

DANIEL BOONE REGIONAL LIBRARY

SUBJECT: Investment and Bank Accounts

ADMIN 2-705

BOARD

SECTION: 700 – Fiscal Management

Approved: 01/15/98
Revised: 05/10/07
Revised: 10/14/10
Revised: 10/10/13
Revised: 01/12/18

POLICY

It is the policy of the Daniel Boone Regional Library (DBRL) to invest all funds under DBRL’s control in a manner which will provide DBRL the highest investment return using authorized instruments to ensure the safety of its funds, while meeting DBRL’s cash flow demands and acting in conformance with 182.800 RSMo, 110 RSMo and all other applicable Missouri State statutes governing the investment of public funds.

I. Scope of Policy

This investment policy applies to all funds held by DBRL except for DBRL’s 401(k) retirement plan, which is covered under a separate policy.

II. General Objectives

The primary objectives of investment activities in order of priority are safety, liquidity, and yield:

1. **Safety**

Safety of principal is the foremost objective of the investment program. Investments will be made in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to minimize credit risk and interest rate risk.

a. **Credit Risk**

DBRL will minimize credit risk, which is loss due to the failure of the security issuer backer, by:

- i. Limiting its investments to the types of securities allowed according to 182.800 RSMo.
- ii. Requiring Boone County to pre-qualify, by applying whatever standards they use for their own investments, the financial institutions, broker/dealers, intermediaries, and advisors with which Boone County will do business on behalf of DBRL as part of the investment pool operated by Boone County.
- iii. Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which DBRL will do business in accordance with Section V for funds not held with the above mentioned investment pools.

- iv. Requiring Boone County to diversify 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.

b. Interest Rate Risk

DBRL 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:

- i. Participating in investment pools with Boone County so that cash requirements for ongoing operations can be met without having to sell securities on the open market prior to maturity.
- ii. Investing funds in primarily short-term investments, such as certificates of deposit, money market accounts or overnight time deposits for funds not held as part of the investment pools.

2. Liquidity

DBRL will participate in the Boone County investment pool in order to remain sufficiently liquid to meet all operating requirements. DBRL can expect to receive funds requested by warrants within a few business days.

DBRL will structure the portfolio to remain sufficiently liquid to meet all requirements that may be reasonably anticipated for funds not held in the investment pools. This is accomplished by structuring the portfolio so that securities, usually certificates of deposit, mature concurrent with cash needs to meet anticipated demands.

If DBRL does not participate in the Boone County investment pool, then the investment portfolio will remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets. A portion of the portfolio also may be placed in bank deposits or repurchase agreements that offer same-day liquidity for short-term funds. All deposits and collateral agreements will be secured as required by Missouri law in Sections 110.010, 110.020 and 182.800 RS Mo and meet all other requirements set forth in this policy.

3. Yield

DBRL will participate in the Boone County investment pool with the objective of attaining a market rate of return throughout the budgetary and economic cycles, taking into consideration safety and liquidity objectives. Return on investment is of secondary importance compared to the safety and liquidity objectives described above.

If DBRL does not participate in the Boone County investment pool, the investment portfolio will be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the desire for investment risk safety and liquidity objectives. Return on investment is of secondary importance to the safety and liquidity objectives described above. The core of the

investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

DBRL, when possible, will invest any cash balances on hand at the highest rate of return possible negotiated with the library's financial institution, taking into consideration safety and liquidity objectives.

III. Standard of Care

1. Prudence

The standard of prudence to be used by investment officials will be the "prudent person" standard (below) and will be applied in the context of managing an overall portfolio. The Executive Director or Executive Director's designee, acting in accordance with written procedures and this investment policy and exercising due diligence, will be relieved of personal liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion.

The "prudent person" standard is: "Investments will 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."

2. Ethics and Conflicts of Interest

Board members, the Executive Director, and the CFO will refrain from personal business activity that could conflict with the proper execution and management of the investments. The Executive Director and the CFO will disclose any material interest in financial institutions with which they conduct business, and will file appropriate ethics statements required under Missouri law. They will further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio.

3. Delegation of Authority

Authority to manage the investment program is granted to the Executive Director or Executive Director's designee. Responsibility for the operation of the investment program is hereby delegated to the Executive Director or Executive Director's designee, who will act in accordance with established written procedures and internal controls for operations of the investment program consistent with this investment policy. No person may engage in an investment transaction except as provided under the terms of these policy and procedures. The Executive Director will be responsible for all transactions undertaken and will establish a system of controls to regulate the activities of subordinate officials or external professionals, as appropriate.

IV. Authorized Financial Institutions, Depositories and Broker Dealers

1. DBRL will maintain a checking account with a financial institution selected by competitive bid process. The checking account will have an investment feature.

