

## INVESTMENT OF DISTRICT FUNDS

### I. Investments – General Requirements

A. The Chief Investment Officer/Treasurer shall use the standard of prudence when making investment decisions. They shall use the judgment and care, under circumstances then prevailing, that persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the safety of their capital as well as its probable income.

#### B. Investment Objectives

1. Safety of Principal – Every investment is made with safety as the primary and overriding concern. Each investment transaction shall ensure that capital loss, whether from credit or market risk, is avoided.
2. Liquidity - The District's investment portfolio shall be structured in such a manner as to provide sufficient liquidity to pay obligations as they become due. In this regard, the maturity and marketability of investments shall be considered.
3. Rate of Return – The highest return on investments is sought, consistent with the preservation of principal and prudent investment principles.
4. Diversification – The investment portfolio is diversified as to materials and investments, as appropriate to the nature, purpose, and amount of the funds.

### II. Authorized Investments

District Funds shall be invested only as permitted by the *Public Funds Investment Act* and other applicable laws. District funds shall be invested in one or more of the following:

- A. Bonds, notes, certificates of indebtedness, treasury bills or other securities now or hereafter issued, which are guaranteed by the full faith and credit of the United States of America as to principal and interest.
- B. Bonds, notes, debentures, or other similar obligations of the United States of America, its agencies and its instrumentalities. The term “agencies of the United States of America” includes: (i) the federal land banks, federal intermediate credit banks for cooperative, federal farm credit banks, or any other entity authorized to issue debt obligations under the Farm Credit Act of 1971 and Acts amendatory thereto, (ii) the federal home loan banks and the federal home loan mortgage corporation, and (iii) any other agency created by Act of Congress.
- C. 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*.
- D. Obligations of corporations organized in the United States with assets exceeding \$500,000,000 if:
  1. Such obligations are rated at the time of purchase at one of the three highest classifications established by at least two standard rating services (Standard and

- Poor's, Duff and Phelps, Moody's and Fitch BCA Investors Service) and which mature not later than three years from the date of purchase;
2. Such purchases do not exceed 10% of the corporation's outstanding obligations; and
  3. No more than one-third of the District's funds may be invested in short-term obligations of corporations.
- E. Money market mutual funds registered under the federal *Investment Company Act of 1940*, provided that the portfolio of any such money market mutual fund is limited to obligations described in sections II.A and II.B above, and to repurchase agreements for such obligations.
- F. Interest-bearing bonds of any county, township, city, village, incorporated town, municipal corporation, school district, the State of Illinois, any other state, or any political subdivision or agency of the State of Illinois or 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 governmental unit, or held under a 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.
- G. Short term discount obligations of the Federal National Mortgage Association or in shares of other forms of securities legally issuable by savings banks or savings and loan associations incorporated under the laws of Illinois or any other state or under the laws of the United States, under the following conditions:
1. Investments may be made only in those savings banks, savings and loan associations, the shares, or investment certificates insured by the Federal Deposit Insurance Corporation;
  2. Any such securities may be purchased at the offering or market price thereof at the time of such purchase; and
  3. All such securities purchased shall mature or be redeemable on a date or dates prior to the time when, in the judgment of the treasurer, the funds so invested will be required for expenditure by the District or its governing authority.
- H. Dividend-bearing share accounts, share certificate accounts or class of share accounts of a credit union chartered under the laws of Illinois or the laws of the United States, under the following conditions:
1. The principal office of any such credit union must be located with the State of Illinois; and
  2. Investments may be made only in those credit unions the accounts of which are insured by applicable law.
- I. A Public Treasurers' Investment Pool created under Section 17 of the *State Treasurer Act*. The District may also invest District funds in a fund managed, operated, and administered by a bank, subsidiary of a bank, or subsidiary of a bank holding company or use the services of such an entity to hold and invest or advise regarding the investment of any public funds.

