

30262
ADOPTED - BOARD OF TRUSTEES COMMUNITY
COLLEGE DISTRICT NO. 508
MAY 12, 2010

INVESTMENT POLICY
City Colleges of Chicago

1. Scope

This policy statement applies to all restricted and unrestricted funds, including operating funds, special funds, interest and sinking funds and other funds belonging to or in the custody of the Board. Implementation of this Policy and the authority to make investments is delegated by the Board to the Treasurer or the Chief Financial Officer as authorized from time to time by resolution of the Board. References herein to the Treasurer or the Chief Financial Officer shall mean such office as so designated from time to time by resolution of the Board.

2. Objectives

The investments of Board funds will be divided into three categories and the investment objectives vary with the nature of the fund:

- a. **Operating Funds (Short-term)*** are defined as those funds, which in the judgment of the Treasurer or the Chief Financial Officer, will be required for ordinary operating expenses or other cash needed by the Board within 365 days.

Objective: The primary objectives in the investment of these funds are the preservation of principal and liquidity; income is secondary.

Risk Tolerance: Volatility of principal is not permitted as defined 'by selling an individual security that would cause a realization of an accounting loss on the security.' Investments shall be limited to instruments maturing within one year at the time of purchase.

Rate of Return: The rate of return of this portfolio should equal or exceed the total rate of return of the ninety-day Treasury Bill.

- b. **Contingency Funds/Working Cash(Medium/Long-term)*** are defined as those funds which in the judgment of the Treasurer or the Chief Financial Officer will not be needed within 365 days. Twenty percent of the portfolio must be set aside for contingencies or emergencies or may be used to supplement the operating funds in the events of short fall within 365 days. The balance of the funds is to be invested with a long-term objective. Authority to invest these funds is delegated by the Board to the Treasurer or the Chief Financial Officer who shall consult with a Board-Designated Money Manager.

Objective: The primary objective in the investment of these funds is to provide income consistent with the preservation of principal and, with respect to

Risk Tolerance: Some volatility of principal is acceptable in order to obtain additional income. Volatility of principal is defined as 'by selling an individual security that would cause a realization of an accounting loss on the security.' Sufficient liquidity must be maintained with at least twenty percent invested in maturities extending not more than one year at the time of purchase and the balance invested in maturities extending not more than three years at the time of purchase, unless the Board specifically approves an investment with maturities extending beyond three years at the time of purchase.

Rate of Return: The rate of return for the portion allocated for contingencies and emergencies must be equal or greater than the six months U.S. Treasury Bill. The rate of return of the remaining portion of the portfolio should equal or exceed the return on an index of government securities with an equal duration measured over a complete market cycle.

- c. **Capital Project Funds (Short/Medium/Long-term)** are defined as those funds which in the judgment of the Treasurer or the Chief Financial Officer will be required for project related expenses. In general, the funds should be invested to meet the cash flow needs of identified projects.

Objective: The primary objectives in the investment of these funds are the preservation of principal and liquidity; income is secondary.

Risk Tolerance: Some volatility of principal is acceptable in order to manage the funds available for the project. Volatility of principal is defined as 'by selling an individual security that would cause a realization of an accounting loss on the security.' Sufficient liquidity should be maintained with maturities scheduled to meet the projected cash flow needs of the identified project. Maturities will not extend more than three years at the time of purchase, unless the Board specifically approves an investment with maturities extending beyond three years at the time of purchase.

Rate of Return: The rate of return on project fund investments should equal or exceed the rate of return on Treasury securities of like maturities and like purchase dates.

- d. **Special Funds (Medium/Long-term)** are defined as those funds which in the judgment of the Treasurer or the Chief Financial Officer will be required for long term obligations, such as sick pay benefits and other post employment benefits (OPEB). In general, the funds should be invested to meet the cash flow needs of the identified obligations.

Objective: The primary objectives in the investment of these funds are the preservation of principal and liquidity; income is secondary.

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the funds available for the project. Volatility of principal is defined as 'by
selling an individual security that would cause a realization of an accounting
loss on the security.' Sufficient liquidity should be maintained with maturities
scheduled to meet the projected cash flow needs of the identified project.
Maturities will not extend more than three years at the time of purchase, unless
the Board specifically approves an investment with maturities extending
beyond three years at the time of purchase.

Rate of Return: The rate of return on project fund investments should equal or
exceed the rate of return on Treasury securities of like maturities and like
purchase dates.

In general, the funds (a, b, c or d) should be invested to earn an average
rate of return equal to or greater than the Illinois Funds rate.

