Rock Valley College

Banking and Investment Procedure

RVC Administrative Procedure (5:10.080)

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1. Governing Authority

The investment program shall be operated in conformance with federal, state, and other legal requirements, including the Illinois Public Funds Investment Act 30 ILCS 235.

2. Scope

Except for cash and investments in certain restricted and special funds (Fund 03 Bond Proceed and Municipal Portfolio accounts may be governed by bond ordinance documents if different from this investment policy) Rock Valley College will consolidate cash and investment balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their average respective cash and investment balances and in accordance with generally accepted accounting principles.

This procedure applies to all funds of the College. These funds are accounted for in the College's annual financial report and include all restricted, operating, capital, auxiliary, student activity and any other funds that may be created from time to time. All transactions involving the funds and related activity of any funds shall be administered in accordance with the provisions of this procedure and the canons of the "prudent person rule."

3. General Objectives

a. *Safety of Principal* - Investments shall be undertaken in a manner that seeks to ensure the preservation of principal in the overall portfolio. To attain this objective only appropriate (identified within this policy, stated in Section 3) investment instruments will be purchased and insurance or collateral may be required to ensure the return of principal. This objective also identifies exposure to risks associated with investing and how to mitigate the risk.

i. Credit Risk - Rock Valley College will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer to pay upon maturity, by:

- Limiting investments to the types of securities listed in Section 3 - Investment Instruments of this Investment Policy.

- Limiting investment in debt securities to those ranked in the highest four (two for corporate obligations) ratings classification by a nationally recognized ratings agency

- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the College will do business in accordance to Section 8 – Qualified Financial Institutions and Intermediaries.

- Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

ii. <u>Custodial Credit Risk – Deposits with Financial Institutions</u> – The College will minimize custodial credit risk, which is the risk that, in the event of the failure of a depository financial institution, the College will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party, by:

- Investments may be made only in financial institutions which are insured by the Federal Deposit Insurance Corporation (FDIC).

- Collateral agreements are required as stated in Section 6 – Collateralization.

- Collateral for deposits held by the College's agent must be held in the College's name, with the exception of single institutional collateral pool, and collateral in a pooled letter of credit.

iii. <u>Interest Rate Risk</u> - The College will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell maturities on the open market prior to maturity.

- Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy.

- Laddering investments with different maturity dates to ensure the College is not trapped for an extended period of time with an interest rate lower than market.

- Limiting the maturity in any debt securities to no more than five years from date of purchase unless approved by the Board of Trustees.

iv. Concentration Risk – The College will minimize concentration risk, which arises when more than 10 percent is invested in securities of a single issuer rated AAA or when more than 5 percent is invested in securities of a single issuer rated below AAA. This does not apply to U.S. treasury obligations and obligations explicitly guaranteed by the U.S. government, its agencies and its instrumentalities that are explicitly guaranteed by the U.S Government or investment pools and collateralized bank deposits. Concentration risk will be minimized by:

- Diversification of investments, as listed under credit risk and in Section 5 - Diversification.

- Reviewing the investment portfolio monthly to determine if there are concentrations greater than 5 and 10 percent, dependent upon the rating, with a single issuer.

v. Market (Systematic) Risk – The College will minimize its exposure to market risk (also known as systematic risk), which is the decline of investments over a given time period simply because of economic changes or other events that impact large portions of the market, by:

- Asset allocation, dividing the investments among the various types of allowable investments listed under Section 4 – Investment Instruments.

- Diversification of investments, as listed under credit risk and in Section 5 - Diversification.

vi. Foreign Currency Risk – The College does not maintain deposits denominated in a currency other than the U.S. dollar. Therefore, the College does not consider risk or exposure associated with foreign currency fluctuation.

b. *Liquidity* - The College's investment portfolio shall be structured in such manner as to provide sufficient liquidity to pay obligations as they come due.

c. *Return on Investments/Yield* - The investment portfolio should strive to provide a rate of return which approximates a market-average rate of return for three-month U.S. Treasury Bills, the state investment pool, or the average rate on Fed funds, whichever is higher. These indices are considered for lower risk investment transactions and therefore comprise a minimum standard for the portfolio's rate of return. The portfolio should be structured to attain a rate of return compatible with budgetary and economic cycles and should be structured to consider legal restrictions, cash flow needs, and appropriate risk constraints. Securities shall be generally held until maturity with the following exceptions:

    i. A security with declining credit may be sold early to minimize loss of principal.

    ii. Liquidity needs of the portfolio require that the security be sold.

    iii. A security transaction would improve the quality, yield, expected return or target duration of the portfolio.

d. *Maintaining the Public's Trust* - The Treasurer or Designee shall seek to act responsibly as custodian of the public trust and shall avoid any transaction that might impair public confidence in the College, the Board, or the College Treasurer.

