

INVESTMENT POLICY

SAUGATUCK-DOUGLAS DISTRICT LIBRARY

I. POLICY

It is the policy of the Board of the Saugatuck-Douglas District Library (S-DDL) to invest public funds in a manner which will provide the most desirable investment return with the maximum security while meeting the daily cash flow needs of the Library and conforming to all State statutes and local ordinances governing the investment of public funds.

II. SCOPE

This investment policy applies to all financial assets held by the S-DDL. These assets held by the S-DDL. These assets are accounted for in the S-DDL's annual financial resort and may include:

- Enterprise Funds
- Special Revenue Funds
- Capital Project Funds
- Debt Service Funds
- Any new funds created by the Library Board.

This Investment Policy applies to all transactions involving the financial assets and related activity of all the forgoing funds.

III. INVESTMENT OBJECTIVES

The following investment objectives, in priority order, will be applied in the management of S-DDL funds:

Safety

The primary objective of the S-DDL investment activity is the preservation of capital in the overall portfolio and the protection of investment principal.

Liquidity

The investment portfolio will remain sufficiently liquid to enable the S-DDL to meet operating requirements which might be reasonably anticipated.

Return on Investment

Subject to the forgoing constraints, the S-DDL will strive to maximize the return on portfolio and to preserve the purchasing power but will avoid assuming unreasonable investment risk. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

IV. PRUDENCE

In managing its investment portfolio, S-DDL trustees shall avoid any transactions that might impair public confidence. 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.

The above standard is established as the standard for professional responsibility and shall be applied in the context of managing the overall portfolio. Investment officers of the S-DDL, acting in accordance with State statute, this investment policy, written procedure as may be established, and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price change.

V. DELEGATION OF AUTHORITY

Authority to manage the S-DDL's investment program is derived from State Statutes.

Daily management responsibility for the investment program is hereby delegated to the Library 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 the Board President and Treasurer. No person may engage in an investment transaction except as provided for under the terms of this policy and procedures established by the Library Director and approved by the Library Board. Such procedures should also include reference to safekeeping, repurchase agreements, wire transfer agreements, collateral or depository agreements and banking service contracts. The Library Director shall be responsible for all transactions undertaken. The Treasurer shall establish a system of controls to regulate the activities of the Library Director.

VI. ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair, or create the appearance of an impairment on their ability to make impartial investment decisions. Investment officials shall disclose to the Library Board any material financial interests in financial institutions that conduct business with the Library.

VII. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Treasurer will maintain a list of financial institutions, which have been authorized by the Library Board to provide investment and depositor services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness, who maintain an office in the State of Michigan or who are "primary" dealers, or regional dealers, that qualify under Securities & Exchange Commission Rule 15C3-1 (Uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by State law.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Treasurer with the following: audited financial

statements for the most recent fiscal year; certification of having read the Library's Investment Policy and pertinent State statutes; proof of National Association of Security Dealers certification; and proof of State registration where applicable.

VIII. AUTHORIZED AND SUITABLE INVESTMENTS

The Library is empowered by State statute (1988 Public Act 239, M.C.L. 129.91) to invest in the following types of securities:

1. Bonds, securities, and other obligations of the United States, or any agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation, or a Savings and Loan which is a member of the Federal Savings and Loan Insurance Corporation, or a Credit Union which is insured by the National Credit Union Administration, but only if the bank, savings and loan, or credit union is eligible to be a depository of surplus funds belonging to the State under section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended.
3. In United States government or federal agency obligation repurchase agreements;
4. In banker's acceptances of United States banks;
5. In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services, and that matures not more than 270 days after the date of purchase.
6. In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Library Director is restricted to investments, which meet the statutory restrictions above and limitations on security issues and insurers as follows:

a. Repurchase agreements issues shall be negotiated with dealers or financial institutions with whom the Library has negotiated a Master Repurchase Agreement or with the Library's primary bank. Repurchase agreements must be signed with the bank or dealer and must contain provisions similar to those outlined in the Public Security Association's model Master Repurchase Agreement.

b. Investment of bond proceeds or funds pledged for bond repayment must be fully insured, fully collateralized or otherwise protected from loss of principal and interest and maturities must assure the availability of funds on the dates for principal and interest repayment specified in the bond covenants.

c. Investments in Commercial paper are restricted to those, which have, at the time of purchase, the top investment rating provided by any two nationally recognized rating agencies. Commercial Paper held in the portfolio, which subsequently receive a

reduced rating shall be closely monitored and sold immediately if the principal invested may otherwise be jeopardized.

