The City of McHenry is dedicated to providing its citizens, businesses, and visitors with the highest quality of programs and services in a customer-oriented, efficient, and fiscally responsible manner.

Finance and Personnel Committee
September 10, 2018-5:30 PM
McHenry Municipal Center –Police Training Room
333 S Green Street
McHenry, IL 60050

AGENDA

1. Call to Order.

2. Roll Call.

3. Public Comment: Persons wishing to address the Committee will be asked to identify themselves for the record and will be asked but are not required to provide their address. Public comment may be restricted to three-minutes for each individual speaker. Order and decorum shall be maintained at public meetings.

4. Motion to approve the July 10, 2018 Finance and Personnel Committee meeting report.

5. Discussion and Approval of Revised Investment Policy.

6. Discussion of Sales Tax Incentive Policy/Procedures.

7. Staff Reports.

8. Any Other Business.

9. Motion to adjourn the meeting.

Next regularly scheduled meeting is October 1, 2018.
Call to Order: The meeting was called to order at 5:35 p.m.

Roll Call: Chairman Curry, Alderman Schaefer and Alderman Mihevc. Also in attendance Mayor Jett, Administrator Morefield, Director of Human Resources Campanella and Deputy Clerk Meadows.

Public Comment: None

Motion to approve the June 4, 2018 Finance and Personnel Committee meeting report. A motion was made by Alderman Schaefer and seconded by Alderman Devine to approve the June 4th meeting report as presented. Roll call: Vote: 3 ayes: Alderman Schaefer, Alderman Devine and Alderman Curry. 0-nay, 0-abstained. Motion carried.

Review of Classification and Compensation Study conducted by GovHR
The Committee Members along with Staff discussed in length the worksheet depicting the recommended pay increases for several employees that were found to be under paid according to the GovHR compensation study. Director Campanella noted that all recommended pay increases are at the minimum range.

There was some discussion on some of the individuals that currently hold some of the positions in question. Administrator Morefield along with Director Campanella verified the individuals’ qualifications.

The Committee Members concurred to accept the Classification and Compensation Study conducted by GovHR. A Motion was made by Alderman Mihevc and seconded by Alderman Schaefer to approve the Classification and Compensation Study as presented and submit the study to the full Council for approval. Roll call: Vote: 3-ayes: Alderman Mihevc, Alderman Schaefer and Alderman Curry. 0-nays, 0-abstained. Motion carried.

Discussion on Staff Recommended Position
Administrator Morefield discussed the need for this position due to the fact that the Economic Development Department is under staffed and Director Martin cannot devote quality time to economic development activities. The Committee Members discussed approving Staff’s recommendation with respect to this new position.

Administrator Morefield discussed the budget amendments to fund the various departmental pay increases and the hiring of a person to fill the newly created position. A Motion was made by Alderman Mihevc and seconded by Alderman Schaefer to approve Staff recommendation to create a new position and to bring this matter to the full Council for approval. Roll call: Vote: 3 ayes: Alderman Mihevc, Alderman Schaefer and Alderman Curry. 0-nays, 0-abstained. Motion carried.
Staff Reports
Administrator Morefield reported that the audit is currently underway and in a couple weeks Staff should have the draft audit report for the Finance and Personnel Committees review.

Director Campanella reported that she is in the process of completing the application for Cyber Security Insurance.

Mayor Jett commented on Director Martin’s efforts in encouraging economic development and attracting businesses to relocate to the City.

Any Other Business
There was no other business discussed.

Adjournment
There being no further public business to discuss, a Motion was made by Alderman Mihevc and seconded by Alderman Schaefer to adjourn from the public meeting at 6:33 p.m. Roll call: Vote: 3-ayes: Alderman Mihevc, Alderman Schaefer and Alderman Curry. 0-nays, 0-abstained. Motion carried.

Respectfully submitted,

Debra Meadows, Deputy City Clerk

Reviewed and approved this _____day of ___________2018.

