

Revised Version

4:30 - Revenue and Investments

Investments

In accordance with the Illinois Public Funds Investment Act, [30 ILCS 235/0/01](#) *et seq.* (the "Act", the ~~School~~ District shall maintain a set of procedures for the investment of ~~School~~ District funds that includes the following elements:

- A. A listing of authorized investments
- B. The standard of care that must be maintained by the ~~people~~ investing the public funds
- C. Investment and diversification guidelines that are appropriate to the nature of the funds, the purpose for the funds, and the amount of the public funds within the investment portfolio
- D. Guidelines regarding collateral requirements, if any, for the deposit of public funds in a financial institution made pursuant to the Act, and, if applicable, guidelines for contractual arrangements for the custody and safekeeping of that collateral
- E. A system of internal controls and written operational procedures designed to prevent losses of funds that might arise from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of the District
- F. Performance measures that are appropriate to the nature of the funds, the purpose for the funds, and the amount of the public funds within the ~~School~~ District's investment portfolio
- G. Appropriate quarterly review of the investment portfolio, its effectiveness in meeting the ~~School~~ District's needs for safety, liquidity, rate of return, and diversification and its general performance
- H. Written reports of investment activities by the Treasurer for submission to the Board of Education and the Superintendent as referenced in Section L, including information regarding securities in the portfolio by class or type, book value, income earned, and market value as of the report date
- I. A procedure for the selection of investment advisors, money managers, and financial institutions
- J. A policy regarding ethics and conflicts of interest

The Assistant Superintendent for Finance and Operations of the ~~School~~ District shall establish and submit, subject to the review of the Treasurer, such procedures for the Board's approval and shall periodically review and propose needed amendments thereto.

Such procedures and this policy shall be kept available at all times for public review at the ~~School~~ District's administrative offices.

Details for Investment

A. Scope

This investment policy applies to all funds of the District. These funds are accounted for in the District's annual financial report and ~~include~~ all current funds, and any other funds that

may be created, except for District pension funds to the extent the deposit and investment of such funds is otherwise regulated under the Illinois Pension Code. All transactions involving the District's funds and related activity of any funds shall be administered in accordance with the provisions of this policy and the canons of the "prudent person rule".

B. Objectives

1. *Safety of Principal* - Investments shall be undertaken in a manner that seeks to ensure the preservation of principal in the overall portfolio. To attain this objective, only appropriate investment instruments will be purchased and insurance or collateral may be required to ensure the return of principal.
2. *Liquidity* - The District's investment portfolio shall be structured in such manner as to provide sufficient liquidity to pay obligations as they come due.
3. *Return of Investments* - The investment portfolio shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the risk constraints, the cash flow characteristics of the portfolio and legal restrictions for return of investments.
4. *Maintaining the Public's Trust* - The investment officers shall seek to act responsibly as custodians of the public trust and shall avoid any transaction that might impair public confidence in the District, the Board or the **School** Treasurer.

C. Investment Instruments

The District may invest its funds only in **the** instruments listed below:

1. Bonds, notes, certificates of indebtedness, treasury bills or other securities now or hereafter issued by the United States of America, its agencies and allowable instrumentalities; (Investments in Federal National Mortgage Association issues are limited to short-term discount notes.)
2. Interest-bearing bonds of any county, township, city, village, incorporated town, municipal corporation, or school district, of the State of Illinois, of any other state, or of any political subdivision or agency of the State of Illinois or of any other state, whether the interest earned is taxable or tax-exempt under federal law. The bonds shall be (a) registered in the name of the municipality, county or other government unit, or held under custodial agreement at a bank, and (b) rated at the time of purchase within the four highest general classifications established by a rating service of nationally recognized expertise in rating bonds of states and their political subdivisions.
3. Interest bearing savings accounts, interest bearing certificates of deposit or interest bearing time deposits, or any other investments constituting direct obligations of any bank as defined by the Illinois Banking Act;
4. Certificates of deposit with Federally insured institutions that are collateralized or insured at levels acceptable to the District to the insured maximum limit provided by the Federal Deposit Insurance Corporation coverage;
5. Collateralized repurchase agreements which conform to the requirements stated in paragraph 2(g) or 2 (h) of the Act;

6. Commercial paper meeting the following requirements:
 - a. The corporation must be organized in the United States.
 - b. The corporation's assets must exceed \$500 million and must have a minimum market capitalization of \$5 billion dollars.
 - c. The obligations at the time of purchase must be rated [within the highest classification] by at least two (2) of the three standard rating agencies – Moody's, Standard & Poors, or Fitch.
 - d. The obligations cannot have a maturity longer than 270 days.
 - e. Not more than thirty-three percent (33%) of the total investment fund can be invested in commercial paper at any time.
 - f. The total investment in any one (1) corporation cannot exceed two percent (2%) of the corporation's outstanding obligations.
7. The Illinois Public Treasurer's Investment Pool;
8. The Illinois School District Liquid Asset Fund;
9. The Illinois Metropolitan Investment Fund (IMET);
10. Any other investment instruments now permitted by the Act or hereafter permitted by reason of amendment of the Act;
11. Investments may be made only in those savings banks, ~~or~~ savings and loan association ~~the~~ shares, or investment certificates ~~of which that~~ are insured by the Federal Deposit Insurance Corporation;
12. Investment products that are considered as derivatives are specifically excluded from approved investments.

