Shorewood-Troy Public Library

Investment Policy

Approved 2/13/20; Reviewed 4/9/21

I. PURPOSE

The Shorewood-Troy Library District's Board of Trustees ("Board") recognizes the need for the prudent management of the public funds. This Investment Policy ("Policy") is adopted in accordance with the requirements of the Public Funds Investment Act (30 ILCS 235/0.01, et seq.), to establish investment guidelines for officials, officers, and employees of the Shorewood-Troy Library District ("District") who are responsible for the financial management of District funds. All financial assets of the District not needed for immediate disbursement shall be administered and invested in accordance with the provisions of this Policy.

II. OBJECTIVES

This Policy is intended to assure the maximum security of the principal of District investments, to comply with all legal requirements for the investment of District funds, and to maintain sufficient liquidity to meet the cash flow demands of the District. The primary objectives of investment activities, in priority order, shall be safety, liquidity, and yield. Cash balances from various funds, which are not restricted, may be pooled to maximize investment earnings. Investment will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

A. SAFETY OF PRINCIPAL

The safety of principal is the foremost objective of the District's Investment Policy. All investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective shall be to mitigate credit risk and interest rate risk.

1. CREDIT RISK

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

a. Limiting investments to the types of securities listed in this policy;
b. Pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with whom the District will do business; and
c. Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

2. INTEREST RATE RISK

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

a. 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; and.
b. Investing operating funds primarily in shorter-term securities, money-market mutual funds, or similar investment pools.

B. LIQUIDITY

The investment portfolio shall remain sufficiently liquid to enable the District 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.

C. YIELD

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account 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 are 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. 1. A security with declining credit may be sold early to minimize loss of principal;
b. 2. A security swap would improve the quality, yield or target duration in the portfolio; or
c. 3. Liquidity needs of the portfolio require that the security be sold.

III. STANDARD OF CARE

A. PRUDENCE

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 this 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 the terms of this Policy. The “prudent person” standard states that, “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."

B. ETHICS AND CONFLICTS OF INTEREST
Officials, 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. Such individuals 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. Officials, officers, and employees shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the District.

C. RESPONSIBILITY FOR THE INVESTMENT PROGRAM/DELEGATION OF AUTHORITY
The investment policy shall be administered in accordance with the Public Funds Investment Act (30 ILCS 235/0.01, et seq.) and all applicable Illinois Statutes as well as relevant District Codes and ordinances. The establishment of investment policies is the responsibility of the Board. Management and administrative responsibility for the investment program of the District is hereby delegated to the Chief Investment Officer of the District. The Chief Investment Officer for each fiscal year shall be the District's Director. The Chief Investment Officer shall prepare and act in accordance with written procedures and internal controls for the operation of the investment program consistent with this Policy. Procedures include references to safekeeping, delivery vs. payment, investment accounting, 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 Chief Investment Officer and approved by the Board. The Chief Investment Officer will be responsible for all transactions undertaken and will establish a system of controls to regulate the activities of subordinate officials. The Chief Investment Officer may from time to time amend the written procedures as approved by the Executive Director in a manner not inconsistent with this Policy or with State law.

IV. SAFEKEEPING AND CUSTODY

A. FINANCIAL INSTITUTIONS
The Board shall from time to time, upon the request of the Chief Investment Officer, designate one or more banks in which the funds and moneys of the District shall be kept. The District shall select financial institutions on the following basis:

1. SECURITY The District will not maintain funds in any financial institution that is not a member of the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Association (NCUA) system. Furthermore, the District will not maintain funds in any financial institution

not willing to post, or not capable of posting, required collateral for funds in excess of the FDIC or NCUA insurable limits.

2. SIZE The District will not maintain deposits in any financial institution in which the District funds on deposit will exceed 75% of the institution's capital stock and surplus.
3. LOCATION The District shall encourage investment in financial institutions within the District's boundaries whenever possible. However, the Board may approve qualified depositories regardless of location. Financial institutions, regardless of location, shall in all cases be required to comply with this Policy and applicable law.
4. STATEMENT OF CONDITION
   The District will maintain, for public and managerial inspection, current statements of condition for each financial institution named as depository. If, for any reason the information furnished is considered by the Chief Investment Officer to be insufficient, additional data may be requested. The refusal of any institution to provide such data upon request may serve as sufficient cause for the withdrawal of District funds.