3. **Implementation of Policy/Limitation of Liability**

It shall be the Treasurer's or the Chief Financial Officer's responsibility to implement
this investment policy in support of the "prudent" person standard and to:

- a. Establish operational procedures for the review and authorization of all investment transactions.
- b. Determine and evaluate risks of investment alternatives for the overall portfolio as are permitted under this Policy with due regard for prudent financial principles and practices; assess potential investments by criteria of legality, financial risk, interest rate risk, liquidity, and yield, as so sequenced in their order of importance.
- c. Make investments and deposits of public funds with eligible institutions in accordance with section [6]; competitive quotations or negotiated prices shall be utilized in all instances, except in the purchase of government securities at their initial auction. Maintain the Board approved list of financial institutions and brokers/dealers.
- d. Procure services from and invest or deposit funds in or with minority-owned financial institutions within the State of Illinois, to the extent permitted by the state statutes and consistent with other provisions of this Policy and by the lawful and reasonable performance of their duties.
- e. Assure that all purchased securities will mature or be redeemable by such time as their proceeds are required for reasonably anticipated expenditure purposes.
- f. Document the process of initiating, reviewing, and approving requests to buy and sell investments, retaining the documentation for audit purposes.
- g. Maintain a record of investments, identifying each security, the fund for which held, the place where kept, the market value and custodian of related collateral, the date of disposition, and the amount realized.

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- h.* Verify and collate all investments and
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- i.* Invest all funds not owned by the Board but only held in custody for another party, only in those securities as are permitted for the investment of Board funds and according to the security arrangements which are required for Board investments; release custodial funds upon demand or when otherwise due, but no later than thirty-one days after their owner is entitled to receipt.
- j.* Submit quarterly reports to the Board on a timely manner including those reports required of the external money manager. The report shall include information regarding securities in the portfolio by class or type, book value, income earned and market value as of report date.
- k.* Monitor and evaluate the performance of the external money manager.
- l.* Refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.
- m.* It is the practice of the District Finance Office to maintain a minimum cash balance of no less than 3 months of annual budget expenditures.

The Treasurer or the Chief Financial Officer acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

4. Segregation of Duties

The Treasurer's or the Chief Financial Officer's authorization function shall be maintained separate from both accounting and custodial functions. The Treasurer or the Chief Financial Officer shall confirm each investment trade in excess of \$500,000 other than those in the Illinois Funds (formerly Illinois Public Treasurer's Investment Pool) or those managed by the external money manager, prior to trade date.

5. Audit Procedures

The Board shall annually engage an independent auditor to perform attestation procedures agreed upon by the Board to evaluate the District's compliance with this Policy. At minimum, those agreed upon procedures shall include:

- a.* Test investment practices and controls, including proper execution and completion of required documentation;
- b.* Confirmation from each trading partner or custodial institution verifying the principal amount and market value, as appropriate, of all obligations representing or

securing the Board's deposits and investments as of the date of such examination (June 30).

6. Permitted Investments

The Treasurer or Chief Financial Officer may invest restricted and unrestricted funds, including current operating funds, special funds, interest and sinking funds, and other funds belonging to or in the custody of the Board, in the following types of securities, provided that such securities shall achieve the objectives described in section 2 of this policy and that such securities shall mature or be redeemable on the date or dates prior to the time when in the judgment of the Treasurer or Chief Financial Officer, the funds so invested will be required for expenditures by the Board. Securities shall generally be purchased with the intention that they will be held to maturity so as to minimize interest rate risk.

The investment portfolio will be diversified to avoid incurring undue concentration in securities of one type or securities of one financial institution or maturities.

- a. Bonds, notes, certificates of indebtedness, treasury bills, or other securities now or hereafter issued, which are guaranteed as to the payment of principal and interest by the full faith and credit of the United States of America.

Maximum Aggregate Position No Limit

- b. Bonds, notes debentures, or other similar obligations of the United States of America or its agencies, including, mortgage backed securities, (except for those specifically listed on item 1 of this section) and obligations of FNMA as set forth in the Attorney General's opinion. Monitor legislative activity for changes that might impact the future permissibility of investing in FNMA securities.

Maximum Aggregate Position No Limit

- c. Interest-bearing savings accounts, certificates of deposit, time deposits, or any other investments constituting direct obligations of any bank as defined by the Illinois Banking Act, the deposits of which are insured by the Federal Deposit Insurance Corporation. Any such investments made in excess of such deposit insurance, including uninsured accounts in financial institutions in which multiple accounts are maintained, shall be secured as provided in Section 7. ***A bank's acceptability as counterparty shall be determined by its financial status and responsibility, and its potential for responsiveness to the needs of the colleges, the student community and the District.*** A list of banks currently being utilized shall be periodically submitted to the Board for its review and approval.

Maximum Aggregate Position 50% of total portfolio

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- d. Short-term obligations of corporations (Commercial Paper) organized in the United States of America with assets exceeding \$500,000,000; obligations must be rated at the time of purchase A1/P1 or better by Standard & Poors and Moodys, respectively, and must mature not later than 270 days from the date of purchase; the Board's investment in the short-term obligations of a single issuer shall not exceed 10% of that corporation's outstanding obligations.

