

Operational Services

Revenue and Investments

Revenue

The Superintendent or designee is responsible for making all claims for property tax revenue, State Aid, special State funds for specific programs, federal funds, and categorical grants.

Investments

The School District's Assistant Superintendent for Finance, Facilities and Operations shall serve as the District's Treasurer.

I. Governing Authority

1. **Legality:** The investment program shall be operated in conformance with federal, state, and other legal requirements, including the Illinois Public Funds Investment Act, 30 ILCS 235/0/01 et seq.

II. Scope: This policy applies to the investment of all funds. Proceeds from certain bond issues, as well as separate foundation or endowment assets, may be covered by a separate policy, where applicable.

1. **Pooling of Funds:** Except for cash in certain restricted and special funds, District 41 will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

III. General Objectives: The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield

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. The objective will be to mitigate credit risk and interest rate risk.

a. Credit Risk

District 41 will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:

- Limiting investments to the types of securities listed in Section VII of this Investment Policy.
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which District 41 will do business in accordance with Section V.
- Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

- b. **Interest Rate Risk:** District 41 will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
 - Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy (See Section VIII).
2. Liquidity: The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.
 3. Yield: The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:
 - A security with declining credit may be sold early to minimize loss of principal.
 - A security swap would improve the quality, yield, or target duration in the portfolio.
 - Liquidity needs of the portfolio require that the security be sold.
 4. Local Consideration: Where possible, funds may be invested for the betterment of the local economy or that of local entities within the State. The Treasurer (hereinafter referred to as investment officer) may accept a proposal from an eligible institution which provides for a reduced rate of interest provided that such institution documents the use of deposited funds for community development projects.

IV. Standards of Care

1. Prudence: The standard of prudence to be used by investment officials shall be the “prudent Person” standard and shall be applied in the context of managing an overall portfolio.
The “prudent person” standard states that, “Investments shall be made with 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.”
2. 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 and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal

investment transactions with the same individuals with whom business is conducted on behalf of District 41.

3. Delegation of Authority: Authority to manage the investment program is granted to the investment officer. Responsibility for the operation of the investment program is hereby delegated to the investment officer, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the investment officer. The investment officer shall be responsible for transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

V. Authorized Financial Institutions, Depositories, and Broker/Dealers

1. Authorized Financial Institutions, Depositories, and Broker/Dealers: A list will be maintained of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by creditworthiness (e.g., a minimum capital requirement of \$10,000,000 and at least five years of operation). These may include “primary” dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

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

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines.
- Proof of National Association of Securities Dealers (NASD) certification (not applicable to Certificate of Deposit counterparties).
- Proof of state registration
- Completed broker/dealer questionnaire (not applicable to Certificate of Deposit counterparties).
- Certification of having read and understood and agreeing to comply with District 41’s investment policy.
- Evidence of adequate insurance coverage.

An annual review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the investment officer.

2. Minority and Community Financial Institutions: From time to time, the investment officer may choose to invest in instruments offered by minority and community financial institutions. In such situations, a waiver to certain parts of the criteria under Paragraph 1 may be granted. All terms and relationships will be fully disclosed prior to purchase and will be reported to the appropriate entity on a consistent basis and should be consistent with state or local law. These types of investment purchases should be approved by the Board of Education.

VI. Safekeeping and Custody

- Delivery vs. Payment: All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

- Safekeeping: Securities will be held by an independent third-party custodian selected by the entity as evidenced by safekeeping receipts in the District 41 name. The safekeeping institution shall annually provide a copy of their most recent report on internal controls (State of Auditing Standards No. 70, or SAS 70).
- Internal Controls: The investment officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of District 41 are protected from loss, theft or misuse. Details of the internal controls system shall be documented in an investment procedures manual and shall be reviewed and updated annually. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

The investment officer shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed with the independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of District 41.

VII. Suitable and Authorized Investments

Investment Instrument: District 41 may invest its funds only in those instruments listed below. Items 4 and 6 must be annually reviewed and recommended by the Finance Committee:

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;
2. 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: (a) the federal land banks, federal intermediate credit banks, 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, (b) the federal home loan banks and the federal home loan mortgage corporation, and (c) any other agency created by Act of Congress.