5. QUALIFICATIONS

Any financial institution which desires to handle the District's investments shall provide the District's Chief Investment Officer with audited financial statements, including copies of the last two sworn statements of resources and liabilities which the bank is required to furnish to the Commissioner of Banks and Real Estate or to the Comptroller of the Currency, proof of qualification under State law for acceptance of investments of public funds, and certification of having read this Investment Policy. The Chief Investment Officer shall review the information provided, shall provide copies of said information to the Board as and if appropriate, and shall make a recommendation to the Board concerning use of such institution for deposit and investment of District funds. All broker/dealers who desire to become qualified for investment transactions must supply the following:

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
- Proof of FINRA certification
- Proof of Securities Investor Protection Corporation (SIPC) membership
- Proof of state registration
- Evidence of adequate insurance coverage.

A. AFFIRMATION
   All authorized financial dealers and institutions shall, prior to receiving District funds, provide the District's Chief Investment Officer with an affirmative statement that they have read the District's investment policy and agree to conform to its requirements. These institutions shall comply with all qualifications and requirements as set forth in Illinois Compiled Statutes, 30 ILCS 235/6, as well as any and all other laws, statutes, and fiduciary responsibilities not mentioned within this policy.
B. INTERNAL CONTROLS

The Chief Investment Officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the District are protected from losses of arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of the District. 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 control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits require estimates and judgments by management.

Accordingly, the Chief Investment Officer shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:
1. Control of collusion;
2. Separation of transaction authority from accounting and recordkeeping;
3. Custodial safekeeping;
4. Avoidance of physical-delivery securities;
5. Clear delegation of authority to subordinate staff members;
6. Written confirmation of telephone transactions for investments and wire transfers; and
7. Development of a wire transfer agreement with the lead bank or third party custodian.

In addition to the foregoing, the internal controls shall include the following minimum requirements:
1. The Chief Investment Officer shall reconcile all investment activity through the general ledger monthly;
2. Outside auditors shall confirm the ending balance of all investments each year;
3. The Executive Director shall be notified of all investments.

C. DELIVERY VS. PAYMENT
All trades where applicable 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. Securities will be held by a third party custodian as evidenced by safekeeping receipts.

V. AUTHORIZED INVESTMENTS

A. INVESTMENT TYPES Consistent with the Government Finance Officers Association (GFOA) Policy Statement on State and Local Laws Concerning Investment Practices, the following investments will be permitted by this Policy unless prohibited by applicable federal, state or local law:

1. Bonds, notes, certificates of indebtedness, treasury bills or other securities now or hereafter issued, which are guaranteed by the full faith and credit of the United States of America as to principal and interest;

2. Bonds, notes, debentures, or other similar obligations of the United States of America, its agencies, and its instrumentalities;
3. Interest-bearing savings accounts, interest-bearing certificates of deposit or interest-bearing time deposits or any other investments constituting direct obligations of any bank as defined by the Illinois Banking Act;
4. Short term obligations of corporations organized in the United States with assets exceeding $500,000,000 if (i) such obligations are rated at the time of purchase at one of the 3 highest classifications established by at least 2 standard rating services and which mature not later than 270 days from the date of purchase, (ii) such purchases do not exceed 10% of the corporation's outstanding obligations and (iii) no more than one-third of the public agency's funds may be invested in short term obligations of corporations;
5. Money market mutual funds registered under the Investment Company Act of 1940, provided that the portfolio of any such money market mutual fund is limited to obligations described in paragraph (1) or (2) of this subsection and to agreements to repurchase such obligations;
6. Interest bearing bonds of any county, township, city, village, incorporated town, municipal corporation, or school district, of the State of Illinois, of any other state, or of any political subdivision or agency of the State of Illinois or of any other state, whether the interest earned thereon is taxable or tax-exempt under federal law. The bonds shall be registered in the name of the District or held under a custodial agreement at a bank. The bonds shall be rated at the time of purchase within the 4 highest general classifications established by a rating service of nationally recognized expertise in rating bonds of states and their political subdivisions.
7. Any other investment authorized by the Illinois Compiled Statutes.