Maximum Position with Single Issuer	25% of total aggregate CP position
Maximum Aggregate Position	33% of total portfolio

- e. Money market mutual funds registered under the Investment Company Act of 1940, as from time to time amended; the portfolio of any such money market fund must be limited to obligations specified in subsection [a] or [b] of this section and to agreements to repurchase such obligations. All underlying securities of the fund must mature within twelve months or less, and the fund must maintain a weighted average portfolio maturity of 90 days or less. Prospectuses must be on file, reviewed and approved before investing.

Maximum Aggregate Position No Limit

- f. Short-term discount obligations issued by the Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corporation (FHLMC), Federal Farm Credit Bank (FFCB), Government National Mortgage Association (GNMA), -Tennessee Valley Authority (TVA), or any other agency created by an Act of Congress.

Maximum Aggregate Position No Limit

- g. Shares or other forms of securities legally issueable by savings and loan associations incorporated under the laws of any state or of the United States of America, the shares or investment certificates of which are insured by the Federal Deposit Insurance Corporation. Any such investments made in excess of such deposit insurance, including uninsured accounts in financial institutions in which multiple accounts are maintained shall be secured as provided in Section 7. ***A savings and loan association's acceptability as counterparty shall be determined by its financial status and responsibility, and its potential for responsiveness to the needs of the colleges, the student community and the District.*** A list of savings and loan associations currently being utilized shall be periodically submitted to the Board for its review and approval.

Maximum Aggregate Position 25% of total portfolio

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- h.* Dividend-bearing share accounts, share certificate accounts, or other such class of share accounts of a credit union chartered under the laws of the State of Illinois or of the United States of America, provided that deposits are insured by applicable law and that the credit union's principal office is located within the State of Illinois. Any such investments made in excess of such deposit insurance, including uninsured accounts in financial institutions in which multiple accounts are maintained, shall be secured as provided in Section 7. ***A credit union's acceptability as counterparty shall be determined by its financial status and responsibility, and its potential for responsiveness to the needs of the colleges, the student community and the District.***
A list of credit unions currently being utilized shall be periodically submitted to the Board for its review and approval.

Maximum Aggregate Position 25% of total portfolio

- i.* Accounts or other investments in the Illinois Funds (formerly Illinois Public Treasurer's Investment Pool) or in any other managed investment pools as may be approved by state statute or that is rated 'AAA' by Standard & Poors or Moodys.

Maximum Aggregate Position No Limit

- j.* Repurchase agreements in which the instrument and the transaction meet the following requirements.
- i.* Repurchase agreements shall be for periods of 330 days or less.
 - ii.* Counterparties shall be limited to banks or trust companies authorized to do business in the State of Illinois and to registered primary reporting dealers who are registered as broker-dealers with the Securities and *Exchange Commission*; counterparties shall demonstrate such financial status and responsibility as would be required for the placement of any other investment or deposit. A list of current counterparties shall be periodically submitted to the Board for its review and approval.
 - iii.* A written master repurchase agreement shall be executed by the Treasurer, on behalf of the Board and its counterparty, stipulating that the investment is to be structured as a purchase and a simultaneous commitment to sell the same obligation(s). The agreement shall grant the Board a security interest in the obligation(s) being purchased and shall specify the basic responsibilities and liabilities of both the Board and the seller; it shall identify the nature of the collateral and whether it is to be held by the Board or a third party; it shall require that the market value of such collateral be equal to or in excess of the purchase price; It shall further prescribe a method by which additional margin is to be provided if the market value of purchased securities should become less than their purchase price.

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- iv. Unless registered or inscribed in the name of the Board, the securities shall be purchased through banks or trust companies authorized to do business in the State of Illinois. Such a custodial bank *must* be a member bank of the Federal Reserve System or must maintain accounts with member banks so as to accomplish the book-entry transfer of securities to the Board's credit. The custodial bank may not also act as the seller of securities to the Board, nor may a person controlled by the seller qualify as either the Board's custodian or agent.
- v. A written custodial agreement shall be executed by the Board and the custodial bank which outlines the basic responsibilities and liabilities of the Board, the seller and the custodial bank. This agreement shall provide that the custodian takes possession of the securities exclusively for the Board, that the securities are free from any claims of the seller, and that any claims of the custodian are subordinate to the Board's interest in the securities. The State Treasurer may act as custodial bank for the Board in executing repurchase agreements.
- vi. Except when securities are purchased directly by, registered in the name of, and physically held by the Board, the custodial bank must take possession of the securities in order to perfect the security interest. After ascertaining which authorized counterparty, as seller, will give the most favorable rate of interest, the Treasurer shall direct the custodial bank, as the Board's agent, to purchase specified securities from that financial institution and shall inform the custodial bank in writing of the maturity details of the repurchase agreement. The custodial bank shall then take delivery of and maintain the securities in its custody for the Board's account, confirming the transaction in writing to the Board.
- vii. Perfection of the security interest may be accomplished by the custodial bank's physical possession of purchased securities or by their book-entry transfer on the records of the Federal Reserve System through a member bank. In either case, the Board shall be credited with the purchase on the records of the custodial bank.
- viii. Payment for securities shall not be made by the custodial bank until the securities are actually received by the custodial bank. Neither shall the purchased securities be sold or presented for redemption or payment except upon the Treasurer's written instructions. The custodial bank shall be liable to the Board for any monetary loss suffered by the Board due to the failure of the custodial bank to take and maintain possession of purchased securities.