D. Diversification

It is the policy of the District to diversify its investment portfolio. Investments shall be diversified to eliminate the risk of loss resulting in over concentration in a specific maturity, issuer, or class of securities. Diversification strategies shall be determined and revised periodically by the Treasurer. The diversification shall be as follows, based upon the categories in Section C above:

1. Up to 100 % of C1
2. Up to 90% of C2 and C3
3. Up to 60% of C6 and C7
4. Up to 33% of C4 and C5

E. Collateralization

1. It is the policy of the District to require that time deposits in excess of FDIC insurable limits be secured by collateral or private insurance to protect public deposits in a single financial institution if it were to default.

2. Eligible collateral instruments are any investment instruments acceptable under the Act. The collateral must be placed in safekeeping at or before the time the District buys the investments so that it is evident that the purchase of the investment is predicated on the securing of collateral.

3. Safekeeping of Collateral

a. Third party safekeeping is required for all collateral. To accomplish this, the securities must be held at one (1) or more of the following locations:

- 1) at a Federal Reserve Bank or its branch office; or
- 2) at another custodial facility in a trust or safekeeping department through book-entry at the Federal Reserve.

b. Safekeeping will be documented by an approved written agreement between the Board of Education and the governing board of the bank that complies with FDIC regulation. This may be in the form of a safekeeping agreement.

c. Substitution or exchange of securities held in safekeeping for the District can be approved exclusively by the Treasurer of Assistant Superintendent for Finance and Operations, and only if the market value of the replacement securities is equal to or greater than the market value of the securities being replaced.

F. Safekeeping of Securities

1. Third party safekeeping is required for all securities and commercial paper. To accomplish this, the securities must be held only at one (1) or more of the following locations:

- a. At a Federal Reserve Bank or its branch office;
- b. At another custodial facility, which shall be a trust or safekeeping department through book-entry at the Federal Reserve, unless physical securities are involved; or
- c. In an insured account at a primary reporting dealer.

2. Safekeeping will be documented by an approved written agreement between the Board of Education and the holder of the securities. This may be in the form of a safekeeping agreement, trust agreement, escrow agreement or custody agreement.

3. Original certificates of deposits will be held by the originating bank. A safekeeping receipt will be acceptable documentation.

G. Qualified Financial Institutions and Intermediaries

1. Depositories - Demand Deposits

a. Any financial institution selected by the District shall provide normal banking services, including, but not limited to: checking accounts, wire transfers and safekeeping services.

b. The District will not maintain funds in any financial institution that is not a member of the FDIC system. In addition, the District will not maintain funds in any institutions that does not first agree to post required collateral for funds or purchase private insurance in excess of FDIC insurable limits and in amounts acceptable to the District.

c. To qualify as a depository, a financial institution must furnish the Treasurer with copies

of the latest two (2) statements of condition, which it is required to furnish to the comptroller of Currency or other regulatory body as the case may be. While acting as a depository, a financial institution must continue to furnish such statements to the Treasurer within forty-five (45) days of the end of each quarter.

d. Fees for banking services shall be mutually agreed to by an authorized representative of the depository bank and the Treasurer on an annual basis. Fees for services shall be substantiated by a monthly account analysis.

e. Each financial institution acting as a depository for the District must enter into a depository agreement with an authorized **District** official that incorporates this policy by reference.

f. The District will recognize and provide consideration to local institutions.

g. The District will recognize and provide consideration to CRA ratings and other indicators of community support.

2. Banks and Savings and Loans-Certificates of Deposit

Any financial institution selected to be eligible for the District's competitive certificate of deposit purchase program must:

a. Provide wire transfer and certificate of deposit safekeeping services;

b. Be a member of **the** FDIC system and be willing and capable of posting required collateral or private insurance for funds in excess of FDIC insurable limits and in amounts required by the District; **and**

c. **Always meet** the financial criteria **as established set forth** in the **District's** investment policy **of the District**.

3. Intermediaries

4. Any financial intermediary selected to be eligible for the District's competitive investment program must:

a. Provide wire transfer and deposit safekeeping services;

b. Maintain appropriate Federal and State registrations for the type of business in which they are engaged;

c. Provide an annual audit upon request;

d. Maintain an office within the State of Illinois and be licensed to conduct business in this State; and

e. Be familiar with the **Board of Education's District's** policy and accept financial responsibility for any investment not appropriate according to the policy.