d. Certificates of Deposit shall be purchased only from financial institutions, which qualify under Michigan law and are consistent with Opinion No. 6168, Opinions of the Attorney General (1982).

e. To the extent possible, the Library Director will attempt to match investments with anticipated cash flow requirements.

f. The Library shall diversify investment instruments and financial institutions to avoid incurring unreasonable risk in accordance with the following:

<u>Diversification by Instrument</u>	<u>Maximum % of Portfolio</u>
U.S. Treasury Obligations	100
U.S. Govt. Agency Securities	100
State Investment Pool	100
Govt. Short Term Invst. Trusts	100
State of Michigan Obligations	100
Certificates of Deposit	95
Commercial Paper	50
Banker's Acceptance	50
Money Market Funds	25
Repurchase Agreements	20

IX. CASH MANAGEMENT

Cash Forecast: At least annually, the Library Director shall prepare a cash forecast using expected revenue sources and items of expenditure to project cash requirements over the fiscal year. The forecast shall be updated from time to time to identify the probable investable balances that will be available.

Pooling of Cash: Except for cash in certain restricted and special accounts, the Library Director with the approval of the Treasurer may pool cash of various funds to maximize investments earnings. Investment income shall be allocated to the various funds based upon their respective participation.

X. ACCOUNTING

The Library shall maintain its records on the basis of accounts and budget lines.

All investment transactions shall be recorded in the monthly financial reports of the Library in accordance with generally accepted accounting principles as promulgated by the Government Accounting Standards Board. Accounting treatment will include:

- Investments will be carried at cost or amortized cost, which approximates the market.
- Premium or discount will be amortized over the life of the investment
- Gains or losses of investments in all funds will be recognized at the time of disposition of the security.
- Market price shall be disclosed annually in the financial statements and periodically in the monthly financial reports.

XI. INVESTMENT REPORTING AND PERFORMANCE

The Library Director shall submit a quarterly investment report that provides the principal and type of investment by fund, annualized yield, ratio of cash to investment, market price, and a summary report of cash and investments maintained in each financial institution.

Performance of the portfolio shall be reported periodically and be available to the Treasurer. Reports shall include details of the characteristic of the portfolio as well as its performance for that period. Reports shall be submitted at a minimum on a quarterly basis and a maximum of bi-weekly. However, material deviations from projected investment strategies shall be reported immediately to the Treasurer.

Information indicating a loss of capital on existing investments must be shared with the Library Board as soon after notification as possible.

XII. SAFEKEEPING AND CUSTODY; THIRD PARTY CUSTODIAL AGREEMENTS

All securities purchased by the Library under this section shall be properly designated as an asset of the Library and held in safekeeping by a third party custodial bank or other third party custodial institution, chartered by the United States government or the State of Michigan, no withdrawal of such securities, in whole or in part, shall be made from safekeeping except by the Library Director as authorized herein, or by a respective designee.

The Library will execute third party custodial agreements with its bank(s) and depository institutions. Such agreements will include letters of authority from the Library, details as to responsibilities of each party, notification of security purchases, sales, delivery, repurchase agreements and wire transfers, safekeeping and transaction cost, procedures in case of wire failure or other unforeseen mishaps, including liability of each party.

All security transactions entered into by the Library shall be conducted on a deliver versus payment (DVP) basis. Securities will be held by a third party custodian designated by the Treasurer or the Library Director and evidenced by safekeeping receipts.

XIII. INTERNAL CONTROLS

The Treasurer and the Library Director shall establish a system of internal controls, documented in writing, which is designed to prevent loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the Library. Required elements of the system of internal controls should include:

- timely reconciliation of all bank accounts
- cash management policy
- transfer of all funds policy
- separation of functions including transaction authority, accounting and record keeping
- custodial safekeeping
- avoidance of delivery of bearer form or non-wireable securities to the Library
- delegation of authority to subordinate staff members
- written confirmation of telephone transactions
- supervisory control of employee actions
- specific guidelines regarding securities losses and remedial action
- documentation of decisions made at committee level and transactions by investment officials.

XIV. INVESTMENT POLICY ADOPTION

The Saugatuck-Douglas District Library Investment Policy shall be adopted by resolution of the Library Board. The policy shall be reviewed on an annual basis by the Library Director and Treasurer and from time to time by the Library Board or an investment advisory board created by the Library Board. Modification at any time or when necessitated by State statutory revision must be approved by the Kalamazoo Lake Sewer and Saugatuck-Douglas District Library Board.

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