

Operational Services

Investment Policy

The District's financial assets are defined as money held in funds which are accounted for in the District's annual financial report. This investment policy applies to all financial assets of the District, including all current operating funds, any other funds which may be created from time to time and interest earned from those funds. All transactions involving the District's financial assets shall be administered in accordance with the provisions of this policy.

I. Objectives

The primary objectives of this policy, in priority of order, are as follows:

- **Safety of Principal:** 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 District's overall portfolio. The objective will be to mitigate credit risk and interest rate risk. As such, only appropriate investments will be purchased, and insurance or collateral may be required to ensure the return of capital.
- **Liquidity of Funds:** The District's investment portfolio shall remain sufficiently liquid to enable the District to meet all operating requirements as they come due.
- **Return on Investments:** The investment portfolio shall be designed to attain a market rate of return throughout budgetary and economic cycles taking into account the risk restraints, cash flow characteristics, and legal restrictions on investments applicable to a public agency. Return on investment is of secondary importance to the safety and liquidity concerns discussed above.

II. Standard of Care

The standard of care to be used by District officials and employees in investing District funds and managing the District portfolio shall be the "prudent person" standard. District officials and employees who act in accordance with written procedures developed by the District's Financial Officer and this policy, and who exercise due diligence, shall be relieved of personal responsibility for an individual investment's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of investments are carried out in accordance with this policy.

Investments shall be made with the judgment and care, under the circumstances prevailing at the time, 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.

III. Ethics and Conflicts of Interest

District officials and all District employees involved in the investment program shall refrain from any personal business activity that could conflict with the proper execution and management of the investment program, or which could impair their ability to make impartial investment decisions. Officials and employees shall disclose any material interests in financial institutions with which they conduct District business. They shall also disclose any personal financial/investment positions that could be related to the performance of the District's investment portfolio. Officials and employees shall refrain from undertaking personal investment transactions with the same individual with whom any District financial or investment business is conducted.

IV. Designation of Investment Officer

Annually, the Board of Education will formally designate an Investment Officer. The Investment Officer is authorized to manage and operate the District's investment program. The Investment Officer is authorized to purchase and sell investments at market rates, authorize wire transfers, authorize the release of pledged collateral, and execute any documents required to effect the objectives of this Policy and all relevant Administrative Procedures, including, but not limited to wire transfer agreements, depository agreements, safekeeping agreements and custody agreements. The Investment Officer shall act in accordance with this policy when conducting investment activities. The Investment Officer shall be responsible for all District investment transactions undertaken and shall establish written procedures and a system of internal controls to regulate the activities of subordinate employees.

The Financial Officer may use financial intermediaries, brokers, and/or financial institutions to solicit bids for securities and certificates of deposit provided that these people meet the requirements of this policy.

The Investment Officer is responsible for drafting agreements necessary to fulfill his or her responsibilities under this policy. The Investment Officer may solicit the input of the District's legal counsel and auditors to ensure proper drafting of agreements including, but not limited to, wire transfer agreements, depository agreements, safekeeping agreements and custody agreements.

V. Written Procedures to be Established by the Investment Officer

The Investment Officer shall establish and enforce internal controls and written procedures for the operation of the District's investment program. The internal controls and written operational procedures will be 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.

The internal controls shall include an annual independent review by an external auditor to ensure compliance with this policy and the written procedures. The internal controls shall also address the following:

- Control of collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate employees
- Written confirmation of transactions for investments and wire transfers
- Development of a wire transfer agreement with the lead bank and third-party custodian

The written operational procedures shall include explicit delegation of authority to, and designation of, persons responsible for investment transactions, including, but not limited to, 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.

VI. Authorized Financial Institutions and Dealers

A. Qualified Financial Institutions for Maintaining District Funds. Financial institutions selected to maintain District funds shall provide normal banking services, including, but not limited to: checking accounts, wire transfers and safekeeping. District funds will not be maintained in any financial institution that is not a member of the FDIC system. In addition, District funds will not be maintained in any institution not willing or capable of posting required collateral, or purchasing private insurance for funds in excess of FDIC insurable limits.

To qualify as a depository for District funds, a financial institution must furnish the Investment Officer with copies of the latest two statements of resources and liabilities which it is required to furnish to the Commissioner of Banks and Real Estate, or to the Comptroller of Currency. All institutions must continue to furnish such statements to the Investment Officer

within forty-five (45) days of the end of each fiscal quarter as long as District funds are deposited with them.

All financial institutions acting as depositories for District funds must enter into a "Depository Agreement".

In order to be eligible to hold District funds in certificates of deposit, a financial institution must:

- Provide wire transfer and certificate of deposit safekeeping services, and
- Hold membership in the FDIC system and be willing and capable of posting required collateral for funds in excess of FDIC or insurable limits.

Fees for banking services shall be mutually agreed to by an authorized representative of the depository financial institution and the Investment Officer on an annual basis. Fees for such services shall be verified by a monthly account analysis.

B. Qualified Financial Institutions and Dealers for Investment. All financial institutions, brokers, dealers, intermediaries and advisers with whom the District's funds are invested shall be qualified prior to the transfer of any funds. Brokers and dealers include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

All financial institutions, brokers and dealers who desire to become qualified for District investment transactions must supply the following as appropriate:

- Audited financial statements
- Proof of National Association of Securities Dealers (NASD) certification
- Proof of state registration
- Completed broker/dealer questionnaire
- Certification of having read, understood and agreed to the District's investment policy.

The Investment Officer may desire to invest in instruments offered by minority or community financial institutions from time to time. Such investments may be made after a waiver of the foregoing criteria has been obtained from the Board of Education.

