

# **Village of Glenview Illinois**

## **Investment Policy**

**May 5, 2009**

**Village of Glenview, ILLINOIS**

# INVESTMENT POLICY

## I. POLICY

It is the policy of the Village of Glenview, Illinois (the "Village") to prudently invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the Village and conforming to all state statutes governing the investment of public funds.

## II. SCOPE

This investment policy applies to all financial assets of the Village. The financial assets of the Police and Firefighter's Pension Funds are subject to the orders of their respective Boards of Trustees. The financial assets of the Village of Glenview Public Library are subject to the direction of their respective Board of Trustees. The following funds are accounted for in the Village's Comprehensive Annual Financial Report and include:

*Funds:*

- 2.1.1 General Fund
- 2.1.2 Special Revenue Funds
- 2.1.3 Capital Project Funds
- 2.1.4 Enterprise Funds
- 2.1.5 Trust and Agency Funds
- 2.1.6 Any new fund created by the Village Board, unless specifically exempt
- 2.1.7 Glenview Public Library Funds.

## III. PRUDENCE

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 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 officials acting in accordance with written procedures and the 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 appropriate action is taken to control adverse developments.

## IV. OBJECTIVE

The primary objectives, in priority order of the Village's investment activities shall be:

*Safety:*

Safety of principal is the foremost objective of the investment program. Investments of the Village shall be undertaken in a manner that seeks to insure the preservation of capital in the portfolio.

*A. Credit Risk:*

Credit Risk is the risk of loss due to the failure of the security issuer or backer. Credit risk may be mitigated by:

- Limiting investments to the safest types of securities or other allowable investments;
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the Village will do business; and
- Diversifying the investment portfolio so that potential losses on individual securities or other allowable investments will be minimized.

*B. Interest Rate Risk:*

Interest rate risk is the risk that the market value of securities or other allowable investments in the portfolio will fall due to changes in general interest rates. Interest rate risk may be mitigated by:

- Structuring the investment portfolio so that securities or other allowable investments mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities or other allowable investments on the open market prior to maturity; and
- By investing operating funds primarily in shorter-term securities or other allowable investments.

*Liquidity:*

The investment portfolio should establish adequate liquidity to meet all reasonably anticipated as well as unforeseen expenditures. This is accomplished by structuring the portfolio so that securities or other allowable investments mature concurrent with cash needs to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should provide adequate liquidity to meet unexpected cash needs. Liquidity can be achieved utilizing securities with active secondary markets, money market accounts and/or savings deposit accounts offering daily liquidity, or other liquid options acceptable under ILCS235.

*Return on Investments:*

Return on investment is of tertiary concern when compared to the safety and liquidity objectives described above. The investment portfolio shall be designed with the objective of attaining a market rate of return throughout economic cycles, taking into account the investment risk constraints and liquidity needs. Investments are limited to very low risk

securities or other allowable investments 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:

- 1) A declining credit security could be sold early to minimize loss of principal;
- 2) A security swap would improve the quality yield, or target duration in the portfolio; or
- 3) Liquidity needs of the portfolio require that the security be sold.

*Legality:*

The investment activities of the Village will conform to federal, state and local legal requirements.

## **V. DELEGATION OF AUTHORITY**

Authority to manage the Village's investment program is derived from the following:

The establishment of investment policies is the responsibility of the Village Board. Management and administrative responsibility for the investment program is delegated to the Village Manager or his/her investment designee<sup>1</sup>, who shall establish written procedures 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, collateral/depository agreements and banking service contracts. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Village Manager. The Village Manager shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. The Village Manager may amend the written procedures in a manner not inconsistent with this policy or with state statutes.

## **VI. ETHICS AND CONFLICTS OF INTEREST**

Individuals 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. Individuals involved in the investment process shall disclose any interests in financial institutions with which they conduct business. In addition, such individuals shall disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Individuals involved in the investment process shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Village.

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<sup>1</sup> Village Manager shall mean "Village Manager or his/her investment designee" wherever Village Manager is stated in the document.

## **VII. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS**

The Village Manager will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule). No public deposit shall be made except on qualified public depository as established by state statutes.

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

- Audited financial statements;
- Proof of National Association of Security Dealers (NASD) certification;
- Proof of state registration; and
- Certification of having read the Village's Investment Policy, (Attachment # 1).