________________________
Alderman Curry, Chairman
FINANCE AND PERSONNEL COMMITTEE SUPPLEMENT

TO: Chairman Curry
   Members of the Finance and Personnel Committee

FOR: September 10, 2018 Finance and Personnel Committee

FROM: Carolyn Lynch, Finance Director

RE: Discussion and Approval of an updated Investment Policy

ATT:
1. Investment Policy Approved 12/29/99
2. Investment Policy Amended
5. Example: Village of Westmont Investment Policy
6. Example: GFOA Sample Investment Policy
7. Public Funds Investment Act State Statute (30 ILCS 235)

AGENDA ITEM SUMMARY:
The Finance and Personnel Committee is being asked to discuss and consider an amendment to the investment policy.

BACKGROUND:
The existing City of McHenry Investment Policy, upon Council approval, became effective December 29, 1999. The Investment Policy should at a minimum be reviewed every three years.

ANALYSIS:
Staff researched investment policies at other municipalities as well as best practices produced by the GFOA. The attached investment policy was created based mostly on the GFOA Sample Investment Policy which contains all of the State Statute Requirements (30 ILCS 235 Public Funds Investment Act). Illinois policies were reviewed to ensure the correct authorized investments were included per the State Statute because each state can have different approved investments for public entities.

RECOMMENDATION:
Therefore, if the Finance and Personnel Committee concurs, it is recommended that a motion be made to forward the revised Investment Policy be forwarded to the City Council for consideration.
City of McHenry
Investment Policy

I. Policy

It is the policy of the City of McHenry to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City and conforming to all state and local statutes governing the investment of public funds.

II. Scope

This policy includes all funds governed by the Mayor and Council ("City Council").

III. General Objectives

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

A. 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.

1. Credit Risk. The City will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

   a. Limiting investments to the safest types of securities.

   b. Pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisers with which the City will do business.

   c. Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

2. Interest Rate Risk. The City will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:

   a. 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.

   b. Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

B. 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). A portion of the portfolio also may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.

C. 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 constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments are limited to relatively low risk securities as identified in the policy in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

1. A security with declining credit may be sold early to minimize loss of principal.

2. A security swap would improve the quality, yield, or target duration in the portfolio.

3. Liquidity needs to the portfolio require that the security be sold.

IV. 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. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of the securities are carried out in accordance with the terms of this policy.

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.

V. 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 individual with whom business is conducted on behalf of the City.
VI. Delegation of Authority

Authority to manage the investment program is granted to the City Treasurer or his designee, hereinafter referred to as Investment Officer. Responsibility for the operation of the investment program is hereby delegated to the Investment Officer, who shall act in accordance with established 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, repurchasing 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 all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

VII. Authorized Financial Dealers and Institutions

A list will be maintained of financial institutions authorized to provide investment services. In addition, a list also 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:

1. Audited financial statements.

2. Proof of National Association of Securities Dealers (NASD) certification.

3. Proof of state registration.

4. Completed broker/dealer questionnaire.

5. Certification of having read and understood and agreeing to comply with the City's investment policy.

An annual review of the financial condition and registration of qualified financial institutions and broker/dealers will be conducted by the Investment Officer.

VIII. Suitable and Authorized Investments

The City may invest in any investment allowed for in the Illinois statutes regarding investment of public funds including but not limited to the following:
1. U.S. government obligations, U.S. government agency obligations, and U.S. government instrumentality obligations, which have a liquid market with a readily determinable market value.

2. Canadian government obligations (payable in local currency).

3. Certificates of deposit and other evidences of deposit at financial institutions, bankers’ acceptances, and commercial paper, rated in the highest tier (e.g., A-1, P-1, F-1, or D-1 or higher) by a nationally recognized rating agency.

4. Investment-grade obligations of state, provincial and local governments and public authorities.

5. Repurchase agreements only if the underlying purchased securities consist of government securities which are subject to the Government Securities Act of 1986 or as authorized in 30 ILCS 235/2(h)(1)-(11).


7. Local government investment pools, either state-administered or through joint powers statutes and other intergovernmental agreement legislation.

IX. Collateralization

Funds on deposit (checking accounts, certificates of deposit, etc.) in excess of FDIC limits must be secured by some form of collateral, witnessed by a written agreement and held at an independent – third party institution in the name of the City.

X. Safekeeping and Custody

All security transactions, including collateral for repurchase agreements, entered into by the City, shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by an independent third party custodian designated by the Investment Officer and evidenced by safekeeping receipts and a written custodial agreement.

