

PROCEDURES FOR IMPLEMENTING BOARD POLICY:  
INVESTMENT OF DISTRICT FUNDS

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In accordance with the Illinois Public Funds Investment Act, 30 ILCS 235/0/01 *et seq.* (the “Act”), the Northfield Township School Treasurer and/or the Assistant Treasurers (the “Treasurer”) shall maintain a set of procedures for the investment of school district funds that includes the following elements:

1. A listing of authorized investments.
2. The standard of care that must be maintained by the persons investing the public funds.
3. 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.
4. 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.
5. 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.
6. 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.
7. Appropriate periodic 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.
8. At least quarterly written reports of investment activities by the Treasurer for submission to the Board of Education and the superintendent, including information regarding securities in the portfolio by class or type, book value, income earned, and market value as of the report date.
9. A procedure for the selection of investment advisors, money managers, and financial institutions.
10. A policy regarding ethics and conflicts of interest.

The treasurer of the school district shall establish and submit such procedures for the School Trustee’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.

2.5.a (2) A. Scope

This investment procedure applies to all funds of each school district in the Township (District's). These funds are accounted for in the District's annual financial report and includes all current funds, and any other funds that may be created from time to time, 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 procedure. The standard of prudence to be used shall be the "prudent person" standard.

2.5.a.(3) 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 will 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 on Investments - The investment portfolio shall be designed with the objective of attaining 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 on 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.

2.5.a(1) C. Investment Instruments

The Treasurer may invest only in those instruments listed below:

1. Interest bearing 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;
2. 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;
3. Certificates of deposit with federally insured institutions that are collateralized or insured at levels acceptable to the District in excess of the \$100,000 provided by the Federal Deposit Insurance Corporation coverage limit;
4. Collateralized repurchase agreements which conform to the requirements stated in paragraph 2(g) or 2(h) of the Act;
5. Commercial paper meeting the following requirements:
  - a) The corporation must be organized in the United States.
  - b) The corporation's assets must exceed \$500,000,000.
  - c) The obligations at the time of purchase must be rated within the two highest classifications by at least two of the four standard rating services (Standard and Poor's, Duff and Phelps's, Moody's, and Fitch Investors Service).
  - d) The obligations cannot have maturity longer than 180 days.
  - e) Not more than 33% of the total investment fund can be invested in commercial paper at any time.
  - f) The total investment in any one corporation cannot exceed 10% of the corporation's outstanding obligations.
  - g) The total investment in any one corporation cannot be more than \$20 million.
  - h) The investment must be insured.
6. The Illinois Public Treasurer's Investment Pool; and

C. Investment Instruments (continued)

7. The Illinois School District Liquid Asset Fund.
8. Investments may be made only in those savings banks or savings and loan associations the shares, or investment certificates of which are insured by the Federal Deposit Insurance Corporation.
9. Short-term discount obligations of the Federal National Mortgage Association.
10. Identified as follows:
  - a) Bonds issued by the State, the Sanitary District of Chicago, counties, townships and cities in this state and by school directors.
  - b) Bonds issued by any district in this state having authority to levy taxes upon all taxable property within the district.
  - c) Mortgage notes or bonds issued by the Federal Housing Administrator, or debentures issued by him.
  - d) Bonds or other obligations of National Mortgage Associations or the Home Owner's Loan Corporation.
  - e) United States Government, State of Illinois and municipal securities the payment of which is protected by the power to levy taxes therefore.
11. Investment products that are considered as derivatives are specifically excluded from approved investments.

2.5a.(4) D. Diversification

It is the policy of each 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 School Treasurer. The diversification shall be as follows:

- a) Up to 100% of C.1, C.2, C.3.
- b) Up to 90% C.6 and C.7
- c) Up to 33% of C.4 and C.5.

2.5a.(5) E. Collateralization

1. It is the policy of the Treasurer 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 or more of the following locations:
    - 1) at a Federal Reserve Bank or its branch office;
    - 2) at another custodial facility in a trust or safekeeping department through book-entry at the Federal Reserve;
    - 3) by an escrow agent of the pledging institution; or
    - 4) by the trust department of the issuing bank
  - b) Safekeeping will be documented by an approved written agreement between the Treasurer and the governing board of the bank that complies with FDIC regulations. This may be in the form of a safekeeping agreement.
  - c) Substitution or exchange of securities held in safekeeping can be approved exclusively by the Treasurer, 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 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

F. Safekeeping of Securities (continued)

2. Safekeeping will be documented by an approved written agreement between the Treasurer 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.

2.5.a.(11) G. Qualified Financial Institutions and Intermediaries

1. Depositories - Demand Deposits

- a) Any financial institution selected by the Treasurer shall provide normal banking services, including, but not limited to: checking accounts, wire transfers and safekeeping services.
- b) The Treasurer will not maintain funds in any financial institution that is not a member of the FDIC system. In addition, the Treasurer will not maintain funds in any institution 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 Treasurer.
- c) To qualify as a depository, a financial institution must furnish the Treasurer with copies of the latest two statements of condition which it is required to furnish to the Comptroller of Currency as the case may be. While acting as a depository, a financial institution must continue to furnish such statements to the Treasurer within 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 school district official that incorporates this policy by reference.

G. Qualified Financial Institutions and Intermediaries (continued)

2. Banks and Savings and Loans - Certificates of Deposits

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

- a) provide wire transfer and certificate of deposit safekeeping services;
- b) be a member of 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 Treasurer; and
- c) meet at all times the financial criteria as established in the investment procedures of the District.

3. Intermediaries

Any financial intermediary selected to be eligible for the Treasurer'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 School Trustee's policy and accept financial responsibility for any investment not appropriate according to the policy

2.5.a.(7) 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 Treasurers

H. Management of Program (continued)

These documents include:

- 1) Wire Transfer Agreement
- 2) Depository Agreement
- 3) Safekeeping Agreement
- 4) Custody Agreement

2.5.a.(6)

2. Management responsibility for the investment program is hereby delegated to the Treasurer, 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 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 the Assistant Treasurer, District legal counsel and auditors. These agreements include but not limited to:
  - a) Wire Transfer Agreement
  - b) Depository Agreement
  - c) Safekeeping Agreement
  - d) Custody 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 School Trustees.
5. The Treasurer shall be further authorized to enter into joint investment agreements as authorized under Section 8-7 of the School Code.



2.5.a.(8) I. Performance

The Treasurer will seek to earn a rate of return appropriate for the type of investments being managed given the portfolio objectives defined in Section B of this document for all funds. In general, the Treasurer will strive to earn an average rate of return equal to or greater than the U.S. Treasury Bill rate for a given period of time for the average weighted maturity of the District's investments.

2.5.a.(12) 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 Treasurer is authorized to invest, or the sellers, sponsors or managers of those investments.

K. Indemnification

Investment officers and employees of the Treasurer acting in accordance with this Investment Procedure and such written operational policies as may be established by the District's, 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.

2.5.a.(9),(10) L. Reporting

The Treasurer shall submit to the Board of Education and the Superintendent a monthly investment report which shall include information regarding securities in the portfolio by class or type, book value, income earned, 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

This procedure shall be reviewed from time to time by the Treasurer with regards to the procedure's effectiveness in meeting the District's needs for safety, liquidity, rate of return, diversification, and general performance. Any substantive changes will be reported to the School Trustees.

Adopted: December 13, 1999