



# Village of Pewamo

*Village of Pewamo is an equal opportunity provider and employer.*

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## Village of Pewamo Investment Policy Approved May 13, 2019

### I. Governing Authority

#### *Purpose*

It is the policy of the Village of Pewamo 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 and local statutes governing the investment of public funds.

### II. *Scope*

This investment policy applies to all financial assets of the Village of Pewamo, excluding the investment of employees' retirement funds. These assets are accounted for in the various funds of the Village and include:

- General Fund
- Special Revenue Funds
- Capital Project Funds
- Enterprise Funds
- Trust and Agency Funds
- Debt Service Funds
- Any new fund created by the legislative body

### III. *General Objectives*

The primary objectives, in priority order, of the Village of Pewamo's investment activities shall be safety, liquidity, and yield:

#### *1. Safety*

Safety of principal is the foremost objective of the investment program. Investments of the Village of Pewamo 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 and interest rate risk.

#### a. Credit Risk

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

- Limiting investments to the types of securities listed in Section VII of this Investment Policy
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the Village will do business in accordance with Section V
- Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized

b. Interest Rate Risk

The Village will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, 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
- Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy (see section VIII).

*2. Liquidity*

The Village's 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 securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, 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.

*3. Yield*

The Village of Pewamo's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, considering the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:

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

*4. Local Considerations*

Where possible, funds may be invested for the betterment of the local economy or that of local entities within the State. The Village of Pewamo may accept a proposal from an eligible institution which provides for a reduced rate of interest provided that such institution documents the use of deposited funds for community development projects.

*IV. Standards of Care*

*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" and/or "prudent investor" 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.

*2. Ethics and Conflicts 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. Employees and investment officials shall disclose 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 of Pewamo.

*3. Delegation of Authority*

Authority to manage the investment program is granted to the Village Clerk/Treasurer and derived from the following: Village Treasurer per MCL 87.11. 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. Procedures should include references to safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/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. The investment officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

## V. Authorized Financial Institutions, Depositories, and Broker/Dealers

### 1. Authorized Financial Institutions, Depositories, and Broker/Dealers

A list will be maintained of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of approval security broker/dealers selected by creditworthiness (e.g., a minimum capital requirement of \$10,000,000 and a least five years of operation). These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
- Proof of National Association of Securities Dealers (NASD) certification (not applicable to Certificate of Deposit counterparties)
- Proof of state registration
- Certification of having read and understood and agreeing to comply with the [entity's] investment policy.
- Evidence of adequate insurance coverage.

### 2. Minority and Community Financial Institutions

From time to time, the investment officer may choose to invest in instruments offered by minority and community financial institutions. In such situations, a waiver to certain parts of the criteria under Paragraph 1 may be granted. All terms and relationships will be fully disclosed prior to purchase and will be reported to the appropriate entity on a consistent basis and should be consistent with state or local law. These types of investment purchases should be approved by the appropriate legislative or governing body in advance.

## VI. Safekeeping and Custody

### 1. Delivery vs. Payment

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

### 2. Safekeeping

Securities will be held by a [centralized] independent third-party custodian selected by the entity as evidenced by safekeeping receipts in the Village of Pewamo's name. The safekeeping institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).

### 3. Internal Controls

The investment officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Village of Pewamo are protected from loss, theft or misuse. Details of the internal controls system shall be documented in an investment procedures manual and shall be reviewed and updated annually. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. 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 judgment by management:

The internal controls structure shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers
- Dual authorizations of wire transfers
- Development of a wire transfer agreement with the lead bank and third-party custodian

Accordingly, the investment officer shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures or alternatively, compliance should be assured through the Village's annual independent audit.