B. COLLATERALIZATION

Collateralization of all funds in excess of FDIC or NCUA limits is required. The District will accept any of the following assets as collateral:

1. U.S. Government Securities;
2. Obligations of Federal Agencies;
3. Obligations of Federal Instrumentalities;
4. Obligations of the State of Illinois;
5. General Obligation Municipal Bonds rated "A" or better by a nationally recognized rating agency;
6. Insurance Bond;
7. Letters of credit issued by a Federal Home Loan Bank; and
8. Any other asset authorized by the Illinois Compiled Statutes. The amount of collateral provided will be not less than 102 percent of the fair market value of the net amount of public funds secured. The ratio of fair market value of collateral to the amount of funds secured will be reviewed monthly, and additional collateral will be

requested when the ratio declines below the level required and collateral will be released if the market value exceeds the required level. Pledged collateral will be held in safekeeping by a third party depository designated by the District. Collateral agreements will preclude the release of the pledged assets without an authorized signature from the District.

C. REPURCHASE AGREEMENT
Repurchase agreements shall be consistent with applicable state law and GFOA Recommended Practices on Repurchase Agreements.

VI. INVESTMENT PARAMETERS

A. DIVERSIFICATION
To avoid unreasonable risks, investments shall be diversified by:
1. Limiting investments to avoid overconcentration of securities from a specific issuer or business sector (excluding U.S. Treasury securities);
2. Limiting investment in securities that have higher credit risks;
3. Investing in securities with varying maturities; and
4. Continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

B. MAXIMUM MATURITIES
To the extent possible, the District shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the District will not directly invest operating funds in securities maturing more than five (5) years from the date of purchase or in accordance with state and local statutes and ordinances. (The District shall adopt weighted average maturity limitations, consistent with the investment objectives.)

VII. REPORTING

A. METHODS The Chief Investment Officer shall provide a quarterly written report to the Board. This report shall include, at a minimum the following:
1. Listing of individual investments including both maturity date and purchase date held at the end of the reporting period by fund;
2. Book yield to maturity of each investment;
3. Amortized book value of each investment;
4. Par value of each investment;
5. Credit ratings of each investment, if applicable;

6. Yield to maturity as compared to the established benchmark, including income earned and market value;
7. Total amount of funds invested, including the checking account balances; as of the report date; and
8. A comparison of year to date earnings to the proposed budget;
9. Asset allocation; and
10. Any deviations from the standards established in this policy.

B. PERFORMANCE STANDARDS
The investment portfolio will be managed in accordance with the parameters specified within this Policy. The Chief Investment Officer shall, at reasonable intervals, assess the performance of the District's investment program in compliance with established industry reporting standards in compliance with established industry reporting standards, comparing yield to maturity to benchmark. Such reporting standards should include those sanctioned by the Association of Investment Management Research (AIMR) in accordance with Generally Accepted Accounting Principles (GAAP). The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates.

C. MARKING TO MARKET
The market value of the portfolio shall be calculated at least annually.

VIII. SELECTION OF INVESTMENT ADVISORS, MONEY MANAGERS

To the extent the District requires advice concerning its investments, the District's Chief Investment Officer may, from time to time, recommend contracting with investment advisors or money managers. Any such investment advisor or money manager shall provide the Chief Investment Officer with audited financial statements, proof of state registration, certification of having read this Policy, and references of previous clients. The Chief Investment Officer shall review the proposals of such individuals or firms, and shall make a recommendation to the Board concerning a contract. No investment advisor or money manager shall be retained except by contract approved by the Board.

IX. SEVERABILITY

The provisions of this Policy shall be deemed severable. Should any section or part of this Policy be declared invalid by a court of competent jurisdiction, or conflict with any applicable state or federal statute, the remainder of the Policy nevertheless shall be valid, binding and subsisting. This Policy shall remain in full force and effect until repealed or amended by the Board. If after adoption of this Policy, there is any conflict with the Public Funds Investment Act, the Investment of Municipal Funds Act, or any other applicable statute, current law shall control. If any existing investments at the time

of adoption of this policy do not conform with this policy, they do not need to be sold or liquidated. However, at maturity the funds will be reinvested in conformity with this policy.

X. REVIEW AND AMENDMENT

The District's Chief Investment Officer shall review this Policy on an annual basis, and make any recommendations for amendments to the Executive Director. No amendment shall be effective unless approved by the Board.