4. Investment Instruments

The College may invest in any type of security allowed by the Public Funds Investment Act (Illinois Revised Statutes, Ch 85, pars. 901 et. seq.) of the State of Illinois as may be amended from time to time. The College has chosen to limit its allowable investments to those instruments listed below:

a. Bonds, notes, certificates of indebtedness, treasury bills or other securities now or hereafter issued by the United States of America, its agencies and allowable instrumentalities;

b. 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;

c. Certificates of deposit with federally insured institutions collateralized or insured by the FDIC;

d. Credit Union accounts with the principal office of any such credit union located within the State of Illinois. Investments may be made only in those credit unions the accounts of which are insured by applicable law.

e. The Illinois Public Treasurer's Investment Pool (Illinois Funds);

f. Investments may be made only in those savings banks or savings and loan associations, the shares or investment certificates of which are insured by the Federal Deposit Insurance Corporation;

g. Money Market Mutual Funds;

h. Investment products that are considered as derivatives are specifically excluded from approved investments;

i. Collateralized repurchase agreements which conform to the requirements stated in Section 2(g) or 2(h) of the statute;

j. The Illinois School District Liquid Asset Fund;

k. The Illinois Trust Local Government Investment Pools

l. Corporate Obligations meeting the following requirements:

    i. The corporation must be organized in the United States.

    ii. The corporation's assets must exceed $500,000,000.

    iii. The obligations at the time of purchase must be rated within the two highest classifications by at least two of the four standard rating services (Standard and Poor's, , Moody's, and Fitch Investors Service).

    iv. The obligations cannot have a maturity longer than 3 years from the date of settlement.

    v. The total investment in any one corporation cannot exceed 10% of the corporation's outstanding obligations.

    vi. The total investment in any one corporation cannot be more than $20 million.

    vii. Not more than one-third of the total investment fund can be invested in corporate obligations at any time.

m. Municipal Bonds or other interest-bearing obligations issued by the State of Illinois, or any other state, or of any political subdivision or agency of Illinois, or of any other state, whether the interest earned thereon is taxable or tax-exempt under federal law. The bonds shall be rated at the time of purchase within the 4 highest general classifications established by a nationally recognized statical rating organization.

n. Mutual funds that invest primarily in corporate investment grade short term bonds. Purchases of mutual funds in short term bonds shall be limited to funds with assets of at least $100 million and that have an average credit quality of at least a single A rating, established by a nationally recognized statical rating organization. No more than 25% of the College's funds may be invested in these mutual funds.

Any percentage limits, rating requirements, or other investment parameters identified throughout this investment policy will be calculated and/ or evaluated based on the original cost of each investment at the time of purchase, based on the settlement date, of the security in determining compliance with the investment policy.

5. <u>Diversification</u>

The College will diversify its investment portfolio to eliminate the risk of loss resulting in an over concentration in a specific maturity, issuer, financial institution, broker dealer, or class of securities. Diversification can be by type of investment, number of institutions invested in, and maturity.
Diversification strategies shall be periodically reviewed and adjusted by the Treasurer. In establishing specific diversification strategies, the following general policies and constraints shall apply:

a. Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity sector.

b. Maturities selected shall provide for stability of income and reasonable liquidity.

c. Risks of market price volatility shall be controlled through maturity diversification

6. <u>Collateralization</u>

a. It is the policy of the College to require that time and demand deposits in excess of FDIC insurable limits be secured by collateral, a letter of credit issued by the Federal Home Loan Bank or private insurance to protect public deposits in a single financial institution if it were to default.

b. Eligible collateral instruments are collateral instruments acceptable under the PFIA. The collateral must be placed in safekeeping at or before the time the College makes the deposit so that it is evident that the deposit of funds is predicated on the securing of collateral

c. <u>Safekeeping of Collateral</u>

i. Third party safekeeping is required for all securities pledged as collateral. To accomplish this, the securities can be held at the following locations:

- A Federal Reserve Bank or its branch office,
- At another custodial facility in a trust or safekeeping department through book- entry at the Federal Reserve acting as an agent of the College,
- By the trust department of the pledging bank.

d. Safekeeping will be documented by a College Board and Bank Board approved written collateral agreement that complies with FDIC regulations and the Financial Institution Resource Recovery Enforcement Act (FIRREA). This documentation will be on file in the Financial Services Department.

e. Substitution or exchange of securities held in safekeeping for the College can be approved exclusively by either the Treasurer or Designee, provided the market value of the replacement securities is equal to or greater than the market value of the securities being replaced.

7. Custodial Credit Risk over and Safekeeping of Investment Securities

a. The College will minimize custodial credit risk over investments, which is the risk that, in the event of the failure of a counterparty where the investment was purchased or the custodian holding the investment, the College will not be able to recover its investments that are in the possession of an outside party. Third party safekeeping is required for all investment securities exposed to custodial credit risk on a deliver versus payment (DVP) method. To accomplish this, the securities can be held at the following locations:

i. A Federal Reserve Bank or its branch office in the College's name

ii. At another custodial facility - generally in a trust or safekeeping department through book-entry at the Federal Reserve unless physical securities are involved acting as an agent of the College.

b. Safekeeping will be documented by an approved written agreement. This may be in the form of a safekeeping agreement, trust agreement, escrow agreement or custody agreement.

