

Banking, Investments, and Checking

Introduction

It is the policy of the Board of Trustees of Community College District No. 517, Lake Land College, to prudently invest all College funds not required for immediate use in accordance with the “Illinois Public Community College Act”,¹ the “Public Funds Investment Act,” and the *Fiscal Management Manual* promulgated by the Illinois Community College Board.

The Board of Trustees shall annually, by resolution, authorize the College Treasurer to invest College funds not required for immediate operational needs. The Board shall receive a quarterly report of all College investments.

The investment of College funds shall include current operating funds, special funds, interest and sinking funds (except bond escrow funds dedicated to retirement of outstanding bonded indebtedness), and any other funds belonging to or in the custody of Lake Land College, including all restricted and non-restricted funds.

The investment of College funds shall be in accordance with the following guidelines or principles:

1. Except as otherwise provided, all investments of College funds will be placed with or through financial institutions authorized to conduct business in Illinois and located within the legally constituted boundaries of Community College District No. 517.
2. When it is deemed to be in the best interest of the College and alternative sources of investment within the District are not available at comparable yields or rates of interest, the College Treasurer may

be authorized to invest College funds in or through financial institutions located outside the District and/or in the Illinois Funds. The College Treasurer shall report to the Board of Trustees at the next regularly scheduled meeting any such investment of College funds placed in an out-of-district financial institution and the specific reasons or justifications therefor.

3. All in-district commercial banks and savings and loans authorized to conduct business in Illinois may be designated as depositories for purposes of this policy.
4. The College Treasurer may solicit competitive bid quotations from financial institutions located within the district. Such quotations may be received by telephone, subject to written confirmation prior to any placement of funds, or by sealed bid quotations following a solicited or advertised request for proposals. All quotations received shall include the applicable investment yield or annual equivalent interest rate for the term of investment specified by the College Treasurer.
5. Funds shall be invested by the College Treasurer based upon the most favorable quoted rate of return or investment yield for each term specified, unless otherwise authorized and approved by the Board of Trustees.

Procedures for Investment of Funds

1. Scope.

This investment procedure applies to all funds of Community College District No. 517. These funds are accounted for in the College's annual financial report and include all current funds 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 investor rule."²

2. 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 investment instruments will be purchased, and insurance or collateral may be required to ensure the return of principal.
- 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 – The investment portfolio shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the risk constraints, the cash flow characteristics of the portfolio, and legal restrictions for return on investments.
- D. Maintaining the Public’s Trust – The College Treasurer shall act responsibly as custodian of the public trust and shall avoid any transaction that might impair public confidence in Lake Land College, the Board of Trustees, or the College Treasurer.

3. Investment Instruments.

The College may invest in any type of security allowed by the Public Funds Investment Act of the State of Illinois as may be amended from time to time. These investments may include but are not limited to the following:

- 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 instruments;
- 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 that are 100% collateralized or insured in excess of the \$250,000 provided by the Federal Deposit Insurance Corporation coverage limit;
- D. Collateralized repurchase agreements which conform to the requirements stated in the Public Funds Investment Act;
- E. Commercial paper meeting the following requirements:
 - (1) The corporation must be organized in the United States.
 - (2) The corporation's assets must exceed \$500,000,000.
 - (3) The obligations at the time of purchase must be rated within the three highest classifications by at least two of the four standard rating services.
 - (4) The obligations cannot have a maturity longer than 3 years.
 - (5) Not more than 33% of the total investment fund can be invested in commercial paper at any time.
 - (6) The total investment in any one corporation cannot exceed 10% of the corporation's outstanding obligations.
 - (7) The total investment in any one corporation cannot exceed more than 10% of the total portfolio value or more than \$20 million, the lesser of the two.
- F. The Illinois Public Treasurer's Investment Pool;
- G. Money market mutual funds registered under the Investment Company Act of 1940, provided that the portfolio of any such money market mutual fund is limited to obligations described in paragraph "A" of this subsection and to agreements to repurchase such obligations;

H. In addition to all other investments authorized under this section, a community college district may invest public funds in any mutual funds that invest primarily in corporate investment grade or global government short-term bonds. Purchases of mutual funds that invest primarily in global government short-term bonds shall be limited to funds with assets of at least \$100 million and that are rated at the time of purchase as one of the ten highest classifications established by a recognized rating service. Fund assets may hold an allocation of not more than 25% in foreign government bonds. In addition, the College has established the following criteria for any mutual fund investments:

