

## INVESTMENTS

### I. Statement of Purpose

Rockford Public Library invests Public Funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the Library and conforming to all state and local statutes governing the investment of Public Funds.

### II. Scope

This Investment Policy applies to all financial assets of Rockford Public Library. These assets are accounted for in the various funds of the Rockford Public Library and include the general fund, and any new fund established by Rockford Public Library.

### III. Objective

The primary objective, in priority order, of the Library's investment activities shall be:

- A. Safety: Safety of principal is the foremost objective of the investment program. Investments of the Library shall be undertaken in a manner that seeks to insure the preservation of capital in the portfolio.
  1. Credit Risk: Credit Risk is the risk of loss due to the failure of the security issuer or backer. Credit risk may be mitigated by:
    - Limiting investments to the safest types of securities
    - Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which an entity will do business, and
    - Diversifying the investment portfolio so that potential losses on individual securities will be minimized.
  2. Interest Rate Risk: Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. Interest rate risk may be mitigated 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, and
    - By investing operating funds primarily in shorter-term securities.
- B. 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 securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be

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anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity).

- C. Return on Investments: 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 least 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 not be sold prior to maturity with the following exceptions:
1. A declining credit security could be sold early to minimize loss of principal;
  2. A security swap would improve the quality yield, or target duration in the portfolio; or
  3. Liquidity needs of the portfolio require that the security be sold.

### IV. Standards 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 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 the terms of this policy. 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: 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 [entity].
- C. Delegation of Authority: Authority to manage the Rockford Public Library's investment program is granted to the Chief Financial Officer and derived from the state statutes. Responsibility for the operation of the investment program is hereby delegated to the Chief Financial Officer, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this

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investment policy. Procedures should include references to: selection of broker/dealers and financial institutions, safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, collateral/depository agreements and banking service contracts. 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 Chief Financial Officer. The Chief Financial Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. The Chief Financial Officer may from time to time amend the written procedures in a manner not inconsistent with this policy or with state statutes.

### V. Safekeeping and Custody

A. Authorized Financial Dealers and Institutions: A list will be maintained of financial institutions authorized to provide investment services. The Library will maintain operating and investment accounts in the financial institutions within the City of Rockford whenever possible. However, the Library may approve qualified depositories regardless of location. 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
- Completed broker/dealer questionnaire
- Certification of having read and understood and agreeing to comply with the Library's investment policy

An annual review of the financial condition and registration of qualified financial institutions and broker/dealers will be conducted by the Chief Financial Officer.

B. Internal Controls: The Chief Financial Officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Library are protected from loss, theft or misuse. 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 require estimates and judgments by management. Accordingly, the Chief Financial 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:

- Control of collusion

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- 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
- Development of a wire transfer agreement with the lead bank and third-party custodian

### VI. Suitable Investments

- A. Investment Types The Library may invest in any type of security allowed for in Illinois statutes regarding the investment of public funds for non home rule municipalities.

Approved investments include:

- Bonds, notes, certificates of indebtedness, treasury bills, treasury strips or other securities, including obligation of the Governmental National Mortgage Association, which are guaranteed by the full faith and credit of the government of the United States of America, or other similar obligations of the United States of America or its agencies.
- Interest bearing savings accounts, interest bearing certificates of deposit or interest bearing time deposits or any other investment constituting direct obligations of any institution as defined by the Illinois Banking Act and is insured by the Federal Deposit Insurance Corporation.
- Illinois Public Treasurer's Investment Pool
- Short-term obligations of corporations (commercial paper) organized in the United States with assets exceeding \$500 million and rated at the time of purchase at the highest classification established by at least two standard rating services. Must mature within 180 days from the date of purchase. Such purchase may not exceed 10% of the corporation's outstanding obligations and no more than 25% of the City's funds may be invested in commercial paper.
- Short-term discount obligations of the Federal National Mortgage Association or in shares or other forms of securities sold legally by savings and loan associations incorporated under the laws of this state or any other state or under the laws of the United States. Investments may be made only in those savings and loan associations of which the shares or investment certificates are insured by the Federal Deposit Insurance Corporation.
- Money market mutual funds registered under the Investment Company Act of 1940, provided that the portfolio of any such money market fund is limited to

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obligations described in Paragraph 1 above and to agreements to repurchase such obligations.

- B. Collateralization: Collateralization will be required on Certificates of Deposit. In order to anticipate market changes and provide a level of security for the funds, the amount of collateral will be at least 110% of the total investment less the amount insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation (currently \$100,000.00). All securities, pledged as collateral, shall be placed for safekeeping in a custodial account at a Federal Reserve Bank, a trust department of a commercial bank, or through another financial institution not owned or controlled by the depository institution or its holding company.

The Library will accept any of the following securities as collateral:

- • Negotiable obligations of the United States Government; or
- • Negotiable obligations of any agency or instrumentality of the United States Government guaranteed by the full faith and credit of the United States Government; or
- • Negotiable obligations of the State of Illinois. Collateral agreements will preclude the release of the pledged assets without an authorized signature from the Library, but they will allow for an exchange of collateral equal to or greater in value.

**VII. Investment Parameters**

- A. Diversification: The Library shall diversify its investments and may use the following investment categories and percentages as a guide in establishing actual limits:
1. U.S. Treasury Securities Not to exceed 50% of Portfolio
  2. U.S. Government Agencies and Instrumentalities of Government Sponsored Corporation Not to exceed 50% of Portfolio
  3. Certificates of Deposit of Financial Institutions Not to exceed 50% of Portfolio
  4. Certificates of Deposit of any One Financial Institution Not to exceed 20% of Portfolio
  5. Commercial Paper Not to exceed 25% of Portfolio
  6. Illinois Public Treasurers Investment Pool or other Money Market Securities Not to exceed 50% of Portfolio
  7. Securities purchased for Interest Rate Play Not to exceed 25% of Portfolio
- B. Maximum Maturities: To the extent possible, the Library will attempt to match its investments with anticipated cash flow requirements. We recognize that there is a permanent part of the portfolio, and when the increase in return for extending

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maturities is compelling, the Chief Financial Officer may consider extending a segment of the portfolio into longer-term maturities.

**VIII. Reporting**

- A. **Methods:** The Chief Financial Officer shall provide at least quarterly an investment report prepared by the Revenue Manager for the City of Rockford, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner that will allow the Library to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the Executive Director and the Finance & Planning Committee. The report will include the following:
- Listing, by investment type, of individual securities held at the end of the reporting period.
  - Listing of investments by maturity date.
  - Percentage of the total portfolio which each type of investment represents.
  - Percentage of the total portfolio by financial institution/broker dealer.
- B. **Performance:** The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio, taking into account the Library's investment constraints and cash flow needs, should obtain a market average rate of return during a market/economic environment of stable interest rates. The Library's investment strategy is passive, but the Chief Financial Officer reviews market conditions and is available to take advantage of market opportunities. Given this strategy, the basis used by the Chief Financial Officer to determine whether market yields are being achieved shall be the current six-month U.S. Treasury Bill and/or the Average Fed Funds Rate. Since these indices are relatively risk-free benchmarks, they comprise a minimum standard for the portfolio's rate of return. The investment program shall seek to augment returns above this threshold.
- C. **Market 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, Appendix 1.*) In defining market value, considerations should be given to the GASB Statement 31 pronouncement.

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### IX. Policy Considerations

This policy shall be reviewed on an annual basis. Any changes must be approved by the Chief Financial Officer and the Library Board of Trustees.