An annual review of the financial condition and registration of qualified bidders will be conducted by the Village.

A current audited financial statement must be on file for each financial institution and broker/dealer through which the Village invests.

## **VIII. AUTHORIZED AND SUITABLE INVESTMENTS**

The Village may invest in any type of security allowed for in Illinois statutes regarding the investment of public funds. Current approved investments include:

- Bonds, notes, certificates of indebtedness, treasury bills, treasury strips or other securities or other allowable investments now or hereafter issued, which are guaranteed by the full faith and credit of the government of the United States of America as to principal and interest.
- Bonds, notes, debentures, or other similar obligations of the government of the United States of America or its agencies.
- Interest bearing savings accounts, interest bearing certificates of deposit or interest bearing time deposits or any other investment constituting direct obligations of any institution as defined by the Illinois Banking Act and is insured by the Federal Deposit Insurance Corporation.
- The Illinois Funds, including the Illinois Public Treasurer's Investment Pool, (IPTIP) and the Illinois Metropolitan Investment Fund (IMET).
- Short-term obligations of corporations (banker's acceptances and commercial paper) organized in the United States with assets exceeding \$500 million and rated at the time of purchase at the highest classification established by at least two standard rating services. Such investments must mature within 180 days from the date of purchase and may not exceed 10% of the corporations' outstanding obligations. No more than a combined 33% of

the Village's funds may be invested in banker's acceptances or commercial paper at any given time.

- Short-term discount obligations of the Federal National Mortgage Association (FNMA) or in shares of other forms of securities or other allowable investments legally issued by savings and loan associations incorporated under the laws of this state or any other state or under the laws of the United States. Investments may be made only in those savings and loan associations of which the shares or investment certificates are insured by the Federal Deposit Insurance Corporation (FDIC).
- Investment options suitable under ILCS235 including Fixed Rate General Obligation Municipal Bonds whose credit quality is restricted to "AA" or better.

## **IX. COLLATERALIZATION**

It is the policy of the Village and in accordance with the GFOA's Recommended Practices on the Collateralization of Public Deposits, Attachment #3, that the Village requires that funds on deposit in excess of FDIC limits be secured by some form of collateral, including surety bonds or letters of credit. The Village will accept any of the following assets as collateral:

- Government Securities
- Obligations of Federal Agencies
- Obligations of Federal Instrumentalities
- Fixed Rate General Obligation Municipal Bonds rated "AA" or better
- Obligations of the State of Illinois.

The Village reserves the right to accept/reject any form of the above named securities.

The Village also requires that all depositories that hold Village deposits in excess of the FDIC limit must agree to utilize the GFOA's Recommended Practices of Collateralization of Public Deposits as outlined in Attachment 3.

The amount of collateral provided will not be less than 110% of the fair market value 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 monthly by the Village, and additional collateral will be required when the ratio declines below the level required and collateral will be released if the fair market value exceeds the required level. Pledged collateral will be held in safekeeping, by an independent third party depository, or the Federal Reserve Bank of Chicago, designated by the Village and evidenced by a safekeeping agreement. The Village shall approve, in writing, the process for the release of substitution of pledged assets. The Village realizes that there is a cost factor involved with collateralization and the Village will pay any reasonable and customary fees related to collateralization.

## **X. SAFEKEEPING AND CUSTODY**

All security transactions, including collateral for repurchase agreements, entered into by the Village shall be conducted on a delivery-verses-payment (DVP) basis. Securities or other allowable

investments will be held by a third party custodian designated by the Village Manager and evidenced by safekeeping receipts.

## **XI. DIVERSIFICATION**

In order to reduce the risk of default, the investment portfolio of the Village shall not exceed the following diversification limits unless specifically authorized by the Village Board:

- Monies deposited at a financial institution shall not exceed 75% of the capital stock and surplus of that institution.
- Commercial paper shall not exceed 33% of the Village's investment portfolio.
- Deposits in the Illinois Public Treasurer's Investment Pool shall not exceed 50% of the Village's investment portfolio.
- Brokered and negotiable certificates of deposit shall not exceed 25% of the Village's investment portfolio.

