

Policy Statement

It is the policy of Comstock Township Library to invest its funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow needs of the Library and to comply with all state statutes governing the investment of public funds.

Section 1.0 - Definitions

As used herein and incorporated into this Investment Policy of the Comstock Township Library, County of Kalamazoo, State of Michigan (the "Library"), the following terms shall be defined as follows:

"Financial Institution" means a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.

"Governing body" means the Board of Directors of the Library.

"Funds" means the money of the Library, the investment of which is not otherwise subject to a public act of this state or bond authorizing ordinance or resolution of the Comstock Township Library that permits investment in fewer than all of the investment options listed in 1943 PA 20, as amended ("Act 20"), or imposes 1 or more conditions upon an investment in an option listed in Act 20, as amended.

"Investment Officer" means the Treasurer of the Charter Township of Comstock.

"Public Corporation" means the Comstock Township Library created pursuant to the City, Village, and Township Libraries Act, 1877 PA 164, as amended, MCL 397.201 et seq. ("Act 164").

Section 2.0 - Purpose

The purpose of this Investment Policy (the "Policy") is to set forth the investment objectives and parameters for the safe management of public funds of the Library. This Policy is designed to safeguard all funds of the Library, to assure the availability of operating and capital funds when needed, to provide a competitive investment return, and to comply with all state statutes governing the investment of public funds.

Section 3.0 - Scope

This Policy applies to all cash, investments, financial assets and funds held or controlled by or on behalf of the Library, including specifically those cash, investments, financial assets and funds held by the Charter Township of Comstock on behalf of and for the account of the Library. These assets are accounted for in the various funds of the Library and the Charter Township of Comstock and include any new fund established by the Library or the Charter Township of Comstock on behalf of the Library.

Section 4.0 - Objectives

Funds of the Library funds shall be kept separate and apart from other monies of the Charter Township of Comstock and shall be invested in accordance with Act 20 and in accordance with the following Objectives in order of priority:

Section 4.1 Safety

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

Section 4.2 Diversification

The investments will be diversified by security type and institution in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Section 4.3 Liquidity

The investment portfolio shall remain sufficiently liquid to meet all reasonably anticipated operating requirements of the Library. The Investment Officer shall be responsible for maintaining the required level of liquidity.

Section 4.4 Return on Investment

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

Section 5.0 – Authority to Make Investments

Pursuant to Act 20 and Act 164, authority to manage the investment program is derived from the Board of Directors. Management responsibility for the investment program is hereby delegated to the Investment Officer who shall establish procedures and internal controls for the operation of the investment program, consistent with this Investment Policy. No person may engage in investment transactions except as provided under the terms of this Policy and the procedures established by the Investment Officer. The Investment Officer shall act as a fiduciary for the Library and shall be responsible for all transactions undertaken and shall establish a system of control to regulate the activities of subordinate officials and shall report these procedures to the Library's auditors and the Board of Directors for review.

Section 6.0 – Authorized Instruments

Pursuant to Act 20, the funds of the Library may be invested in one or more of the following investment instruments:

- (a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- (b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is eligible to be a

depository of funds belonging to the state under law or rule of Michigan or the United States.

- (c) Commercial paper rated at the time of purchase within the two (2) highest classifications established by not less than two (2) standard rating services and that matures not more than 270 days after the date of purchase.
- (d) Repurchase Agreements consisting of instruments listed in subsection (a) above.
- (e) Bankers' acceptances of United States banks.
- (f) Obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one (1) standard rating service.
- (g) Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 USC § 80a-1 to 80a-3 and 80a-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
 - (i) The purchase of securities on a when-issued or delayed delivery basis.
 - (ii) The ability to lend portfolio securities as long as the mutual fund received collateral at all times equal to at least 100% of the value of the securities loaned.
 - (iii) The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- (h) Obligations described in subdivision (a) through (g) if purchased through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7; MCL 124.501 - 124.512.
- (i) Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367; MCL 129.111 - 129.118.
- (j) Investment pools organized under the Local Government Investment Pool Act, 1985 PA 121; MCL 129.141 to 129.150.
- (k) Certificates of deposit in accordance with all of the following conditions:

- (i) The funds are initially invested through a financial institution that is not ineligible to be a depository of surplus funds belonging to this state under section 6 of 1855 PA 105, MCL 21.146.
- (ii) The financial institution arranges for the investment of the funds in certificates of deposit in 1 or more insured depository institutions, as defined in 12 USC 1813, or 1 or more insured credit unions, as defined in 12 USC 1752, for the account of the public corporation.
- (iii) The full amount of the principal and any accrued interest of each certificate of deposit is insured by an agency of the United States.
- (iii) The financial institution acts as custodian for the public corporation with respect to each certificate of deposit.
- (iv) At the same time that the funds of the public corporation are deposited and the certificate or certificates of deposit are issued, the financial institution receives an amount of deposits from customers of other insured depository institutions or insured credit unions equal to or greater than the amount of the funds initially invested by the public corporation through the financial institution.
Assets acceptable for pledging to secure deposits of public funds are limited to surplus assets authorized for direct investment under this Section.

Section 7.0 – Safekeeping and Custody

All security transactions, including collateral for repurchase agreements and financial institution deposits, entering into by or on behalf of the Library shall be on a cash (or delivery vs payment) basis. Securities may be held by a third party custodian designated by the Investment Officer and evidenced by safekeeping receipts as determined by the Investment Officer.

Section 8.0 – Prudence

Investments shall be made with that level of 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.

Before executing an order to purchase or trade the funds of the Library, the Investment Officer shall provide the financial intermediary, broker, or dealer with a copy of this Policy. The financial intermediary, broker, or dealer shall:

- (a) Acknowledge receipt of the Investment Policy of the Comstock Township Library.

- (b) Agree to comply with the terms of the Investment Policy the Comstock Township Library regarding the buying or selling of securities. (See Acknowledge of Receipt and Agreement to Comply attached as Exhibit A hereto.)

Section 9.0 – Ethics and Conflict of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of this Policy, or which could impair their ability to make impartial investment decisions. Employees and the Investment Officer shall disclose to the Board of Directors any material financial interest in financial institutions that conduct business for or on behalf of the Library and they shall disclose any large personal financial/investment positions that could be related to the performance of the Library's portfolio. Employees and the Investment Officer shall subordinate their personal investment transactions to those of the Library particularly with regard to the timing of purchases and sales.

Section 10.0 – Reporting Requirements

The Investment Officer shall prepare an annual written report concerning the Investment of Funds which shall be provided to the Board of Directors no later than 120 days after the end of the Library's fiscal year.

Section 11.0 – Effective Date

This Policy shall become effective as of the 20 day of December, 2010, the day following adoption by the Board of Directors of the Comstock Township Library.

ALLOWABLE INVESTMENTS

Description of Investments which comply with the requirements of 1943 PA 20, as amended¹.

US Treasury Bills: Obligations of the United States Government sold at a discount from par with a specific maturity date up to a maximum maturity of one year. Available in minimum denominations of \$10,000 and increments of \$5,000 thereafter, interest is discounted and calculated using actual number of days on a 360 day year.

US Treasury Notes: Obligations of the United States Government bearing interest payable at six month intervals until maturity. Maturities are from one to ten years. Denominations, after a minimum of \$5,000, are in \$1,000 multiples.

US Treasury Bonds: Similar to notes except original maturities are ten years and longer. Interest is generally payable on February and August 15 or May and November 15, comparable to U.S. Treasury Notes.

US Treasury STRIPS: Separate Trading of Registered Interest and Principal of Securities.

TINTS: Treasury Interest Securities.

PRINS or STRIP Ps: Treasury Principal Securities.

CUBES: Coupons Under Book Entry System.

US Government Agency Obligations:

Certificate of Deposit--CD: Is a receipt of funds deposited in a financial institution for a specified period at a specified rate of interest. A negotiable receipt may be in bearer or registered form and can be traded in the secondary market. A non-negotiable receipt is always registered and has no secondary market. Denominations can be any agreed amount, and interest is normally calculated using actual number of days on a 360 day year. However, each financial institution's calculations vary, and the investor should ask to avoid misunderstanding.

Savings Deposit Receipt: A non-negotiable receipt evidencing a deposit with interest to be paid at a stated rate. Maturity may be fixed, but nominally is subject to presentation by the depositor for payment. The amounts may be small or large but Federal Regulations will regulate the interest rate to be paid. This instrument is somewhat outdated due to popularity of regular passbook and statement savings accounts with daily interest.