## VII. Suitable and Authorized Investments

### *1. Investment Types*

Consistent with the State and Local Laws Concerning Investment Practices, the following investments will be permitted by this policy and are those defined by state and local law where applicable:

- U.S. Treasury obligations which carry the full faith and credit guarantee of the United States government and are the most secure instruments available;
- U.S. government agency and instrumentality obligations that have a liquid market with a readily determinable market value;
- Certificates of deposit and other evidences of deposit at financial institutions,
- Bankers' acceptance;
- Investment-grade obligations of state, provincial and local governments and public authorities;
- Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities; and
- Local government investment pools either state-administered or developed through joint powers statutes and other intergovernmental agreement legislation.

Investment in derivatives of the above instruments shall require authorization by the appropriate governing authority.

### *2. Collateralization*

Where allowed by state law, full collateralization will be required on all demand deposit accounts, including checking accounts and non-negotiable certificates of deposit.

## VIII. Investment Parameters

### *1. Diversification*

It is the policy of the Village of Pewamo to diversify its investment portfolios. To eliminate risk of loss resulting from the over-concentration of assets in a specific maturity, issuer, or class of securities, all cash and cash equivalent assets in all Village of Pewamo's funds shall be diversified by maturity, issuer, and class of security. Diversification strategies shall be determined and revised periodically by the investment committee/investment officer for all funds except for the employee retirement fund.

In establishing specific diversification strategies, the following general policies and constraints shall apply: Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity sector. Maturities selected shall provide for stability of income and reasonable liquidity.



For cash management funds:

- Liquidity shall be assured through practices ensuring that the next disbursement date and payroll date are covered through maturing investments or marketable U.S. Treasury bills.
- Positions in securities having potential default risk (e.g., commercial paper) shall be limited in size so that in case of default, the portfolio's annual investment income will exceed a loss on a single issuer's securities.
- Risks of market price volatility shall be controlled through maturity diversification such that aggregate price losses on instruments with maturities exceeding one year shall not be greater than coupon interest and investment income received from the balance of the portfolio.
- The investment committee/investment officer shall establish strategies and guidelines for the percentage of the total portfolio that may be invested in securities other than repurchase agreements, Treasury bills or collateralized certificates of deposit. The committee shall conduct a quarterly review of these guidelines and evaluate the probability of market and default risk in various investment sectors as part of its considerations.

## IX. Reporting

### *1. Methods*

The investment officer shall prepare an investment report monthly, including a management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the month. This management summary will be prepared in a manner which will allow the Village to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the entity's chief administrative officer, the legislative body, the investment committee and any pool participants. The report will include the following:

- Listing of individual securities held at the end of the reporting period.
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity (in accordance with Governmental Accounting Standards Board (GASB) requirements).
- Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.
- Listing of investment by maturity date.
- Percentage of the total portfolio, which each type of investment represents.

### *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. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis. The benchmarks shall be reflective of the actual securities being purchased and risks undertaken, and the benchmarks shall have a similar weighted average maturity as the portfolio.

### *3. Marking to Market*

The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least quarterly. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with the GFOA Recommended Practice on "Mark-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools." (See GFOA Recommended Practices in Appendix.) In defining market value, considerations should be given to the GASB Statement 31 pronouncement.

X. Policy Considerations

*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.

*2. Amendments*

This policy shall be reviewed on an annual basis. Any changes must be approved by the investment officer and any other appropriate authority, as well as the individuals charged with maintaining internal controls.

XI. Approval of Investment Policy

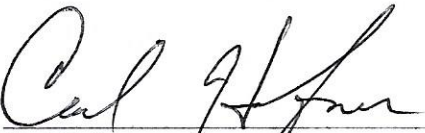
The investment policy shall be formally approved and adopted by the governing body of the Village of Pewamo and reviewed every two years.

Approval Signatures

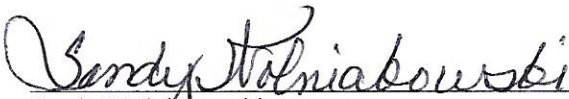
Date Approved: May 13, 2019



Randy Zenk  
Village of Pewamo-President



Carl Hafner  
Village of Pewamo-Treasurer



Sandy Wolniakowski  
Village of Pewamo-Clerk