## **XII. MAXIMUM MATURITIES**

To the extent possible, the Village will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific anticipated expenditure, the Village will not directly invest in securities maturing more than three years from the date of purchase.

Reserve funds may be invested in securities or other allowable investments exceeding three years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.

## **XIII. INTERNAL CONTROLS**

The Village Manager is responsible for establishing and maintaining an internal control structure designed to insure that the assets of the Village 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 the 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 Village Manager shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures. The Village Manager may initiate additional reviews at his/her discretion.

The internal controls shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and record keeping
- Custodial safekeeping

- Avoidance of physical delivery of securities or other allowable investments
- Clear delegation of authority to subordinate staff members
- Written confirmation of telephone transactions for investments and wire transfers
- Development of a procedure for making wire transfers.

#### **XIV. 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. Portfolio performance should be compared to appropriate benchmarks on a minimum quarterly basis.

*Market Yield (Benchmark):*

The Village's investment strategy is passive. Given this strategy, the basis used by the Village Manager to determine whether market yields are being achieved shall be the three month U.S. Treasury Bill.

#### **XV. REPORTING**

The Village Manager shall have prepared an investment report at least quarterly, including a succinct management summary that provides a clear picture of the status of the current investment portfolio. This management summary will be prepared in a manner which will allow the entity to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report may include the following:

- A listing of individual securities or other allowable investments held at the end of the reporting period.
- Average weighted yield to maturity of portfolio on Village investments as compared to applicable benchmarks.
- Listing of investments by maturity date
- The percentage of the total portfolio which each type of investment represents
- The percentage of the total portfolio which each institution is holding
- The percentage of the total portfolio broken down by defined maturity periods
- Principal and type of investment by fund.

*Marking to Market:*

A statement of the market value of the portfolio shall be issued at least quarterly and a management summary shall be provided to the governing body. This will ensure that the minimal amount of review has been performed on the investment portfolio in terms of value and subsequent price volatility. Review should be consistent with the GFOA Recommended Practice on Mark-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools (Attachment #3).

## **XVI. INVESTMENT POLICY ADOPTION**

The Village of Glenview's investment policy and any amendment thereto, shall be adopted by resolution of the Village. This policy shall be reviewed on a regular basis by the Village Manager to monitor such matters as conformance to accepted practices, conformance with standards such as GFOA, and changes to the suitability of investments.

## GLOSSARY

**AGENCIES:** Informal name that refers to securities issued by the United States government and U.S. government sponsored instrumentalities.

**ASKED:** The trading price proposed by the prospective seller of securities. Also called the offer or offered price.

**BANKERS' ACCEPTANCE (BA):** A short-term financial instrument that is the unconditional obligation of the accepting bank.

**BASIS POINT (BP):** A unit of measurement for interest rates or yields that are expressed in percentages. (One hundred basis points equal 1 percent.)

**BID:** The trading price acceptable to a prospective buyer of securities.

**BOND EQUIVALENT YIELD (BEY):** An annual yield, expressed as a percentage, describing the return provided to bond holders. The BEY is a way to compare yields available from discount securities such as Treasury bills and BAs with yields available from coupon securities.

**BROKER:** A party who brings buyers and sellers together. Brokers do not take ownership of the property being traded. They are compensated by commissions. They are not the same as dealers; however, the same individuals and firms that act as brokers in some transactions may act as dealers in other transactions.

**BROKED AND NEGOTIABLE CERTIFICATES OF DEPOSIT:** Short-term (2 to 52 weeks) large denomination (\$100,000 minimum). Certificate of Deposit that is issued at a discount on its par value, or at a fixed interest rate payable at maturity and are freely traded in secondary markets.

**CERTIFICATE OF DEPOSIT (CD):** A deposit of funds, in a bank or savings and loan association, for a specific term that earns interest at a specified rate or rate formula. CDs may be secured or unsecured, may be in negotiable or nonnegotiable form and may be issued in either physical or book entry form.

**COLLATERAL:** Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

**COMMERCIAL PAPER (CP):** Unsecured, short-term promissory notes issued by corporations for specific amounts and with specific maturity dates.

**COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR):** The official annual report for the Village of Glenview. It includes five combined statements and basic financial statements for each individual

fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

**COUPON:** (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

**DEALER:** A firm or individual who buys and sells for their own account. Dealers have ownership between a purchase from one party and a sale to another party. Dealers are compensated by the spread between the price they pay and the price they receive.