8. Qualified Financial Institutions and Intermediaries

a. Depositories - Demand Deposits

i. Financial institutions selected by the Treasurer or Designee for banking services shall be chartered to conduct business in Illinois and listed with the Illinois Department of Banks, maintain at least a branch office within the College District. To maintain the College's banking services, the institution must provide checking accounts, wire transfers, automated clearing house accounts, on-line account services, safekeeping services and other financial services which benefit the College as determined by the Treasurer or Designee.

ii. The College will maintain funds only in financial institutions that are members of the FDIC system.

iii. A selected financial institution must be capable of posting all insurance and collateral as required within this policy including FDIC insurance and any amounts greater than that provided by FDIC insurance at any time the College has funds on deposit with the institutions.

b. <u>Banks and Savings and Loans</u> - Certificates of Deposit

Any financial institution selected to be eligible for the College's competitive certificate of deposit purchase program must meet the following requirements.

i. Shall provide wire transfer, automated clearinghouse, and certificate of deposit safekeeping services.

ii. Shall be a member of FDIC system and shall be willing and capable of posting required collateral or private insurance for funds in excess of FDIC insurable limits.

iii. Shall have met the financial criteria as established in the investment procedures of the District.

c. <u>Intermediaries</u> - Any financial intermediary selected to be eligible for the College's competitive investment program must meet the following requirements.

i. Shall provide wire transfer, automated clearinghouse, and deposit safekeeping services.

ii. Shall be a member of a recognized U.S. Securities and Exchange Commission Self-Regulatory Organization such as the New York Stock Exchange, National Association of Securities Dealers, Municipal Securities Rule Making Board, etc.

iii. Shall provide an annual audit upon request.

iv. Shall have an office of Supervisory Jurisdiction within the State of Illinois and be licensed to conduct business in this State.

v. Shall abide by the College's investment policy and accept financial responsibility for any investment not appropriate according to the policy.

vi. Shall furnish written reports/statements at least monthly that describe all investments held by the custodian/intermediary.

9. Management of Program

a. The following individuals are authorized to purchase and sell investments, authorize wire transfers, authorize the release of pledged collateral, and execute any documents required under this procedure:

- College Vice President of Administrative Services/Treasurer
- College Director of Financial Services

These documents include, but not limited to:

i. Wire transfer

ii. Depository agreement

iii. Safekeeping agreement

iv. Custody agreement

v. Automated clearinghouse agreement

b. Management responsibility for the investment program is hereby delegated to the Treasurer or Designee, who shall establish a system of internal controls and written operational procedures designed to prevent losses of funds that might arise from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of the entity. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions; check signing, check reconcilement, deposits, bond payments, report preparation and wire transfers. No person may engage in any investment transaction except as provided for under the terms of this policy. The Treasurer or Designee shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinates.

c. The wording of agreements necessary to fulfill the investment responsibilities is the responsibility of the Treasurer or Designee who shall periodically review them for their consistency with College policy and State law and who shall be assisted in this function by the

College Legal Counsel and external auditors. These agreements include but are not limited to:

i. Wire transfer

ii. Depository agreement

iii. Safekeeping agreement

iv. Custody agreement

v. Automated clearinghouse agreement

d. The Treasurer or Designee may use financial intermediaries, brokers, and/or financial institutions to solicit bids for securities and certificates of deposit.

e. All wire transfers made shall require authorization by the Treasurer or Designee. In the absence of one of the above, backup approval may be obtained from the College President.

10. Performance

The Treasurer or Designee will seek to earn a rate of return appropriate for the type of investments being managed given the portfolio objectives defined in Section 2 of this document for all funds. In general, the Treasurer or Designee will strive to earn an average rate of return equal to or greater than the U.S. Treasury Bill rate for a given period of time for the College's average weighted maturity.

11. Ethics and Conflicts of Interest

The College Board of Trustees, College Officers, and employees shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

12. Indemnification

Investment officers and employees of the College acting in accordance with this investment policy and written operational procedures as have been or may be established and exercising due diligence shall be relieved of personal liability for an individual security's credit risk or market changes.

13. Reporting

The Treasurer or Designee shall submit to the Board of Trustees, at least quarterly, a written investment report which shall include information regarding securities in the portfolio by class or type, book value, income earned, and original cost and fair market values as of the report date.

Generally, accepted accounting principles shall be used for valuation purposes. The report shall indicate any areas of policy concern and planned revision of investment strategies.

14. Amendment

This procedure shall be reviewed from time to time by the Treasurer or Designee with regard to the procedure's effectiveness in meeting the College's needs for safety, liquidity, rate of return, diversification, and general performance. Any substantive changes will be reported to the Board of Trustees.