XI. Diversification

The investments shall be diversified by:

1. Limiting investments to avoid over concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities).

2. Limiting Investment in securities that have higher credit risks.
3. Investing in securities with varying maturities.

4. 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 meet ongoing obligations.

XII. Maximum Maturities

To the extent possible, the City shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than two years from the date of purchase or in accordance with state and local statutes and ordinances.

Reserve funds may be invested in securities exceeding two years if maturity of such investments are made to coincide as nearly as practicable with the expected use of the funds. The intent to invest in securities with longer maturities shall be disclosed to the corporate authorities.

XIII. Internal controls

The Investment Officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse. 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 to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

Accordingly, the Investment Officer shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

1. Control of collusion.

2. Separation of transaction authority from accounting and recordkeeping.

3. Custodial safekeeping.

4. Avoidance of physical delivery securities.

5. Clear delegation of authority to subordinate staff members.

6. Written confirmation of transactions for investments and wire transfers.

7. Development of a wire transfer agreement with the lead bank and third-party custodian.
XIV. Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis.

XV. Reporting

The Investment Officer, or his designee, shall prepare an investment report at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner which will allow the City to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the Investment Officer, the legislative body, and any pool participants. The report will include the following:

1. Listing of individual securities held at the end of the reporting period.

2. 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.

3. Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.

4. Listing of investment by maturity date.

5. Percentage of the total portfolio which each type of investment represents.

XVI. Marking to Market

A statement of the market value of the portfolio shall be issued to the Mayor and City Council quarterly.

XVII. Exemption

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirement of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

XVIII. Amendments
This policy shall be reviewed on an annual basis. The Investment Officer may implement changes in the investment policy after gaining approval from the Mayor and City Council for the amendments. Any and all amendments to the investment policy shall be provided to the individual(s) charged with maintaining internal controls.

XIX. Investment Policy Adoption

The investment policy shall be adopted by the Mayor and City Council. The policy shall be reviewed on an annual basis by the Investment Officer and any modifications made thereto must be presented to the Mayor and City Council for approval.
City of McHenry
Investment Policy

I. Policy

It is the policy of the City of McHenry to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City and conforming to all state and local statutes governing the investment of public funds.

II. Scope

This Investment Policy shall include activities of any fund of the City, except for the Police Pension Fund, which is covered by a separate policy. In addition to this Policy, bond funds, including debt service and reserve funds, shall be managed by their governing resolution and federal law, including the Tax Reform Act of 1986 and subsequent legislation. City funds can be pooled for investment purposes. This policy includes all funds governed by the Mayor and Council (“City Council”).

III. General Objectives

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

A. 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.

1. Credit Risk. The City will minimize credit risk, the risk of loss of all or part of the investment due to the failure of the security issuer or backer, by:

   a. Limiting investments to the safest types of securities listed in Section VII of the Investment Policy.

   b. Pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisers with which the City will do business in accordance with Section V.

   c. Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer on individual securities will be minimized.

2. Interest Rate Risk. The City will minimize the risk that the market value of securities in the portfolio will fall due to changes in general market interest rates, by:
a. 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.

b. Investing operating funds primarily in shorter-term securities, money market
mutual funds, or similar investment pools and limiting individual security
maturity as well as the average maturity of the portfolio in accordance with
this policy.

B. 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). A portion of the portfolio also may be placed in money
market mutual funds or local government investment pools which offer same-day
liquidity for short-term funds.

C. 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 are limited to relatively low risk securities as identified in the policy in
anticipation of earning a fair return relative to the risk being assumed. Securities shall
not be sold prior to maturity with the following exceptions:

1. A security with declining credit may be sold early to minimize loss of principal.

2. A security swap would improve the quality, yield, or target duration in the portfolio.

3. Unanticipated liquidity needs to the portfolio require that the security be sold.

IV. Prudence Standards of Care

A. Prudence. The standard of prudence to be used by investment officials shall be the
“uniform prudent person act” standard and shall be applied in the context of managing
an overall portfolio. Investment officers acting in accordance with written procedures
and this investment policy and exercising due diligence shall be relieved of personal
responsibility for an individual security’s credit risk or market price changes, provided
deviations from expectations are reported in a timely fashion and the liquidity and the
sale of the securities are carried out in accordance with the terms of this policy.