**DEBENTURE:** A bond secured only by the general credit of the issuer.

**DELIVERY VERSUS PAYMENT (DVP):** The simultaneous exchange of securities and cash. The safest method of settling either the purchase or sale of a security. In a DVP settlement, the funds are wired from the buyer's account and the security is delivered from the seller's account in simultaneous independent wires.

**DISCOUNT:** The amount by which the price for a security is less than its par.

**DISCOUNT SECURITIES:** Securities that do not pay periodic interest. Investors earn the difference between the discount issue price and the full face value paid at maturity. Treasury bills, bankers' acceptances and zero coupon bonds are discount securities.

**DIVERSIFICATION:** Dividing investment funds among a variety of securities offering independent returns.

**FEDERAL CREDIT AGENCIES:** Agencies of the Federal Government set up to supply credit to various classes of institutions and individuals, e.g., S & L's, small business firms, students, farmers, farm cooperatives, and exporters.

**FEDERAL DEPOSIT OF INSURANCE CORPORATION (FDIC):** A federal agency that insures bank deposits, currently up to \$100,000 per deposit.

**FEDERAL FUNDS RATE:** The rate for which overnight federal funds are traded.

**FEDERAL HOME LOAN BANKS (FHLB):** The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-à-vis member commercial banks.

**FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA or FANNIE MAE):** FNMA is a federal corporation working under the auspices of the Department of Housing & Urban Development, HUD. It is the largest single provider of residential mortgage funds in the United States. Fannie

Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans in addition to fixed-rate mortgages. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

**FEDERAL OPEN MARKET COMMITTEE (FOMC):** Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member while the other Presidents serve on a rotation basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

**FEDERAL RESERVE SYSTEM:** The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

**GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA OR GINNIE MAE):** GNMA, like FNMA, was chartered under the Federal National Mortgage Association Act of 1938. Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by FHA, VA or FMHM mortgages. The term *passthroughs* is often used to describe Ginnie Maes.

**INTERNAL CONTROLS:** Internal controls must be designed to ensure that the assets of the Village are protected from loss, theft or misuse. The internal control structure should be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management. Internal controls should address the following points:

1. Control of Collusion - Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
2. Separation of transaction authority from accounting and record keeping - By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
3. Custodial Safekeeping - Securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.
4. Avoidance of Physical Delivery Securities - Book-entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.

5. Clear delegation of authority to subordinate staff members - Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.

6. Written confirmations or telephone transactions for investments and wire transactions - Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and if the safekeeping institution has a list of authorized signatures.

7. Development of a wire transfer agreement with the lead bank or third party custodian - The designated official should ensure that an agreement will be entered into and will address the following points: controls; security provisions, and responsibilities of each party making and receiving wire transfers.

**LIQUIDITY:** A liquid asset is one that can be readily converted to cash through sale in an active secondary market.

**LOCAL GOVERNMENT INVESTMENT POOL (LGIP):** Pools through which governmental entities may invest short term cash. Examples of LGIP's are the Illinois Funds, administered by the Illinois State Treasurer and the Illinois Metropolitan Investment Fund.

**MARKET VALUE:** The price at which a security could presumably be purchased or sold.

**MARK TO MARKET:** The process of restating the carrying value of an asset or liability to equal its current market value.

**MASTER REPURCHASE AGREEMENT:** A written contract covering all future transactions between parties. The agreement establishes each party's right in the transaction. Repurchase Agreements (REPO's) are a form of short-term borrowing for dealers in government securities. The dealer sells the government securities to investors, usually on an overnight basis, and then buys them back the following day. For the party selling the security (and agreeing to repurchase it in the future), it is a repo; for the party on the other end of the transaction (buying the security and agreeing to sell in the future), it is a reverse repurchase agreement. A master agreement will often specify, among other things, the right to liquidate the underlying securities in the event of default.

**MATURITY:** The date upon which the principal or stated value of an investment becomes due and payable.

**MONEY MARKET:** The aggregation of buyers and sellers actively trading money market instruments.

**OFFER OF OFFERED PRICE:** The trading price proposed by the prospective seller of securities (also called the asked or asking price).

