VILLAGE OF MUKWONAGO INVESTMENT POLICY

A. Introduction.

The timely deposit and investment of public monies is an important and integral part of any cash management program. It is the policy of the Village of Mukwonago to invest public funds in a manner which will provide the highest investment return and the maximum security while meeting the daily cash flow demands of the Village and conforming to all state and local statutes and any bond resolution restrictions governing the investment of funds.

This statement of policy is intended for the use and guidance of the Finance Director and any investment advisers to whom Village officials have delegated investment authority as defined in §66.0603(2) of the Wisconsin Statutes.

This investment policy shall be reviewed periodically by the Finance Director and the Finance Committee. The Finance Committee shall approve any recommended changes, and the necessary resolution to modify the existing policy shall be presented to the Village Board for its action.

B. Statement of Purpose and Scope.

The purpose of this investment policy is to establish guidelines for investments that are broad enough to allow the Finance Director to function properly within the parameters of responsibility and authority. It is also intended to be specific enough to establish a prudent set of basic procedures to assure that investment assets are adequately safeguarded.

This investment policy applies to all financial assets of the Village, including but not limited to, operating funds, reserves, reserve funds, and any new fund created by the Village unless specifically exempted. These funds are accounted for in the Village's Annual Financial Reports and include:

- General Fund
- Special Revenue Funds
- Capital Project Funds
- Enterprise Funds
- Trust and Agency Funds
- Debt Service Funds

This policy is limited in its application to funds that are not immediately needed and are available for investment. Unless prohibited by law or contract, the Village may pool cash from several different funds for investment purposes should it meet the objectives of the investment program. Other funds, the investment of which is subject to special federal and/or state laws and regulations, may be invested in accordance with such laws and regulations.

C. Goals and Objectives

The primary objectives, in priority order and in adherence to statutory requirements, of the Village's investment activities shall be:

- **Safety:** The safety of the principal shall be 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. The objective will be to mitigate credit risk and interest rate risk.

- **Liquidity:** Funds shall be invested to provide sufficient liquidity to meet all reasonably anticipated disbursement requirements. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets.
- **Return on Investment:** The Village investment portfolio shall be designed with the objective of attaining a market rate-of-return throughout budgetary and economic cycles, taking into account the Village's investment risk constraints and the cash flow characteristics of the portfolio. 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 the securities be sold

D. Delegation of Authority.

Authority to manage the Village's investment program is derived from State of Wisconsin Statutes and Village ordinances. Management responsibility for the investment program is delegated to the Village of Mukwonago Finance Director, who shall establish written procedures for the operation of the investment program consistent with this investment policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director. The Finance Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate employees. The Finance Director shall have the authority to transfer funds between accounts established for investment purposes. As defined in §66.0603(2) of Wisconsin Statutes, the Treasurer may delegate investment authority for any funds not immediately needed to a state or national bank, or bank, or trust company which is authorized to transact business in the state.

E. 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 or create the appearance of an impairment of their ability to make impartial investment decisions. Officers and employees shall disclose to the Village Board any material interest 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 Village's investment portfolio. Officers and employees shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of the Village. Failure to comply with these provisions may result in disciplinary action which may include termination of appointed employees. The Village Board may initiate action against elected committee members for violations related to this policy.

F. Prudence Required

The standard of prudence will apply to all investments made on behalf of the Village in accordance with the "prudent person rule" of §881.01 of the Wisconsin Statutes which states:

- "Investments shall be made with judgment and care, under circumstances then prevailing, which person 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 "prudent person" standard shall be applied in the context of managing the overall investment portfolio. Investment officials acting in accordance with written procedures and this 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 the liquidity and the sale of securities are carried out in accordance with terms of this policy.

G. Depositories and Providers of General Banking and Investment Services

The primary provider of banking services will be the Village's official depositories approved by the Village Board by annual resolution pursuant to Wisconsin statute §34.05. In accordance with Wisconsin statutes §34.01(5) and §34.09 all Wisconsin banks, state or federal chartered, as well as the Wisconsin local government pooled investment fund, are authorized depositories. The Finance Director shall select and maintain a list of financial institutions authorized to be public depositories and/or provide investment services. In addition, a list of approved security brokers/dealers will be maintained. The Finance Director shall qualify institutions by applying generally accepted industry standards (i.e. capital requirements, asset quality, earnings, liquidity, management, and local community development) using available public agency and private rating services as appropriate. An annual review of the financial condition and applicable certifications and/or registrations of all qualified institutions shall be conducted. On an annual basis (or more frequently if needed), the Finance Director shall present a list of these qualified institutions to the Finance Committee for its review and recommendation to the Village Board for approval via resolution

H. Authorized & Suitable Investments

All investments will be made in accordance with §66.0603(1m) of the Wisconsin Statutes governing the investment of public funds and as further restricted by this Investment Policy Statement.