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 District 41 in excess of the \$250,000 provided by the Federal Deposit Insurance Corporation coverage limit obligations of corporations organized in the United States with assets exceeding \$500,000,000 if: (a) such obligations are rated at the time of purchase at one of the three highest classifications established by at least two standard rating services and that mature not later than three years from the date of purchase, (b) such purchases do not exceed 10% of the corporation’s outstanding obligations, and (c) no more than one-third of the District’s funds may be invested in short term obligations of corporations.

5. Money market mutual funds registered under the Investment Company Act of 1940, provided that the portfolio of any such money market mutual fund is limited to obligations described in paragraph (1) or (2) and to agreements to repurchase such obligations.
6. 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, (b) rated at the time of purchase within the four highest general classifications established by Moody's or Standard and Poor's, (c) not to exceed 10 percent of the entire portfolio.
7. Collateralized repurchase agreements which conform to the requirements stated in paragraph 2(g) or 2(h) of the Act;
8. Commercial debt 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 three standard rating services (Standard and Poor's, Moody's, and Fitch Investors Service).
 - d) The obligations cannot have a maturity longer than 180 days.
 - e) Not more than 10% 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.
7. The Illinois Public Treasurer's Investment Pool; and
8. The Illinois School District Liquid Asset Fund.
9. 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.
10. Investment products that are considered as derivatives are specifically excluded from approved investments.
11. Collateralization: Where allowed by state law and in accordance with the Governor's Finance Officers' Association (GFOA) Recommended Practices on the Collateralization of Public Deposits, full collateralization will be required on all demand deposit accounts, including checking accounts and non-negotiable certificates of deposit.
12. Repurchase Agreements: Repurchase agreements shall be consistent with GFOA Recommended practices on Repurchase Agreements.

VIII. Investment Parameters

Diversification: The investments shall be diversified by:

- Limiting investments to avoid over-concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities),
- Limiting investment in securities that have higher credit risks,
- Investing in securities with varying maturities, and
- Continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meeting ongoing obligations.

For cash management funds:

- Liquidity shall be assured through practices ensuring that the next disbursement date and payroll date are covered through maturing investments or marketable U.S. Treasury bills.
- Positions in securities having potential default risk (e.g., commercial paper) shall be limited in size so that in case of default, the portfolio's annual investment income will exceed a loss on a single issuer's securities.
- Risks of market price volatility shall be controlled through maturity diversification such that aggregate price losses on instruments with maturities exceeding one year shall not be greater than coupon interest and investment income received from the balance of the portfolio.
- The investment officer shall establish strategies and guidelines for the percentage of the total portfolio that may be invested in securities other than repurchase agreements, treasury bills or collateralized certificates of deposit.
- Maximum Maturities: To the extent possible, District 41 shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, District 41 will not directly invest in securities maturing more than five (5) years from the date of purchase or in accordance with state and local statutes and ordinances. District 41 shall adopt weighted average maturity limitations (which often range from 90 days to 3 years), consistent with the investment objectives.

Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of funds. The intent to invest in securities with longer maturities shall be disclosed in writing to the Board of Education.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as local government investment pools, money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

- Competitive Bids: The investment officer shall obtain competitive bids from at least two brokers or financial institutions on all purchases of investment instruments purchased on the secondary market.

IX. Reporting

Methods: The investment officer shall prepare an investment report at least monthly, including a management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the last month. This management summary will be prepared in a manner which will allow District 41 to ascertain

whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the Superintendent and to the Board of Education. The report will include the following:

- 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 securities over one-year duration that are not intended to be held until maturity (in accordance with Governmental Accounting Standards Board (GASB) requirements).

X. Policy Considerations

- Exemption: Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.
- Amendments: This policy shall be reviewed on an annual basis by the Finance & Facilities Committee.

XI. Approval of Investment Policy: The investment policy shall be formally approved and adopted by the District 41 Board of Education following review and recommendation by the Finance and Facilities Committee.

LEGAL REF.: 30 ILCS 235/1 et seq.
105 ILCS 5/8-7, 5/17-1, and 5/17-11.

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

Reviewed: February 28, 2005, April 23, 2012, October 3, 2016, August 12, 2019

Adopted: March 21, 2005

Revisions Adopted: April 16, 2007; May 14, 2012, October 17, 2016, August 26, 2019