**OPEN MARKET OPERATIONS:** Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

**PORTFOLIO:** Collection of financial assets belonging to a single owner.

**PREMIUM:** The amount by which the price for a security is greater than its par amount.

**PRIMARY DEALER:** A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unrelated firms.

**PRUDENT PERSON RULE:** An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the state - the so-called *legal list*. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

**QUALIFIED PUBLIC DEPOSITORIES:** A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

**RATE OF RETURN:** The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

**REINVESTMENT RISK:** The risk that all or part of the principal may be received when interest rates are lower than when the security was originally purchased, so that the principal must be reinvested at a lower rate than the rate originally received by the investor.

**REPURCHASE AGREEMENT (RP OR REPO):** See Master Repurchase Agreement.

**SAFEKEEPING:** A service rendered by banks whereby securities and valuables of all types and descriptions are held by the bank.

**SEC RULE 15C3-1:** See uniform net capital rule.

**SECONDARY MARKET:** Markets for the purchase and sale of any previously issued financial instrument.

**SECURITIES & EXCHANGE COMMISSION (SEC):** The federal agency with responsibility for regulating financial exchanges for cash instruments.

**SPREAD OVER TREASURIES:** The difference between the bond equivalent yield for any investment and the bond equivalent yield for a Treasury investment with the same maturity.

**TREASURY BILLS (T-BILLS):** Short-term obligations issued by the U.S. Treasury for maturities of one year or less. They do not pay interest but are issued on a discount basis instead.

**TREASURY BONDS (T-BONDS):** Long-term obligations issued by the U.S. Treasury with initial maturities of more than ten years.

**TREASURY NOTES (T-NOTES):** Medium-term obligations issued by the U.S. Treasury with initial maturities of from one to ten years.

**UNIFORM NET CAPITAL RULE:** Securities and Exchange Commission requirement that member firms as well as non-member broker dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called *net capital rule* and *net capital ratio*. Indebtedness covers all money owed to a firm including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicate. *Liquid capital* includes cash and assets easily converted to cash.

**YIELD:** Loosely refers to the annual return on an investment expressed as a percentage on an annual basis. For interest-bearing securities, the yield is a function of the rate, the purchase price, the income that can be earned from the reinvestment of income received prior to maturity, call or sale. Different formulas or methods are used to calculate yields.

**VILLAGE OF GLENVIEW, ILLINOIS**  
**CERTIFICATE OF COMPLIANCE**

THE UNDERSIGNED, BEING FIRST DULY SWORN ON OATH, DEPOSES AND STATES AS FOLLOWS:

1. That the undersigned has authority to make this certification on behalf of the bidder.

\_\_\_\_\_

Name of Company

2. That the undersigned has read the contents of the Village's Investment Policy which are contained herein.

Authorized Signature

\_\_\_\_\_

Type or Print Name

\_\_\_\_\_

Title

\_\_\_\_\_

Instructions: This is to be completely filled out and executed by the chief officer or the individual authorized to submit the certification.

## Attachment # 2

### **GFOA Recommended Practice Collateralization of Public Deposits (1984, 1987, 1993, 2000, and 2007) (CASH)**

**Background.** The safety of public funds should be the foremost objective in public fund management.

Collateralization of public deposits through the pledging of appropriate securities or other instruments (i.e. surety bonds or letters of credit) by depositories is an important safeguard for such deposits. The amount of pledged collateral is determined by a public entity's deposit level. Some states have established programs for the pooling of collateral for deposit of public funds.

Federal law imposes certain limitations on collateral agreements between financial institutions and public entities in order to secure public entity deposits. Under certain circumstances, the Federal Deposit Insurance Corporation (FDIC) may void a perfected security interest and leave the public depositor with only the right to share with other creditors in the pro rata distribution of the assets of a failed institution.