Permitted investments are:

- Time deposits in any credit union, bank, savings bank, trust company or savings and loan association which is authorized to transact business in the State of Wisconsin if the time deposits mature in three (3) years or less.
- Interest bearing accounts and certificates of deposit in state or national banks insured by the Federal Deposit Insurance Corporation (FDIC).
    - The aggregate amount of certificates of deposits purchased through the CDARS program may exceed federal and state insurance limits provided the individual banks participating each have less on deposit than the current FDIC insurance limit
- The State of Wisconsin Local Government Investment Pool (LGIP) which is part of the State Investment Fund (SIF) operating under the statutory authority of Wisconsin Chapter 25.
- Bonds or securities issued or guaranteed as to principal and interest by the federal government or of a commission, board or other instrumentality of the federal government.

- Bonds or securities of any county, city, drainage district, VTAE district, village, town or school district of the state of Wisconsin.
- Any security which matures or which may be tendered for purchase at the option of the holder within not more than seven (7) years of the date on which it is acquired, if that security has a rating which is the highest or 2nd highest rating category assigned by Standard & Poor's corporation, Moody's investors service or other similar nationally recognized rating agency or if that security is senior to, or on a parity with, a security of the same issuer which has such a rating.
- No-load money market mutual funds whose investments are limited to those meeting the above criteria in compliance with Wisconsin Statute §66.0603
- Repurchase agreements with public depositories, under certain conditions of Wisconsin Statute §66.0603(5)(a)(b).

It is the intent of the Village that the foregoing list of authorized investments be strictly interpreted. Any deviation from this list must be preapproved by the Finance Committee in writing.

Prohibited investments include derivative type investments such as collateralized mortgage obligations, strips, floaters, etc. Certain types of such investments may qualify under Wisconsin State Statutes but are not deemed appropriate for use by the Village of Mukwonago

I. Depository Collateralization Requirements

The Federal Deposit Insurance Corporation (FDIC) protects deposits up to $250,000. In addition, public deposits are protected against losses by Wisconsin general-purpose revenues under Wisconsin Statutes §20.144(1)(a) and §34.08(2) up to $400,000 for any one public depositor in any individual public depository. Thus, a public depository is protected up to $650,000 in any one depository institution. Village funds will only be placed in depository institutions that are FDIC insured. The Village will seek to collateralize certificates of deposit or any other time deposit in an amount equal to 100% of the investment less the amount insured by the FDIC or guaranteed by the state of Wisconsin with appropriate collateral instruments and at levels per recommended practices of the Government Finance Officers Association. Where practicable, collateral shall be held by the Village or an independent third-party custodian with whom the Village has a current custodial agreement. Where this is not practicable, verifiable evidence of specific pledged securities must be supplied to the Village. Deposits may be collateralized by a Public Deposits Security Agreement or an Irrevocable Letter of Credit.

J. Diversification

Assets shall be diversified to eliminate the risk of loss and balance the effect of interest rate changes affecting different types of securities. Investments will be diversified by:

- Limiting investments to avoid over-concentration in securities from a specific issuer or business sector
- Limiting investments in securities with higher credit risks
- Investing in securities with varying maturities
- Continuously investing a portion of the portfolio in readily available funds such as the Local Government Investment Pool, money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

- Long-Term Funds, available for 30 days or longer, are placed in U.S. government obligations, certificates of deposit with local financial institutions, or the State-maintained Local Government Investment Pool. The maximum limits on the amount of funds which can be placed in any one type of investment are:
    - Local Government Investment Pool 80%
    - Obligations of the Federal Deposit 80%
    - Certificates of Deposit 60%

With the exception of U.S. Treasury securities and authorized Local Government Investment Pools, no more than 30% of the Village's total investment portfolio will be invested in a single security type (Short-Term or Long-Term) or with a single financial institution.

K. Maximum Maturities

To the extent possible, the Village will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Village will not directly invest in securities maturing more than five (5) years from the date of purchase. Reserve funds may be invested in securities exceeding five (5) years if the maturity of such investments is made to coincide as nearly as practicable with expected use of the funds. Any intent to invest in securities with longer maturities will be reported to the Finance Committee.

L. Performance Standards

The Village's investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and cash flow needs. To determine whether market yields are being achieved, the following bases shall be utilized:

- A passive investment strategy uses the average Federal Funds rate
- An active investment strategy uses the three-month U.S. Treasury Bill and the average Federal Funds rate

M. Liquidity

All securities must be readily marketable to ensure adequate portfolio liquidity.

N. Internal Controls

The Finance Director shall develop and maintain all necessary operating procedures for effective control and management of the investment function and reasonable assurance that the Village's investments are properly managed and adequately protected. In addition, the Finance Director shall establish an annual process of independent review by an external auditor to ensure compliance with policies and procedures.