Savings Account: A deposit evidenced by a passbook or monthly statement. Entries are made for each deposit and withdrawal and interest is paid in accordance with the policy of the financial institution. It is often used to accumulate small amounts of funds until a larger, higher yielding investment can be made.

¹ MCL 129.91

Commercial Paper: Short term unsecured debt obligation issued by a bank holding company, finance company, utility or industrial company to raise short term cash.

Repurchase Agreement: Is not a security but a contractual arrangement between a financial institution or dealer and an investor. The agreement normally can run for one to thirty days, but some can go longer. The investor puts up his funds for a certain number of days at a stated yield. In return he takes title to a given block of securities as collateral. At maturity the securities are returned and the funds repaid plus interest. Usual amounts are \$500,000 or more, but some repurchase agreements can be smaller. Interest is calculated the same as certificates of deposit.

Extreme caution should be exercised to obtain an undivided interest in the securities under repurchase agreement. Furthermore, if the securities are held for you in safekeeping, they should be held in a customer-segregated safekeeping account, preferably by a third party.

The securities under repurchase agreement should also be "Market-to-Market," meaning that the value of the securities should be maintained during the entire life of the agreement at levels equal to or greater than the amount advanced for the agreement.

Bankers' Acceptance: A negotiable time draft or bill of exchange drawn on and accepted by a commercial bank. Acceptance of the draft irrevocably obligates the bank to pay the bearer the face amount of the draft at maturity. Bankers' acceptances are usually created to finance the import and export of goods, the shipment of goods within the United States and the storage of readily marketable staple commodities. Bankers' acceptances are sold at a discount from par similar to U.S. Treasury Bills, and, since an acceptance is tied to a specific loan transaction, the amount and maturity of the acceptance are fixed.

Investment Pools: Those investment pools organized under the authority of the urban cooperation act of 1967, 1967 (Ex Sess) PA 7 (MCL 124.501 to 124.512), the surplus funds investment pool act, 1982 PA 367 (129.111 to 129.118) and the local government investment pool act, 1985 PA 121, (MCL 129.141 to 129.150). Those pools are managed by contractual agreement contained in the interlocal agreement, banks and a county treasurer, respectively. All of the pools are limited to investments described in section 6 (1) (a) through (g) of the Investment Policy.

PROHIBITED INVESTMENTS

Description of Investments which **do not** comply with the requirements of 1943 PA 20, as amended².

The following potential investments are not securities but are contractual agreements between a broker or dealer and an investor. They are not investments in the underlying securities. Repurchase agreements are contractual agreements specifically authorized by the Act, while these contractual agreements are not mentioned in the Act and are therefore specifically excluded.

CATS: Certificates of Accrual on Treasury Securities originated by Salomon Brothers in 1984.

COUGRs: Certificates on Government Receipts ("Cougars") originated by A.G. Becker.

ETRs: Easy Growth Treasury Receipts ("Eaters") issued by Dean Witter.

TBRs: Treasury Bond Receipts ("Teddy Bears") originated by E.F. Hutton.

TIGRs: Treasury Investment Growth Receipts ("Tigers") issued by Merrill Lynch.

TRs: Treasury Receipts, the generic form of zero coupons issued by a group of dealers. "TRs" is also the generic term used to reference the family or "zoo" of Proprietary/Government Guaranteed Receipts.

ZCTOs: Zero Coupon Treasury Obligations ("Zitcos") originated by Lehman Brothers.

CMOs: Pools (not mutual funds) of GNMA's packaged as a bond and are classical derivatives per the October 14, 1994 edition of the Wall Street Journal, "those arcane securities, whose returns are based on or derived from some underlying asset or index."

Certificate of Deposit--CD: Some brokers and dealers have programs whereby \$100,000, federally insured, certificates of deposit from numerous institutions are packaged in million dollar multiples and sold on an average yield of all the institutions participating in the package. This type of arrangement does not fall under the authority for investment pools under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512, the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118 or the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150 and is therefore NOT appropriate.

18,539,173.1\088888-03254

Approved: December 20, 2010
Comstock Township Library Board of Trustees

² MCL 129.91
Comstock Township Library Policies