**Recommendation.** The Government Finance Officers Association (GFOA) recommends the use of pledging requirements as protection for state or local government's deposits. GFOA encourages state and local governments to establish adequate and efficient administrative systems to maintain such pledged collateral, including state or locally administered collateral pledging or collateral pools. To accomplish these goals, GFOA recommends the following:

1. Public entities should implement programs of prudent risk control. Such programs could include a formal depository risk policy, credit analysis, and use of fully secured investments. In the absence of a state program for pooling collateral, public entities should establish and implement collateralization procedures, including procedures to monitor their collateral positions. Monitoring informs a public entity of under collateralization, which may threaten the safety of an entity's deposits, and overcollateralization, which may increase the cost of banking services.
2. State and local government depositors should take all possible actions to comply with federal requirements in order to ensure that their security interests in collateral pledged to secure deposits are enforceable against the receiver of a failed financial institution. Federal law provides that a depositor's security agreement, which tends to diminish or defeat the interest of the FDIC in an asset acquired by it as receiver of an insured depository, shall not be valid against the FDIC unless the agreement:
  - is in writing;
  - was approved by the board of directors of the depository or its loan committee; and
  - has been, continuously, from the time of its execution, an official record of the depository institution.

3. Public entities should have all pledged collateral held at an independent third-party institution, and evidenced by a written agreement in an effort to satisfy the Uniform Commercial Code (UCC) requirement for control. The UCC states that the depositor does not have a perfected interest in a security unless the depositor controls it. Control means that swaps, sales, and transfers cannot occur without the depositor's written approval.
  - The value of the pledged collateral should be marked to market monthly, or more frequently depending on the volatility of the collateral pledged. If state statute does not dictate a minimum margin level for collateral based on deposit levels (e.g., Georgia and Minnesota statutes require 110 percent), the margin levels should be at least 102 percent, depending on the liquidity and volatility of the collateral pledged. State statutes also govern whether minimum margin levels apply to principal only or to accrued interest as well. Public entities should review applicable state statutes and confirm compliance.
  - Substitutions of collateral should meet the requirements of the collateral agreement, be approved in writing prior to release, and the collateral should not be released until the replacement collateral has been received.
4. The pledge of collateral should comply with the investment policy or state statute, whichever is more restrictive.
5. Public entities that use surety bonds in lieu of collateral should limit the insurers to those of the highest credit quality as determined by a nationally recognized insurance rating agency.
6. The public entity should review the terms and conditions of any letters of credit, including those issued by a federal agency or government sponsored enterprise.

**Note:** As a result of the court case North Arkansas Medical Center v. Barrett, 963 F.2d 780 (8<sup>th</sup> Cir. 1992), the FDIC issued a policy statement in March 1993 indicating that it would not seek to void a security interest of a federal, state, or local government entity solely because the security agreement did not comply with the contemporaneous execution requirement set forth in Section 13(e) of the Federal Deposit Insurance Act 12 U.S.C. 1823(e). The policy statement was officially enacted by Section 317 of the Riegle Community Development and Regulatory Improvement Act of 1994 (Public Law 103-325).

#### **References:**

- GFOA Sample Security Agreement, 1995.
- GFOA Sample Custodial Trust Agreement, 1995.
- *An Introduction to Collateralizing Public Deposits for State and Local Governments*, M. Corinne Larson, GFOA, 2006.
- *Investing Public Funds*, Second Edition, Girard Miller with M. Corinne Larson and W. Paul Zorn, GFOA, 1998.

Approved by the GFOA's Executive Board, October 23, 2007.

Attachment # 3

GOVERNMENT FINANCE OFFICERS ASSOCIATION

Recommended Practice

**Mark-to-Market Practices for State and Local Government  
Investment Portfolios and Investment Pools**

As the investment portfolios of state and local governments are subjected to increased scrutiny, it is essential that reporting standards be enhanced so that investors, governing bodies and the public remain informed of the current market value of the portfolio. Regular disclosure of the value of a governmental entity's investments is an important step to furthering taxpayer and market confidence in state and local government investment practices.

The Government Finance Officers Association (GFOA) recommends that state and local government officials responsible for investment portfolio reporting should determine the market value of all securities in the portfolio on at least a quarterly basis. These values should be obtained from a reputable and independent source and disclosed to the governing body or other oversight body at least quarterly in a written report. It is recommended that the report include the market value, book value and unrealized gain or loss of the securities in the portfolio.

Many state and local government officials are allowed to invest in various state and local government investment pools available in their state or region. Pool administrators should, on at least a monthly basis, determine the market value of all securities in the pool and report this information to all pool participants on at least a quarterly basis. These values should be obtained from a reputable and independent source. This information should be included in the report to the governing body prepared on at least a quarterly basis.