H. Management of Program

1. The following individuals are authorized to purchase and sell investments, authorize wire transfers, authorize the release of pledged collateral, and ~~to~~ execute any documents required under this procedure:

- a. Treasurer
- b. Assistant Superintendent for Finance and Operations
- c. Fiscal Services Administrator

These documents include:

- a. Wire Transfer Agreement
- b. Depository Agreement
- c. Safekeeping Agreement
- d. Custody Agreement
- e. Collateral Agreement

2. Management responsibility for the investment program is hereby **delegated** to the Treasurer and the Assistant Superintendent for Finance and Operations, who shall establish a system of internal controls and written operational procedures designed to prevent losses of funds that might arise from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of the entity. Such procedures shall include explicit delegation of authority to **persons the people** responsible for the execution under the direction of the Treasurer of specific financial transactions, including: investment transactions, check signing, check reconciliation, deposits, bond payments, report preparation and wire transfers. No person may engage in any investment transaction except as provided for under the terms of this policy. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinates.

3. The wording of agreements necessary to fulfill the investment responsibilities is the responsibility of the Treasurer, who shall periodically review them for their consistency with District policy and State law and who shall be assisted in this function by District legal counsel and auditors. These agreements include but are not limited to:

- a. Wire Transfer Agreement
- b. Depository Agreement
- c. Safekeeping Agreement
- d. Custody Agreement
- e. Collateral Agreement

4. The Treasurer may use financial intermediaries, brokers, and/or financial institutions to solicit bids for securities and certificates of deposit. These intermediaries shall meet the criteria set forth in Section G(3) above and shall be approved by the Board of Education.

5. All wire transfers shall require a secondary authorization by the Treasurer, Assistant Superintendent for Finance and Operations, or Fiscal Services Administrator.

6. The Treasurer shall be further authorized to enter into joint investment agreements as authorized under Section 8-7 of the School Code.

I. Performance

The goal of the investment portfolio should align with the cash flow needs of the district, which typically requires a hold to maturity investment strategy or the use of approved money market funds that offer yields that are attractive relative to the direct investment portfolio. The Treasurer will strive to earn a rate of return for the District's investment portfolio that is consistent with the goals of preservation of capital, first and foremost, and then choose among the investment options defined in Section B of this document that over time insure the best return. All money market fund investment returns should meet or exceed, net of fees, the Illinois Funds benchmark over a market cycle defined by three to five (3-5) years. All direct investments will strive to earn an average rate of return equal to or greater than the Constant Maturity Treasury index closest to the direct investments maturity at the time of investment. This performance will be measured on a quarterly basis by the Treasurer, reviewed by FORC and then submitted to the Board of Education for review.

J. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Further, except as permitted under Section 3.2 of the Public Officer Prohibited Practices Act, no officer involved in the investment process shall have any interest in, or receive any compensation from, any investments in which the District is authorized to invest, or from the sellers, sponsors or managers of those investments.

K. Indemnification

Investment officers and employees of the District, acting in accordance with this Investment Policy and such written operational procedures as may be established by the District, and who otherwise exercise due diligence and act with reasonable prudence, shall be relieved of personal liability for an individual security's credit risk or market changes.

L. Reporting

The Treasurer shall submit to the Board of Education and the Superintendent a monthly investment report that shall include information regarding securities in the portfolio by class or type, book value, income earned, performance evaluation against a Constant Maturity Treasury index or other appropriate benchmark, and market values as of the report date. Generally accepted accounting principles shall be used for valuation purposes. The report shall indicate any areas of policy concern and planned revision of investment strategies.

M. Amendment

The Assistant Superintendent for Finance and Operations shall review annually the effectiveness of this policy in meeting the District's needs for safety, liquidity, rate of return, diversification, and general performance. The Assistant Superintendent for Finance and Operations' recommendations shall be reviewed by the Treasurer and, in instances that the Assistant Superintendent for Finance and Operations serves the District as its School Treasurer, the Finance Oversight Review Committee (FORC) will first review any recommendations for amending any portion of this policy prior to submission to the Board of Education. Any substantive changes will be submitted to the Board of Education for approval.

Every two years, this policy will be thoroughly reviewed by FORC and then reviewed by the Board of Education to maintain its viability and timeliness.

LEGAL REF.:

30 ILCS 235/.

105 ILCS 5/8-7, 5/10-22.44, 5/17-1, and 5/17-11.

CROSS REF.: 2:100 (Board Member Conflict of Interest), 4:10 (Fiscal and Business Management), 4:80 (Accounting and Audits)

ADOPTED: March 19, 2013