2. Should DBRL no longer participate in the Boone County investment pool, then the Executive Director or Executive Director's designee will maintain a list of financial institutions that provide investment services. All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following, as appropriate:
 - a. Audited financial statements;
 - b. Proof of National Association of Securities (NASD) certification;
 - c. Completed broker/dealer questionnaire; and/or
 - d. Certification of having read and understood and agreeing to comply with the relevant portions of this investment policy.

In addition, a list will be maintained of approved security broker/dealers selected by creditworthiness. Such security dealers and banks will have been subjected to an appropriate investigation by DBRL staff, which will include, but not be limited to, a review of the firm's financial statements and the background of the sales representative. All approved dealers must be fully licensed and registered NASD Broker/Dealers or exempt banks. Criteria used to select securities dealers will include:

- a. Financial strength and capital adequacy of firm;
- b. Services provided by firm;
- c. Research services available;
- d. Resume, reputation and qualifications of sales representative;
- e. Due diligence and firm references; and
- f. Experience and expertise working with governmental entities.

V. Safekeeping and Custody

1. Monthly Reports

DBRL will require monthly reports from Boone County specifying the amount of funds invested with the investment pools. Once a year, Boone County and the City of Columbia will submit a list of investments for the Executive Director's or Executive Director's designee to review.

2. Safekeeping

For investments other than cash in bank accounts, investment pools and certificates of deposit, securities will be held by an independent third-party custodian selected by the financial institution. Ownership of these assets will be evidenced by safekeeping receipts in DBRL's name. The safekeeping institution will annually provide a copy of their most recent report on internal controls.

3. Internal Controls

The Executive Director or the Executive Director's designee is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of DBRL are protected from loss, theft and misuse, and that its

investment objectives are being met. The internal control procedures should be designed to ensure investment objectives are being met for all investments other than the investment pools and any certificates of deposit. The City of Columbia and Boone County will design internal controls for their investment pools.

4. Delivery vs. Payment (DVP)

If DBRL invests its own funds, trades will be executed by DVP to ensure that securities are deposited in eligible financial institutions prior to the release of funds. All securities will be perfected in the name or for the account of DBRL and will be held by an approved third-party custodian as evidenced by safekeeping receipts. All third-party custodians will be a Federal Reserve Bank or National Bank.

VI. Suitable and Authorized Investments

1. Investment Types

In accordance with and subject to restrictions imposed by current statutes, the following list represents the entire range of investments that the library will be authorized to consider and which will be authorized for the investments of funds by the library.

- a. Investment pool operated by Boone County.
- b. Securities issued by State of Missouri – The library may invest in obligations of the Missouri State government for which the full faith and credit of the State of Missouri are pledged for the payment of principal and interest.
- c. United States Treasury Securities – The library may invest in obligations of the United States government for which the full faith and credit of the United States are pledged for the payment of principal and interest.
- d. United States Agency Securities – The library may invest in obligations issued or guaranteed by any agency or any wholly owned corporation of the United States Government.
- e. Repurchase Agreements – The library may invest in contractual agreements between the library and commercial banks or primary government securities dealers. The purchaser in a repurchase agreement (repo) enters into a contractual agreement to purchase Treasury and government agency securities while simultaneously agreeing to resell the securities at predetermined dates and prices.
- f. Collateralized Public Deposits (Certificates of Deposit) – Instruments issued by financial institutions which state that specified sums have been deposited for specified periods of time and at specified rates of interest. The certificates of deposit are required to be backed by acceptable collateral securities as described in 110.010 and 110.020 RSMo.
- g. Bankers' Acceptance – Time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances. The library may invest in bankers acceptances issued by domestic commercial banks possessing the highest rating issued by Moody's Investor Services, Inc. or Standard and Poor's

Corporation.

- h. Commercial Paper – The library may invest in commercial paper issued by domestic corporations, which have received the highest rating issued by Moody's Investor Services Inc, or Standard and Poor's Corporation.

2. Investment Restrictions and Prohibited Transactions

To provide for the safety and liquidity of DBRL's funds, the investment portfolio will be subject to the following restriction:

- a. Borrowing for investment purposes ("Leverage") is prohibited.
- b. Instruments known as Structured Notes (e.g. inverse floaters, leveraged floaters and equity-linked securities) are not permitted. Investment in any instrument, which is commonly considered a "derivative" investment (e.g. options, futures, swaps, caps, floors and collars), is prohibited.
- c. Contracting to sell securities not yet acquired in order to purchase other securities for purposes of speculating on developments or trends in the market is prohibited.