- J. Illinois School District Liquid Asset Fund.
- K. Repurchase agreements of government securities having the meaning set out in the *Government Securities Act of 1986*, as now or hereafter amended or succeeded, subject to the provisions of said Act and *the* regulations issued thereunder. The government securities, unless registered or inscribed in the name of the District, shall be purchased through banks or trust companies authorized to do business in the state of Illinois.
- L. Except for repurchase agreements of government securities which are subject to the *Government Securities Act of 1986*, as now or hereafter amended or succeeded, the District shall not purchase or invest in instruments which constitute repurchase agreements, and no financial institution may enter into such an agreement with or on behalf of the District unless the instrument and the transaction meet all the following requirements:
1. The securities, unless registered or inscribed in the name of the District, are purchased through banks or trust companies authorized to do business in the State of Illinois.
  2. The treasurer, after ascertaining which firm will give the most favorable rate of interest, directs the custodial bank to “purchase” specified securities from a designated institution. The “custodial bank” is the bank or trust company, or agency of government, that acts for the District in connection with repurchase agreements involving the investment of funds by the District. The State Treasurer may act as custodial bank for public agencies executing repurchase agreements.
  3. A custodial bank must be a member of the Federal Reserve System or maintain accounts with member banks. All transfers of book-entry securities must be accomplished on a Reserve Bank’s computer records through a member bank of the Federal Reserve System. These securities must be credited to the District on the records of the custodial bank and the transaction must be confirmed in writing to the District by the custodial bank.
  4. Trading partners shall be limited to banks or trust companies authorized to do business in the State of Illinois or to registered primary reporting dealers.
  5. The security interest must be perfected.
  6. The District enters into a written master repurchase agreement that outlines the basic responsibilities and liabilities of both buyer and seller.
  7. Agreements shall be for periods of 330 days or less.
  8. The treasurer informs the custodial bank in writing of the maturity details of the repurchase agreement.
  9. The custodial bank must take delivery of and maintain the securities in its custody for the account of the District and confirm the transaction in writing to the District. The custodial undertaking shall provide that the custodian takes possession of the securities exclusively for the District; that the securities are free of any claims against the trading partner; and that any claims by the custodian are subordinate to the District’s claims to rights to those securities.
  10. The obligations purchased by the District may only be sold or presented for redemption or payment by the fiscal agent bank or trust company holding the obligations upon written instruction of the treasurer.

11. The custodial bank shall be liable to the District for any monetary loss suffered by the District due to the failure of the custodial bank to take and maintain possession of such securities.

M. In any investment as authorized by the Illinois State Statutes, Public Funds Investment Act and Acts amendatory thereto. Paragraph L supersedes paragraphs A-K and controls in the event of conflict.

Except as provided herein, investments may be made only in banks, savings banks, savings and loan associations, or credit unions that are insured by the Federal Deposit Insurance Corporation or other approved share insurer.

### **III. Diversification**

A. Up to 100% of the District's investment portfolio may be in instruments listed in Sections II.A, II.B, II.E, II.H, and II.I above.

B. Up to 90% of the District's investment portfolio may be in instruments listed in Sections II.C, II.F, and II.G above.

C. Up to 33% of the District's investment portfolio may be in instruments listed in Sections II.D, II.J, and II.K above.

### **IV. Collateral Requirements**

All amounts deposited or invested with financial institutions in excess of any insurance limit shall be collateralized in accordance with Public Funds Investment Act, 30 ILCS 235/.

### **V. Safekeeping and Custody Arrangements**

A. Third party safekeeping is required for all securities and commercial paper. To accomplish this, securities registered in the District's name may be held by third-party safekeeping agents as approved from time to time by the treasurer.

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

C. Only the treasurer may approve the substitution or exchange of securities held in safekeeping for the District. The treasurer shall only approve such substitution or exchange if the market value of the replacement securities is equal to or greater than the market value of the securities being replaced.

D. Safekeeping practices should qualify for the Governmental Accounting Standards Board Statement No. 3 Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements, Category I, the highest recognized safekeeping procedures.

**VI. Investment Authority**

- A. Only the treasurer, and his or her designees, are authorized to purchase and sell investments, authorize wire transfers, authorize the release of pledged collateral, and execute any documents required under this procedure.
- B. Documents which the treasurer and his or her designees may execute include, but are not limited to, the following:
  - 1. Wire transfer agreements;
  - 2. Depository agreements;
  - 3. Safekeeping agreements;
  - 4. Custody agreements; and
  - 5. Collateralization agreements.
- C. The treasurer, and his or her designees, shall manage the investment program and shall establish a system of internal controls and 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. The system of internal controls and written operational procedures shall be subject to review by the independent auditor in conjunction with the District's annual audit.
- D. No person may engage in any investment transaction involving District funds except as provided for under the terms of these Rules and Regulations and District policy.
- E. The treasurer shall oversee the wording used in agreements used by the District to fulfill its investment responsibilities, and shall from time to time review the agreements for consistency with District Policy and state law. Designees of the treasurer, District legal counsel, and District auditors shall assist in such review. Such agreements include, but are not limited to, the following:
  - 1. Wire transfer agreements;
  - 2. Depository agreements;
  - 3. Safekeeping agreements;
  - 4. Custody agreements; and
  - 5. Collateralization agreements.
- F. The treasurer is authorized to enter into joint investment agreements as authorized under Section 8-7 of the *School Code*, 105 ILCS 5/8-7.

**VII. Performance Measures**

The treasurer shall seek a rate of return on investments appropriate for the type of investment, given the policy objectives of the District. In general, the treasurer shall strive to earn an average rate of return equal to or greater than the Illinois Funds money market rate as of the date of investment, for investments of more than 60 days, and 90% of the Illinois Funds money market rate for investments of 60 days or less.

**VIII. Written Reports**

Not less than quarterly, the treasurer shall issue written reports of investment activities for submission to the Board of Education and the superintendent. The reports shall include information regarding securities in the portfolio by class or type, book value, income earned, and market value as of the report date if the investment is not going to be held to maturity. The treasurer shall indicate in this report any areas of policy concern and planned revision of investment strategies.