O. Investment Advisors and Custodians

Should the Village deem it appropriate to retain an investment advisor, the following procedures will be followed with respect to the investment advisor relationship:

- Selection Process – The investment advisor will be selected by a competitive process whereby proposals will be requested from a listing of qualified advisors. A committee consisting of the Finance Director, the Administrator, an additional staff member and a member of the Finance committee will review the proposals and select an advisor. The selected advisor will be recommended to the Finance committee for approval.

- Investment Procedures – Once an investment advisor is selected, the Village will at all times be responsible for establishing the investment objectives to be accomplished. The investment advisor will be responsible for providing advice and developing and implementing strategies for carrying out such objectives. The investment advisor will have no authority to take possession of Village monies or investment securities, nor to execute investment transactions on behalf of the Village, except where investment authority may be delegated (e.g., "discretionary" authority) as per Wisconsin Statute §66.0603(2). For those investments under management in a "non-discretionary" account, all investment transactions shall be approved by Village staff.
- Periodic Reporting – The investment advisor shall provide periodic reports regarding the composition, performance level and accounting treatment of the Village's investment portfolio. Such reports shall be made quarterly to the Finance Director for inclusion in the quarterly report to the Finance Committee for review of (a) investment performance and (b) the agreement under which the Village has delegated investment authority (if applicable).
- Portfolio Maturities – certain strategies recommended by the investment advisor may involve purchase of U.S. government securities with stated maturities longer than seven (7) years which conflicts with standard maturities stated elsewhere in this policy. Any such intent must be reported to the Finance Committee for its review and approval.
- Compensation and Term of Agreement – Investment advisor fees shall be established in advance. All compensation shall be disclosed in a written agreement. The relationship between the advisor and the Village may be terminated at any time at the discretion of the Village.

P. Reporting

Investment Advisors and Custodians

- All investment advisers and custodians retained by the Village will provide detailed quarterly statements to the Finance Director.
    - Such reports will contain at a minimum a description of each security including units held, cost, market value and current yield as well as a detailed list, by date, of all transactions executed during the period.

Finance Director

- It will be the responsibility of the Finance Director to establish and maintain records and accounts to:
    - Provide necessary internal controls
    - Detail investments as to purchase date, cost, maturity and interest rate
    - Maintain other records that may be required to accurately reflect all investment transactions
    - When requested, make a report on Village investments to the Finance Committee.

Q. Glossary of Terms

CDARS [Certificate of Deposit Account Registry Service] – Financial institutions that offer CDARS are members of a network. Monies deposited with a CDARS Network member are placed into CDs issued by other members of the network in increments below the standard FDIC insurance maximum ($250,000) so that both principal and interest are eligible for FDIC insurance. The funds are diversified among several financial institutions even though a relationship is established with only one of the institutions. Information is reported on one consolidated account statement.

Collateral – Underlying securities that are pledged to secure deposits of public funds.

Credit Risk – The risk to an investor that an issuer or other counterparty to an investment will not fulfill its obligations (i.e. default in the payment of interest and/or principal on a security).

Custodial Credit Risk – The risk that in the event of a financial institution failure, deposits may not be returned to the depositor.

- For Investments, custodial credit risk is the risk that, in the event of the failure of a counterparty, the investor will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Diversification – The process of investing assets among a range of security types by sector, maturity, and quality rating.

Federal Funds Rate – The interest rate at which depository institutions lend balances to each other overnight.

Interest Rate Risk – The risk associated with declines or rises in interest rate that cause an investment in a fixed-income security to increase or decrease in value.

Liquidity – The ability of an asset to be converted to cash quickly and without any price discount.

Market Risk – The risk that the value of a security will rise or decline as result of changes in market condition.

Market Value – The current market price of a security.

Marketing to Market – The practice of valuing a security or portfolio according to its market value, rather than its cost or book value.

Maturity – The date on which payment of a financial obligation is due.

Open-end Management – An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments.

Prudent Person Rule – An investment standard outlining the fiduciary responsibility relating to the investment practices of public fund investors.

Repurchase Agreement – A form of secured, short-term borrowing in which a security is sold with a simultaneous agreement to buy it back from a purchaser at a future date. Informally known as repos.

Safekeeping – An arrangement under which a third party holds securities or other valuables under safe, controlled conditions.

Sweep Account – A deposit account that periodically removes “idle” funds into a higher yielding instrument

Treasury Bills (T-Bills) – Treasury Bills are short-term, non-interest bearing discount securities issued by the U.S. treasury that typically mature in three months, six months or one year. They are traded in primary and secondary markets. Initially they are auctioned directly by the U.S. government and subsequently traded among investors in the secondary market. These markets determine T-Bill prices.

Treasury Notes – Treasury Notes are medium-term government securities issued by the U.S. treasury with maturities ranging from two to ten years. Treasury Notes pay interest every six months and are traded in primary and secondary markets.

Yield – Refers to the annual return on an investment expressed as a percentage on an annual basis. For interest-bearing securities, the yield is a function of the rate, the purchase price, the income that can be earned from the reinvestment of income received prior to maturity, call or sale, and the time from purchase maturity, call or sale.