3. Collateralization

Full collateralization will be required on all demand deposit accounts, including checking accounts and non-negotiable certificates of deposit, less the amount, if any, which is insured by the Federal Deposit Insurance Corporation or the National Credit Unions Share Insurance Fund. In order to anticipate market changes and provide a level of security for all funds, the market value (including accrued interest) of the investment should be at least one hundred percent (100%) collateralized. All securities, which serve as collateral against the deposits of a depository institution, must be safekept at a non-affiliated custodial facility. Obligations that may be pledged as collateral are the same securities allowed to collateralize state funds listed in Section 30.270 RSMo.

VII. Investment Parameters

1. Diversification

DBRL will invest in the Boone County and City of Columbia investment pools, which have a diversified portfolio. For funds not invested in the investment pools, the investments will be diversified or one hundred percent (100%) collateralized to minimize the risk of loss resulting from over-concentration of assets in a specific maturity, specific issuer or specific class of securities.

VIII. Reporting

1. Methods

- a. If DBRL is participating in the Boone County investment pool, the CFO will be responsible for ensuring the county and city rates of return meet or exceed the benchmark rate of return.
- b. If DBRL is not participating in the Boone County investment pool, the CFO will prepare or cause to be prepared an investment report at least annually, including

a management summary, which provides an analysis of the status of the current investment portfolio or investment pool and any significant transactions made over the last year. This management summary will be prepared in a manner that will allow the Board to ascertain whether investment activities during the reporting period have conformed to the investment policy. The investment report must include:

- i. A listing of individual securities held at the end of the reporting period.
 - ii. Realized and unrealized gains and losses resulting from appreciation or depreciation by a listing of the cost and market value of securities over a one (1) -year duration (in accordance with Government Accounting Standards Board [GASB] 31 requirements).
 - iii. The average weighted yield to maturity or portfolio on investments as compared to applicable benchmarks.
 - iv. A listing of investment by maturity date.
 - v. The percentage of the total portfolio which each type of investment represents.
2. Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should strive to obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks may be established against which portfolio performance will be compared on a regular basis. The Executive Director or CFO will compare the rate of return on three (3) -month U.S. Treasury bills or other key rates to the investment pools' returns at least annually to determine if the library is receiving a fair return on investment.

3. Marking to Market

As long as the investments are with the Boone County investment pool, the market value of the portfolio will be calculated at least annually and a statement of the market value of the portfolio will be issued to the Board at least annually.

IX. Policy Consideration

1. Exemption

Any investment currently held that does not meet the guidelines of this policy will be exempt from the requirement of this policy. At maturity or liquidation, such moneys will be reinvested only as provided in this policy.

2. Adoption

The policy will be reviewed annually by the Executive Director or Executive Director's designee and if needed, recommended changes will be presented to the DBRL Board or Finance Committee.

PROCEDURE

1. Boone County
 - a. Cash in custody will be invested by the Boone County Treasurer in its investment pool. Boone County tax receipts will be invested in the investment pool until required for DBRL disbursements. Warrants will be issued to transfer the funds to the DBRL interest bearing checking account.
 - b. Monthly reports will be received from the Boone County Treasurer.
 - c. The CFO will evaluate the rate of return received.
 - d. The CFO will reconcile the property tax revenue to the reports received directly from the Boone County Collector.
2. Callaway County
 - a. A small balance will be maintained in a savings account earning a competitive rate of interest at The Callaway Bank. This is required for the Callaway County Public Library staff to get change for its cash register. This bank account will be reconciled monthly by the Financial, Payroll and Benefits Specialist.
3. Review of Financial Accounts and Investments
 - a. The Executive Director will maintain a checking account to be used to pay for regional expenditures. The checking account will have an investment feature.
 - b. The Executive Director or the Executive Director's designee will review the library's relationships with area financial institutions every three to five years.
 - c. The Executive Director or the Executive Director's designee will consider the following criteria prior to recommending changes in financial product vendors: financial stability of the organization, rates of return on checking and investment accounts, past working relationship and applicable service fees. The cost and inconvenience of changing vendors will also be a consideration.
 - d. The Executive Director or the Executive Director's designee will report their findings to the Board for their approval or to the DBRL Finance Committee, who will in turn recommend any changes in financial product vendors to the full Board for approval.
 - e. All bank statements will be sent to the administrative office and reconciled on a monthly basis.
 - f. The signature cards for all bank accounts will be reviewed annually and revised as signatory changes dictate. The Board or the appropriate individual district board must approve all revisions to the signature cards as appropriate.
 - g. Signatures on all accounts will be the Executive Director, Executive Director's designee and/or others that are approved by the Board or individual library boards, as appropriate.