**IX. Deposit of District Funds**

District funds may be deposited in a savings and loan association, savings bank, or a state or national bank in Illinois. When such deposits become collected funds and are not needed for immediate disbursement, they must be invested at prevailing rates or better. The treasurer may require such bank, savings bank, or savings and loan association to deposit with the treasurer securities guaranteed by agencies and instrumentalities of the federal government equal in market value to the amount by which the funds deposited exceed the federally insured amount. The treasurer may enter into an agreement with any such bank, savings bank, or savings and loan association, with any federally insured financial institution or trust company, or with any agency of the United States government relating to the deposit of such securities.

**X. Selection of Investment Advisors, Money Manager and Financial Institutions**

- A. The treasurer and the Board of Education shall select authorized depositories, investment managers, dealers and brokers. Any financial institution, upon meeting the requirements of the *Public Funds Investment Act* and these Rules and Regulations, may request to become a depository for the District. The District will take into account security, size, location, financial condition, creditworthiness, reputation, minimal capital requirements, qualifications under State law, service, fees, competitiveness, and history of dealing with public fund entities
- B. In order to be an authorized depository, each institution must submit copies of the last two sworn statements of resources and liabilities or reports of examination that the institution is required to furnish to the appropriate State or federal agency. Each institution designated as a depository shall, while acting as such depository, furnish the District with a copy of all statements of resources and liabilities or all reports of examination that it is required to furnish to the appropriate State or federal agency.

The above eligibility requirements of a bank to receive or hold public deposits do not apply to investments in an interest-bearing savings account, interest-bearing certificate of deposit, or interest-bearing time deposit if: (1) the District initiates the investment at or through a bank located in Illinois, and (2) the invested public funds are at all times fully insured by an agency or instrumentality of the federal government.

The District may consider a financial institution's record and current level of financial commitment to its local community when deciding whether to deposit funds in that financial institution. The District may consider factors including:

1. For financial institutions subject to the federal Community Reinvestment Act of 1977, the current and historical ratings that the financial institution has received, to the extent that those ratings are publicly available, under the federal Community Reinvestment Act of 1977;
  2. Any changes in ownership, management, policies, or practices of the financial institution that may affect the level of the financial institution's commitment to its community;
  3. The financial impact that the withdrawal or denial of District deposits might have on the financial institution;
  4. The financial impact to the District as a result of withdrawing public funds or refusing to deposit additional public funds in the financial institution; and
  5. Any additional burden on the District's resources that might result from ceasing to maintain deposits of public funds at the financial institution under consideration.
- C. When a bank or savings and loan association has been designated as a depository it shall continue as such until 30 days after a new depository is designated and has qualified by furnishing statements of resources and liabilities as required by Section 8-7 of the *School Code*. When a new depository is designated, the treasurer and the Board of Education shall notify the sureties of the treasurer of that fact in writing at least 5 days before the transfer of funds.
- D. The treasurer may use financial intermediaries, dealers, brokers, and/or financial institutions to solicit bids for securities and certificates of deposit. These intermediaries shall be approved by the treasurer and the Board of Education.

## **XI. Ethics and Conflicts of Interest**

- A. The treasurer, his or her designees, and all other administrators, board members or employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the District's investment program, or which could impair their ability to make impartial investment decisions.
- B. Pursuant to the *Public Funds Investment Act*, except for pecuniary interests permitted under Section 3.2 of the *Public Officer Prohibited Activities Act*, no person acting as a treasurer or financial officer or who is employed in any similar capacity by or for the District may:
1. have any interest, directly or indirectly, in any investments in which the District is authorized to invest;
  2. have any interest, directly or indirectly, in the sellers, sponsors, or managers of those investments; and
  3. receive, in any manner, compensation of any kind from any investments in which the agency is authorized to invest.


- C. Nothing in this section is meant to prohibit the individuals mentioned in A and B from having time or demand deposits, or loans from financial institutions that the district does business with, as long as the terms are those available to similarly financially situated members of the general public, or where those accounts or loans were in place before the individual entered the position listed in A or B above.
- D. The Board and District officials will avoid any investment transaction or practice that in appearance or fact might impair public confidence.

**XII. Periodic Review of Investment Portfolio**

The treasurer, or his or her designee, shall annually review the District’s investment portfolio, as appropriate, to examine its effectiveness in meeting the District’s needs for safety, liquidity, rate of return, and diversification, and its general performance. The treasurer shall create a report summarizing this review and present it to the Board of Education.

CROSS REF: Policy 4:30

LEGAL REF: *Public Funds Investment Act, 30 ILCS 235/0.01 et seq.; Public Funds Deposit Act, 30 ILCS 225/1 et seq.; School Code, 105 ILCS 5/8-7, 5/10-22.44, 5/17-1, and 5/17-11; Public Officer Prohibited Activities Act, 50 ILCS 105/0.01 et seq.; Illinois Banking Act, 205 ILCS 5/1 et seq.; Secondary Mortgage Market Enhancement Act of 1984, 15 U.S.C. §77r-1 and other provisions*

REGULATION	
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