Maximum Aggregate Position 25 % of total portfolio

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- k.* Any mutual funds that invest primarily in corporate investment grade short term bonds. Purchase of mutual funds that invest primarily in corporate investment grade short term bonds shall be limited to funds with assets of at least \$100 million and that are rated A or better at the time of purchase by a recognized rating service.

Maximum Aggregate Position 25% of total portfolio

- l.* Investments in the following securities are prohibited: reverse repurchase agreements, inverse floaters, derivative products, such as, collateralized mortgage obligations (CMOs), interest only securities (IOs), principal only securities (POs) and other securities that could impart leverage to the portfolio or have highly unpredictable cash flows.

7. Security Arrangements

The following security arrangements shall be required for investments in certificates of deposit, regular time deposit accounts, savings and loan association shares, and credit union accounts, special time deposit accounts, such as Negotiated Order of Withdrawal [NOW] accounts, super NOW accounts, seven to thirty-one day accounts, and money market deposit accounts.

- a.* Investments made in excess of any applicable deposit insurance, including uninsured accounts in financial institutions in which multiple accounts are maintained, shall be secured by a corporate surety bond written by a surety company authorized to do business in the State of Illinois that is rated at least AA- by Standard and Poors or Aa3 by Moody's, or by an undertaking from the depository supported by a pledge of securities having a market value that is at all times equal to or greater than the uninsured amount on deposit. The Treasurer or the Chief Financial Officer shall determine the acceptability of obligations pledged as collateral with regard for their legality, financial risk, interest rate risk, and liquidity.
- b.* Collateral shall be delivered in a manner sufficient to grant the Board a perfected security interest in the pledged obligations. Whether the purchase of securities or placement of deposits is made directly by the Board or through a custodial bank, as agent, payment of funds shall be made only upon assurance of receipt of the collateral or acceptable surety bond. Satisfactory receipt shall be evidenced by physical delivery or book-entry transfer of collateral to the Board or its appointed custodian.
- c.* A written custodial agreement shall be executed by the Treasurer or the Chief Financial Officer on behalf of the Board with the custodial bank which, in such capacity, may not also be the institution with which the investment or deposit is made. The agreement shall describe the respective responsibilities of the Board and the custodian and shall specify that:

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- i. Funds shall not be released by the custodian until the Board's security interest is perfected in obligations purchased; collateral shall be segregated, either physically or by appropriate book-entry; written confirmation of delivery shall be timely transmitted by the custodian to the Board.
- ii. Any rights of the counterparty or custodian with respect to the collateral are subordinate to the Board's interest therein.
- iii. All transactions occurring in the Board's custodial account shall be recorded on the custodian's books and shall be timely reported in writing to the Board.
- iv. The custodial bank shall have the Board's prior written authorization, evidenced by the signature of the Treasurer or the Chief Financial Officer, before affecting the transfer of investments or the release or substitution of pledged obligations.

8. Authorized brokers/dealers and Financial Institutions

A list of approved brokers/dealers and financial institutions shall be maintained and utilized for investment purposes. All deposits shall be made in a qualified public depository as defined by state status.

All approved brokers/dealers and financial institutions must meet the following requirements:

- a. Brokers/Dealers
 - i. Shall provide wire transfer services.
 - ii. Shall be a member of a recognized U.S. Securities and Exchange Commission Self Regulatory Organization such as Financial Industry Regulatory Authority (FINRA), 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 be familiar with Board's policy and accept financial responsibilities for any investment not appropriate according to the policy.

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b. Financial Institutions

- i. Shall provide normal banking services, including, but not limited to: checking accounts, wire transfers and safekeeping services.
- ii. Must be a member of the FDIC system. Must be capable of posting required collateral for funds or purchasing insurance in excess of FDIC insurable limits.
- iii. Must furnish the Treasurer or the Chief Financial Officer with copies of the latest statement of condition which it is required to furnish to the Comptroller of Currency as the case may be and must continue to furnish such statements within 45 days of the end of each quarter.