V. 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.
A-B. 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, in accordance with applicable laws. 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 individual with whom business is conducted on behalf of the City.

B-C. Delegation of Authority

Authority to manage the investment program is granted to the City Treasurer or his designee, hereinafter referred to as Investment Officer. Responsibility for the operation of the investment program is hereby delegated to the Investment Officer, who shall act in accordance with established 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 all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

VI. Authorized Financial Dealers and Institutions

A list will be maintained of financial institutions authorized to provide investment services. In addition, a list also will be maintained of approved security broker/dealers selected by creditworthiness and/or other factors, such as FINRA broker check, (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:

1. Audited financial statements.

2. Proof of Financial Industry Regulatory Authority (FINRA) certification (not applicable to Certificate of Deposit counterparties), National Association of Securities Dealers (NASD) certification.

3. Proof of state registration.
4. Completed broker/dealer questionnaire (not applicable to Certificate of Deposit counterparties).

5. Certification of having read and understood and agreeing to comply with the City’s investment policy.

5.6. Evidence of adequate insurance coverage.

An annual review of the financial condition and registration of qualified financial institutions and broker/dealers will be conducted by the Investment Officer.

VI. Safekeeping and Custody

A. 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 custody account prior to the release of funds.

B. Safekeeping

Securities will be held by an independent third-party custodian selected by the entity as with all securities in the City’s name. The safekeeping institution shall annually provide a copy of their most recent report on internal controls.

C. Internal Controls

The Investment Officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse. 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.

Accordingly, the Investment Officer shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

1. Control of collusion.

2. Separation of transaction authority from accounting and recordkeeping.

3. Custodial safekeeping.

4. Avoidance of physical delivery securities.

5. Clear delegation of authority to subordinate staff members.
6. **Written confirmation of transactions for investments and wire transfers.**

3.7. **Development of a wire transfer agreement with the lead bank and third-party custodian.**

**VII. Suitable and Authorized Investments**

The City has authorized the following types of investments, subject to the provision of the Public Funds Investment Act (30ILCS 235):

1. **Investment Types**

   a. **Interest bearing direct obligations of the United States of America, or its agencies**

   U.S. Government bonds, notes, certificates of indebtedness, treasury bills, treasury strips or other securities, which are guaranteed by the full faith and credit of the Government of the United States of America as to principal and interest. Other similar obligations of the Governmental National Mortgage Association (GNMA) are approved by the Government of the United States of America and have a liquid market with a readily determinable market value.

   b. **Direct obligations of institutions defined in Illinois Banking Act and insured by the Federal Deposit Insurance Corporation (FDIC)**

   Interest bearing savings accounts, interest bearing certificates of deposit or interest bearing time deposits or any other investment constituting direct obligations of any institution as defined by the Illinois Banking Act and is insured by the FDIC. Any such investment shall not exceed FDIC insurance limitation, including principal and interest. Exceptions are provided under the section dealing with collateralization.

   c. **Commercial Paper**

   Short-term obligations of corporations (commercial paper) organized in the United States with assets exceeding $500 million and rated at the time of purchase at the highest classification established by at least two standard rating services. These must mature within 270 days from the date of purchase. Such purchases may not exceed 10% of the corporation's outstanding obligations and no more than one-third of the City's funds may be invested in short term obligations of corporations.

   d. **Savings and Loan Institution Obligations**

   Short-term discount obligations of the Federal National Mortgage Association (FNMA) or in shares or other forms of securities legally offered by saving banks or savings and loan associations incorporated under the laws of this state or any other
state or under the laws of the United States. Investments may be made only in those savings and loan associations of which the shared, or investment certificates are insured by the FDIC.

e. Local government investment pools

Local government investment pools, either administered by the State of Illinois or through joint powers statutes or other intergovernmental agreement legislation.

f. Public Funds

Interest bearing bonds of any county, township, city, village, incorporated town, municipal corporation, or school district, of the State of Illinois, or of any other state, or of any political subdivision or agency of the State of Illinois or of any other state. The bonds shall be rated at the time of purchase within the 4 highest general classifications established by a rating service.

g. Government Money Market Funds

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 investments in obligations of the United States of America or its agencies, or repurchase of such obligations.