VII. Investment Instruments

A. Authorized Investments. District funds may be invested in any type of security as permitted by Sections 2 through 6 of *The Public Funds Investment Act*, 30 ILCS 235/2 *et seq.*, as amended from time to time, or any other applicable law. All investments shall be executed by delivery vs. payment method where applicable to ensure that investments are deposited in an eligible financial institution prior to the release of funds. All investments shall mature or be redeemable on a date prior to the time when it is reasonably anticipated that the funds will be required to be expended. Investments

made with banks or savings and loan associations may be made with only those that are insured by the Federal Deposit Insurance Corporation.

All investments shall be executed by delivery vs. payment method where applicable to ensure that investments are deposited in an eligible financial institution prior to the release of funds. All investments shall mature or be redeemable on a date prior to the time when it is reasonably anticipated that the funds will be required to be expended. Investments made with banks or savings and loan associations may be made with only those that are insured by the Federal Deposit Insurance Corporation.

B. Prohibited Investments. Except for deposits or financial services with a local bank or savings and loan in which the Investment Officer is a director, officer, employee or holder of less than 7.5% of the total ownership interest, and which are allowed under the Public Officers Prohibited Practices Act, the Investment Officer shall not:

- Have any direct or indirect interest in any investments in which the District is authorized to invest;
- Have any direct or indirect interest in the sellers, sponsors or managers of those investments; and
- Receive, in any manner, compensation of any kind from any investments in which the District is authorized to invest.

VIII. Investment Procedures

A. Diversification. The District shall diversify its investment portfolio. Investments shall be diversified to minimize risk of loss resulting from over-concentration in a particular type of security, risk factor, issuer or maturity. Diversification strategies shall be determined and revised periodically, as needed, by the Investment Officer, to meet the District's needs for safety, liquidity and rate of return.

Because of the inherent difficulty in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as Public

Treasurers' Investment Pools, money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

B. Designation of District As Payee and Designation of the Appropriate Fund.

The District shall be designated as the payee whenever investments which are issuable to a designated payee or to the order of a designated payee are purchased with District funds. Such investments shall also include the name of the fund from which money was taken to purchase them. Any securities that are registerable as to principal or

interest shall be registered in the District's name and in the name of the fund from which money was taken to purchase them.

All investments shall be credited to, and considered a part of, the fund from which money was taken to purchase them. All payments of principal, interest or otherwise shall be made to the District only and shall be credited to the appropriate fund.

C. Collateralization.

1. Deposits in excess of FDIC insurable limits must be secured by some form of collateral or private insurance to protect public deposits in the event of default or failure of the financial institution holding the funds. Eligible collateral instruments are as follows:

- U.S. Government Securities
- Obligations of Federal Agencies
- Obligations of Federal Instrumentalities
- Obligations of the State of Illinois
- Other investment instruments authorized by law.

2. Third party safekeeping is required for all collateral. Safekeeping of collateral must be documented by an approved written agreement, which may be in the form of a safekeeping agreement. The collateral instruments may be held at the following locations:

- A Federal Reserve Bank or its branch office
- At another custodial facility in a trust or safekeeping department through book-entry
- By an escrow agent of the pledging institution
- By the trust department of the issuing bank

Safekeeping shall be documented by an approved written agreement, which may be in the form of a safekeeping agreement, escrow agreement or custody agreement.

Substitution or exchange of collateral instruments held in safekeeping for the District may be approved only by the Investment Officer, provided the market value of the replacement

collateral instruments is equal to or greater than the market value of the collateral instruments being replaced.

IX. Safekeeping of Securities

Third party safekeeping is required for all securities and commercial paper purchased with District funds. These instruments may be held at the following locations:

- A Federal Reserve Bank or its branch office
- At another custodial facility in a trust or safekeeping department

- By an escrow agent of the pledging institution
- In an insured account at a primary reporting dealer

Safekeeping shall be documented by an approved written agreement, which may be in the form of a safekeeping agreement, trust agreement, escrow agreement or custody agreement. Original certificates of deposit will be held by the originating bank. A safekeeping receipt will be acceptable documentation.

X. Sale of Investments

Any District investment may be sold at any time after maturity for no less than the current market price. Investments shall not be sold prior to maturity except under the following situations:

- An investment with declining value or credit may be sold early to minimize loss of principal.
- An investment swap would improve the quality, yield or target duration in the portfolio.
- Liquidity needs of the portfolio require that the investment be sold.

XI. Reporting

The Investment Officer shall prepare and present to the Board of Education an investment report on a monthly basis. The investment report shall include a summary that provides an analysis of the status of the current investment portfolio and transactions made since the last report. The report shall include:

- A listing of individual securities held at the end of the reporting period
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of investments, over a one-year duration, that are not intended to be held until maturity
- Average weighted yield to maturity of the portfolio investments as compared to applicable benchmarks
- Listing investments by maturity date

- Percentage of the total portfolio which each type of investment represents.
- The market value of the portfolio shall be calculated at least quarterly and included with the investment report.

XII. Policy Considerations

A. Exempt Investments. Any investment of District funds held at the time this policy is approved and which does not conform to the requirements contained herein shall be exempt from those requirements. The funds represented by any such investments shall be reinvested upon maturity or liquidation only as provided herein.

B. Amendments. This policy shall be reviewed from time to time by the Investment Officer and the Board of Education, or any subcommittee thereof. Any recommended changes shall be reported to the Board of Education for full Board approval.

This Policy shall be effective upon adoption.

POLICY ADOPTED:

8th day of December, 1999

LEGAL REF: *The Public Funds Investment Act, 30 ILCS 235/1 et seq.*