

Investment Policy

TFML Policy No. 16

I. **Scope** - This policy applies to the investment of all library funds.

Pooling of Funds - Except for cash in certain restricted and special funds, the Thomas Ford Memorial Library will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

II. **General Objectives** - The primary objectives, in priority order, of investment activities shall be liquidity, yield, safety, and investing funds in authorized institutions.

1. 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). Cash positions should be placed in money market mutual funds or local government investment pools that offer same-day liquidity for short-term funds.

2. 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 liquidity objective 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.

3 Safety. The preservation of principal is the foremost objective of the investment program. The objective will be to mitigate credit risk and inflation risk.

a) Credit Risk.

The Thomas Ford Memorial Library will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

- * Limiting investments to suitable and authorized investments as defined in Section V of this Policy.
- * Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the Thomas Ford Memorial Library will do business, as defined in Section IV.
- * Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

b) Inflation Risk.

The Thomas Ford Memorial Library will minimize the risk that inflation will diminish the purchasing effectiveness of investment funds.

III. **Standards of Care**

1. Prudence. The standard of prudence to be used by investment officials shall be the "prudent person" standard: 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.

This standard shall be applied in the context of managing an overall portfolio. Investment officers and employees 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.

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 Thomas Ford Memorial Library.

3. Delegation of Authority. Authority and responsibility to manage the investment program is granted to the Thomas Ford Memorial Library Treasurer by the Library Board of Trustees who shall be deemed the Chief Investment Officer. The Thomas Ford Memorial Library Treasurer 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 Thomas Ford Memorial Treasurer. The Thomas Ford Memorial Library Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. Village of Western Springs Finance Director/Village Manager and any authorized consultants approved by the Library Board are given authority to execute investments as directed by the Library Treasurer under this policy.

IV. Safekeeping and Custody

1. Authorized Financial Dealers and Institutions. A list of financial institutions authorized to provide investment services will be maintained by the Village and reviewed by the Treasurer. In addition, a list also will be maintained of approved security broker/dealers selected by creditworthiness (e.g. a minimum capital requirement of \$10,000,000 and at 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:

*Three (3) years of 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 Thomas Ford Memorial Library investment policy

*If applicable, results of the financial institution's latest stress test

An annual review of the financial condition and registration of qualified financial institutions and broker/dealers will be conducted by the Thomas Ford Memorial Library Treasurer.

From time to time, the Thomas Ford Memorial Library Treasurer may choose to invest in instruments offered by minority and community financial institutions. In such situations, a waiver to the criteria under Paragraph 1 may be granted. All terms and relationships will be fully disclosed prior to purchase, approved by the Finance Committee, and should be consistent with state or local law. Purchases will be approved by the Finance Committee in advance.

2. Internal Controls. The Thomas Ford Memorial Library Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Thomas Ford Memorial 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 Finance Committee 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
- *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.

3. Delivery vs. Payment. Where applicable, purchase transactions of securities not fully covered by FDIC insurance 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. In lieu of DVP, institutions holding securities must have a minimum of \$500,000 in SIPC coverage.

V. Suitable and Authorized Investments

1. Investment Types. Only investments consistent with the Public Funds Investment Act 30-ILCS 235/1 et seq will be permitted by this policy.

2. Collateralization. It is the policy of the Library to require that funds on deposit be covered by FDIC insurance and/or SIPC. Some form of collateral must secure funds on deposit in excess of Banking Insurance Fund and Savings Association Insurance Fund limits. The Library will accept any of the following assets as collateral:

*U.S. Government Securities

*Obligations of Federal Agencies

The fair market value of collateral provided will be not less than 110% 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 quarterly and additional collateral will be requested when the ratio declines below the level required. Pledged collateral will be held by the Thomas Ford Memorial Library or in safekeeping and evidenced by a safekeeping agreement. If collateral is held in safekeeping, it must be held by a third party or by an escrow agent of the pledging institution. Collateral agreements will be held in the Library's name and preclude the release of the pledged assets without an authorized signature from the Library, however they will allow for an exchange of collateral of like value.

3. Repurchase Agreements. The Thomas Ford Memorial Library may not purchase financial forward or futures, any leveraged investments, lending securities or reverse repurchase agreements. Repurchase agreements will only be purchased if specific securities are under the control of the Thomas Ford Memorial Library and in accordance with the Public Funds Investment Act.

VI. Investment Parameters

1. Diversification. The investments shall be diversified by:

*limiting investments to avoid overconcentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities),

*limiting investment in securities that have higher credit risks,

*investing in securities with varying maturities, and

*continuously investing a portion of the portfolio in readily available funds such as local government investment pools (i.e. Illinois Funds) and money market funds to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

2. Maximum Maturities. The Thomas Ford Memorial Library shall attempt to match its investments' maturity dates with anticipated cash flow requirements including current expenditures, future projects, and liability requirements. Reserve funds and other funds with longer-term investment horizons may be invested in securities with longer maturities as recommended by the Finance Committee and approved by the Board.

A portion of the portfolio should be continuously invested in readily available funds such as Illinois Funds, money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

VII. Reporting

1. Methods. The Thomas Ford Memorial Library Treasurer or delegate shall prepare an investment report quarterly including a management summary that provides an analysis 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 Thomas Ford Memorial Library to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the Thomas Ford Memorial Library Board. 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.

*Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.

*Listing of investment by maturity date that includes the book value, income earned, and market value as of the report 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.

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. In defining market value, considerations should be given to the GASB Statement 31 pronouncement.

VIII. 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 a triennial basis. Any changes must be approved by the investment officer and any other appropriate authority, as well as the individual(s) charged with maintaining internal controls.

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