- (1) Performance Measurement (Absolute Returns) – To help ensure that the College has investments that have above-average performance versus their peer group, the investment manager analyzes the overall performance of the investment choices for the most recent 3-, 5- and 10-year periods and compares them to returns of a similar group of investments.
- (2) Performance Measurement (Risk-Adjusted Returns) – To help ensure that the College has investments that provide appropriate returns for the amount of risk associated with the investment choice, the investment manager analyzes the overall performance of the investment choices for the most recent 3-, 5- and 10-year Sharpe ratio versus their respective peer groups. The higher the Sharpe Ratio, the better the investment's historical risk-adjusted performance.
- (3) Style Consistency, Investment Process and Portfolio Composition – To help ensure that the College has investments that maintain its principal investment strategy as represented by an index relevant to the investment, the investment manager analyzes the portfolio as compared to a performance variation

(measured in percentage terms). The investment manager also monitors the investments to ensure that the investment process has not changed to ensure consistency and repeatable results.

- (4) Management Tenure and Organization – To help ensure continued effective leadership and direction of the investment, the investment manager monitors any changes in portfolio management and also any changes to the structure of the ownership of the investment. Should any changes occur, the investment manager will then determine the overall impact of the change and decide what further action should take place.
- (5) Fees and Expenses – To ensure that the College is paying reasonable fees and expenses, the investment manager monitors each investment choice’s expense ratio and determines whether it is competitive, given the investment choice’s investment style, asset class and role in the portfolio.

- I. Investment products that are considered as derivatives are especially excluded from approved investments.

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

4. Diversification.

It is the policy of Lake Land College to diversify its investment portfolio. Investments shall be diversified to eliminate the risk of loss resulting in over-concentration in a specific maturity, issuer, or class of securities. Diversification strategies shall be determined and revised periodically by the College Treasurer. The diversification shall be as follows:

- A. Up to 100% of Sections 3.A. and 3.G. under “Procedures for Investment of Funds” but not less than 10%. For purposes of diversification, mutual funds investing primarily in these investments will also count towards the investment guidelines.
 - B. Up to 90% of Sections 3.B., 3.C., and 3.H. under “Procedures for Investment of Funds.”
 - C. Up to 33% of Sections 3.D., 3.E. and 3.F. under “Procedures for Investment of Funds.”
5. Collateralization.
- A. It is the policy of Lake Land College to require that investments in excess of FDIC insurable limits be secured 100% by collateral or private insurance to protect public funds in a financial institution if it were to default.
 - B. Eligible collateral instruments are any investment instruments acceptable under ILCS 235. The collateral must be placed in safekeeping at or before the time the College buys the investments so that it is evident that the purchase of the investment is predicated on the securing of collateral.
 - C. Safekeeping of Collateral:
 - (1) Third-party safekeeping is required for all collateral. To accomplish this, the securities can be held at the following locations:
 - a. A Federal Reserve Bank or its branch office.
 - b. Another custodial facility in a trust or safekeeping department through book-entry at the Federal Reserve.
 - c. By an escrow agent of the pledging institution.

d. By the trust department of the issuing bank.

- (2) Safekeeping will be documented to Lake Land College in an approved written agreement that complies with FDIC regulations. This may be in the form of a safekeeping agreement.
- (3) Substitution or exchange of securities held in safekeeping for the College can be approved exclusively by the College Treasurer provided the market value of the replacement securities is equal to or greater than the market value of the securities being replaced.

6. Safekeeping of Securities.

A. Third-party safekeeping is required for all securities and commercial paper. To accomplish this, the securities can be held at the following locations:

- (1) A Federal Reserve Bank or its branch office.
- (2) Another custodial facility – generally in a trust or safekeeping department through book-entry at the Federal Reserve unless physical securities are involved.
- (3) In an insured account at a primary reporting dealer.
- (4) In an account in the College’s name at an established broker-dealer who is 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, or the Municipal Securities Rule-Making Board.

