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 safety, liquidity, and yield:

1. Safety. Safety of principal is the foremost objective of the investment program. Investments 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 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 the safest type of securities
* Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the Thomas Ford Memorial Library will do business
* Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

b) Interest Rate Risk.
The Thomas Ford Memorial Library will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:

* Structuring the investment portfolio so the 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.

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

*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.

III. Standards of Care

1. 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 will as the probable income to be derived.

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 to manage the investment program is granted to the Thomas Ford Memorial Library Treasurer by the Library Board of Trustees. Responsibility for the operation of the investment program is hereby delegated to the Thomas Ford Memorial Library Treasurer, 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 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 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:

*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.

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 and will be reported to the Library Director on a consistent basis and should be consistent with state or local law. These types of investment 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 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:

*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. 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. Suitable and Authorized Investments

1. investment Types. Consistent with the Illinois Compiled Statutes 30-ILCS 235/2, the following investments will be permitted by this policy:

*U.S. Government obligations, U.S. government agency obligations, and U.S. government instrumentality obligations, which have a liquid market with a readily determinable market value and are guaranteed by the full faith credit of the United States of America as the principal and interest.
*Interest bearing savings accounts, interest-bearing certificates of obligations of any bank as defined by the Illinois Banking Act and only those insured by the Banking Insurance Fund (BIF).
*Short-term discount obligations of corporations (commercial paper) organized in the United States with assets exceeding $500,000,000 if (a) such obligations are rated at the time of purchase with the highest classification established by at least two (2) standard rating services and which mature not later than 180 days from the date of purchase, (b) and no more than 25% of any fund is invested in such obligations at any time, and (c) such purchases do not exceed 10% of the corporation's outstanding obligations.
*Illinois Public Treasurer's Investment Pool (Illinois Funds).
*Local government investment pools either state-administered or through joint powers statutes and other intergovernmental agreement legislation (i.e. Illinois Metropolitan Investment fund (IMET).

Investment in derivatives of the above instruments shall not be permitted.

2. Collateralization. It is the policy of the Library to require that funds on deposit be covered by FDIC insurance. 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 ration 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 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.

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. To the extent possible, the Thomas Ford Memorial Library shall attempt to match its investments with anticipated cash flow requirements. Maturities of investments of the various funds of the Library shall be determined to enable the Library to have available sufficient cash for all operating purposed. Investments may be purchased with maturities to match current expenditures, future projects and liability requirements. Thomas Ford Memorial Library shall, when deemed appropriate, adopt weighted average maturity imitations (which often range from 90 days to 3 years), consistent with the investment objectives.

Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of funds. The intent to invest in securities with longer maturities shall be disclosed in writing to the finance committee.

Because of inherent difficulties in accurately forecasting cash flow requirements, 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 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 which 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.
*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 biennial 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.

Approved: 12/21/99
Reviewed: 12/10/02
Revised: 7/26/05