment program is hereby delegated to the Village Treasurer, under the direction of the Finance Committee of the Village Council and consultation with the Village Manager. The Finance Committee shall establish written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, cash purchases or delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, collateral/depository agreements and banking service contracts. No person may engage in investment transactions except as provided under the terms of this policy and the procedures established by the Finance Committee. The Village Treasurer

shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

**List of Authorized Investments:** If mutual funds are authorized, a statement indicating whether the authorization is limited to securities whose intention is to maintain a net asset value of \$1 (one dollar) per share or also includes securities whose net asset value per share may fluctuate on a periodic basis.

The Village Treasurer is limited to investments authorized by Act 20 of 1943, as amended, and may invest in the following: (*directly from P.A. 20*)

- a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- (b) Certificates of deposit, savings accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2); certificates of deposit obtained through a financial institution as provided in subsection (5); or deposit accounts of a financial institution as provided in subsection (6).
- (c) Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- (d) Repurchase agreements consisting of instruments listed in subdivision (a).
- (e) Bankers' acceptances of United States banks.
- (f) Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service.
- (g) Mutual funds registered under the investment company act of 1940, 15 USC 80a-1 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of any of the following:
  - (i) The purchase of securities on a when-issued or delayed delivery basis.
  - (ii) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
  - (iii) The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.

(h) Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.

(i) Investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.111 to 129.118.

(j) The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

**Monitoring and Adjusting Investments:** The Finance Committee, Village Treasurer and Village Manager will routinely monitor the Village's investments and recommend adjustments. The Village Treasurer will prepare and submit to the Finance Committee and Village Manager a report detailing the fund activity and investment summary in January and July of each calendar year.

**Safekeeping and Custody:** All security transactions, including collateral for repurchase agreements and financial institution deposits, entered into by the Village Treasurer may be on a cash basis or delivery vs. payment basis as determined by the Village Treasurer. Securities may be held by a third party custodian designated by the Finance Committee and evidenced by safekeeping receipts as determined by the Treasurer.

**Ethics:** Integrity is of the highest order. Members of the Finance Committee, the Village Manager and Village Treasurer 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 Finance Committee, the Village Manager and the Village Treasurer shall disclose to the public any material financial interests (i.e. Stock ownership) in financial institutions that conduct business with the Village.

This standard of ethic 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.

**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 of investment, considering the probable safety of their capital as well as the probable income to be derived.

This policy shall remain in effect until amended by the Village Council.

This policy is hereby adopted by the Ontonagon Village Council on July 9, 2012

Attest: \_\_\_\_\_  
Marcia Aho-Black, Village Clerk