2. Collateralization

It is the policy of the City, as recommended by State Statute and Government Finance Officers Association (GFOA) Recommended Practices on the Collateralization of Public Deposits, that City funds on deposit in excess of FDIC limits be secured by some form of collateral or separate insurance, witnessed by a written agreement and held by an independent third-party institution in the name of the City of McHenry.

The City may invest in any investment allowed for in the Illinois statutes regarding investment of public funds including but not limited to the following:

1.—U.S. government obligations, U.S. government agency obligations, and U.S. government instrumentality obligations, which have a liquid market with a readily determinable market value.

2.—Canadian government obligations (payable in local currency).

3.—Certificates of deposit and other evidences of deposit at financial institutions, bankers’ acceptances, and commercial paper, rated in the highest tier (e.g., A-1, P-1, F-1, or D-1 or higher) by a nationally-recognized rating agency.
4. Investment-grade obligations of state, provincial and local governments and public authorities.

5. Repurchase agreements only if the underlying purchased securities consist of government securities which are subject to the Government Securities Act of 1966 or as authorized in 30 ILCS 235/2(h)(1)-(11).


7. Local-government investment pools, either state administered or through joint powers statutes and other intergovernmental agreement legislation.

VIII. Collateralization

Funds on deposit (checking accounts, certificates of deposit, etc.) in excess of FDIC limits must be secured by some form of collateral, witnessed by a written agreement and held at an independent third-party institution in the name of the City.

IX. Safekeeping and Custody

All security transactions, including collateral for repurchase agreements, entered into by the City, shall be conducted on a delivery versus payment (DVP) basis. Securities will be held by an independent third-party custodian designated by the Investment Officer and evidenced by safekeeping receipts and a written custodial agreement.

X-VIII. Investment Diversification & Constraints

1. Diversification

The investments shall be diversified by security type and institution. The investment portfolio for the City shall not exceed the following diversification limits unless specifically authorized by the City Council:

1. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the City's total investment portfolio will be invested in a single security type or with a single financial institution.

2. Investments at a financial institution shall not exceed 75% of the capital stock and surplus of that institution.

3. Commercial Paper shall not exceed 10% of the City's investment portfolio, excepting bond issue proceeds investments.

1. Limiting investments to avoid over-concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities).

2. Limiting investment in securities that have higher credit risks.
3. Investing in securities with varying maturities.

4. 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 meet ongoing obligations.

XI. Maximum Maturities

To the extent possible, the City shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than two years from the date of purchase or in accordance with state and local statutes and ordinances.

Reserve funds may be invested in securities exceeding two years if maturity of such investments are made to coincide as nearly as practicable with the expected use of the funds. The intent to invest in securities with longer maturities shall be disclosed to the corporate authorities.

XII. Internal controls

The Investment Officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse. 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.

Accordingly, the Investment Officer shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

XIII. Control of collusion

XIV. Separation of transaction authority from accounting and recordkeeping.

XV. Custodial safekeeping.

XVI. Avoidance of physical delivery securities.

XVII. Clear delegation of authority to subordinate staff members.

XVIII. Written confirmation of transactions for investments and wire transfers.

XIX. Development of a wire transfer agreement with the lead bank and third-party custodian.
Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis.

Reporting

1. Methods

The Investment Officer, or his designee, shall prepare an investment report at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner which will allow the City to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the Investment Officer, the legislative body, and any pool participants. The report will include the following:

1-a. Listing of individual securities held at the end of the reporting period including type, acquisition cost, book cost, market value, and maturity date.

1-b. 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.

1-c. Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.

1-d. Percentage of the total portfolio which each type of investment represents.

2. Performance Standards

5. — The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis. The benchmarks shall have a similar weighted average maturity as the portfolio.

Marking to Market
A statement of the market value of the portfolio shall be issued to the Mayor and City Council quarterly. The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least quarterly. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with the GFOA Recommend Practice on “Mark-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools”.