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

- C. Original certificates of deposit will be held by the originating bank. A safekeeping receipt will be acceptable documentation.
7. Qualified Financial Institutions and Intermediaries.
- A. Depositories – Demand.
 - (1) Any in-district financial institution selected by the College shall provide normal banking services, including but not limited to: checking accounts, wire transfers, and safekeeping services.
 - (2) The College will not maintain funds in any in-district financial institution that is not a member of the FDIC system or as provided by the Public Investment Act. In addition, the College will not maintain funds in any institution not willing nor capable of posting required collateral for funds or purchasing private insurance in excess of FDIC insurable limits.
 - (3) To qualify as a depository, an in-district financial institution must furnish the College Treasurer with copies of the latest two statements of condition which it is required to furnish to the Comptroller of the Currency as the case may be. While acting as a depository, an in-district financial institution must continue to furnish such statements to the College Treasurer within 45 days of the end of each quarter.
 - (4) Fees for banking services shall be mutually agreed to by an authorized representative of the depository bank and the College Treasurer on an annual basis. Fees for services shall be substantiated by a monthly account analysis.
 - (5) All financial institutions acting as a depository for the College must enter into a “Depository Agreement.”

B. Banks and Savings and Loans – 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:

- (1) Shall provide wire transfer and certificate of deposit safekeeping services.
- (2) Shall be a member of the FDIC system and shall be willing and capable of posting required collateral or private insurance for funds in excess of FDIC insurable limits.
- (3) Shall have met the financial criteria as established in the investment procedures of the College.

C. Intermediaries.

Any financial intermediary selected to be eligible for the College's competitive investment program must meet the following requirements:

- (1) Shall provide wire transfer and deposit safekeeping services.
- (2) 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, or the Municipal Securities Rule Making Board.
- (3) Shall provide an annual audit upon request.
- (4) Shall have an office of Supervisory Jurisdiction with the State of Illinois and be licensed to conduct business in this state.

- (5) Shall be familiar with the Board of Trustees' policy and accept financial responsibility for any investment not appropriate according to the policy.

8. Management Program.

- A. The College Treasurer is authorized to purchase and sell investments, authorize wire transfers, authorize the release of pledged collateral, and execute any documents required under this procedure. These documents include:
 - (1) Wire Transfer Agreement.
 - (2) Depository Agreement.
 - (3) Safekeeping Agreement.
 - (4) Custody Agreement.
- B. Management responsibility for the investment program is hereby delegated to the College Treasurer, 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 of employees of the entity. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions, check signing, check reconciliation, 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 College Treasurer 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 policy is the responsibility of the College Treasurer, who shall periodically review these agreements for their consistency with

College policy and State law, and who shall be assisted in this function by the College legal counsel and auditors. These agreements include but are not limited to:

- (1) Wire Transfer Agreement.
- (2) Depository Agreement.
- (3) Safekeeping Agreement.
- (4) Custody Agreement.

D. The College Treasurer may use financial intermediaries, brokers, and/or in-district financial institutions to solicit bids for securities and certificates of deposit.

9. Performance.

The College Treasurer will seek to earn a rate of return appropriate for the type of investments being managed given the portfolio objectives defined in "Procedures for Investment of Funds," Section 2, of this document for all funds. In general, the College Treasurer 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.

10. 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 of the investment program, or which could impair their ability to make impartial investment decisions.

11. Indemnification.

Investment officers and employees of Lake Land 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.

12. Reporting.

The College Treasurer shall submit to the Board of Trustees and the College President a quarterly investment report, which shall include information regarding securities in the portfolio by class or type, book value, income earned, and 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.

13. Amendment.

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

Checking Account Depository

The Treasurer of Community College District No. 517, Lake Land College, shall see that College monies needed to meet current demands are under "Procedures for Investment of Funds," Section 7.A., of this policy.

Internally, all funds from clubs, organizations, divisions or departments, farm accounts, fund-raising activities, or all other funds raised in the name of the College must be deposited with the College through the Business Office. Such monies shall be deposited in the College's Trust and Agency Fund and placed by the College into the authorized depository. Expenditures of such funds shall be initiated through a properly executed purchase order presented to the Business Office by the appropriate club, organization, etc.

¹ ILCS 805/3-47 Illinois Public Community College Act

² 760 ILCS 5/5 Illinois Public Community College Act

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