**XXIII-X.** Exemption

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirement of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

**XXIV-XI.** Amendments

This policy shall be reviewed on an annual basis. The Investment Officer may implement changes in the investment policy after gaining approval from the Mayor and City Council for the amendments. Any and all amendments to the investment policy shall be provided to the individual(s) charged with maintaining internal controls.

**XXV-XII.** Investment Policy Adoption

The investment policy shall be adopted by the Mayor and City Council. The policy shall be reviewed on an annual basis by the Investment Officer and any modifications made thereto must be presented to the Mayor and City Council for approval.
BEST PRACTICE

Investment Policy

BACKGROUND:

An investment policy describes the parameters for investing government funds and identifies the investment objectives, preferences or tolerance for risk, constraints on the investment portfolio, and how the investment program will be managed and monitored. The document itself serves as a communication tool for the staff, elected officials, the public, rating agencies, bondholders, and any other stakeholders on investment guidelines and priorities. An investment policy enhances the quality of decision making and demonstrates a commitment to the fiduciary care of public funds, making it the most important element in a public funds investment program.

RECOMMENDATION:

GFOA recommends that all governments establish a comprehensive written investment policy, which should be adopted by the governing body. The investment policy should be reviewed and updated annually and should include statements on the following:

- **Scope and investment objectives**: Tailor the scope and investment objectives to the type of investment to which the policy applies (e.g., excess operating funds, bond proceeds, pension fund assets).
- **Roles, responsibilities, and standards of care**: Identify the roles of all persons involved in the investment program by title and responsibility. Standards of care should include language on prudence (i.e., the prudent person rule), due diligence, ethics and conflicts of interest, delegation and authority, and knowledge and qualifications.
- **Suitable and authorized investments**: Include guidelines on selecting investment types, investment advisors, interest rate risk, maturities, and credit quality, along with any collateralization requirements.
- **Investment diversification**: State the government’s approach to investment diversification, identifying the method that will be used to create a mix of assets that will achieve and maintain the government’s investment objectives.
- **Safekeeping, custody, and internal controls**: Develop guidelines to enhance the separation of duties and reduce the risk of fraud.
- **Authorized financial institutions, depositaries, and broker/dealers**: Establish a process for creating a list of financial institutions, depositaries, and broker/dealers that will provide the primary services necessary for executing the investment program.
- **Risk and performance standards**: Establish one or more appropriate benchmarks against which the portfolio should be measured and compared.
- **Reporting and disclosure standards**: Define the frequency of reporting to the governing body and the government’s management team.

References:

- GFOA Sample Investment Policy
State Agency Investment Policy Statement
For Investments Not Under the Control of the Illinois State Treasurer’s Office

1.0 POLICY:
This Policy applies to all investments entered into on or after the adoption of this instrument. Until the expiration of investments made prior to the adoption of this Policy, such investments will continue to be governed by the policies in effect at the time such investments were made.

This Policy applies to any state agency investment not under the control of the Illinois State Treasurer’s Office for which no other specific investment policy exists.

2.0 OBJECTIVE
The primary objective in the investment of state agency funds is to ensure the safety of principal, while managing liquidity to pay the financial obligations related to those state agency funds, and providing the highest investment return using authorized instruments.

2.1 Safety
The safety of principal is the foremost objective of the investment program. State agency investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the portfolio. To achieve this objective, diversification, as defined in Section 8.0 of this Policy, is required to ensure that the state agency prudently manages market, interest rate, and credit risks.

2.2 Liquidity
The investment portfolio shall remain sufficiently liquid to enable the state agency to meet all operating requirements that might be reasonably projected.

2.3 Return on Investment
The investment portfolio shall be designed to obtain the highest available return, given the objectives of safety of principal and liquidity. The state agency’s designated investment officer shall seek to obtain the highest available return, using authorized investments during budgetary and economic cycles as mandated by Section 1.0 of this Policy. When the state agency deposits funds in support of community development efforts, the rate of return may include benefits other than direct investment income, as authorized by Section 7 of the Deposit of State Moneys Act (15 ILCS 520/7).

The rate of return achieved on the investment portfolio shall be measured at regular intervals against relevant industry benchmarks to determine the effectiveness of investment decisions in meeting investment goals. The benchmarks shall be reviewed a minimum of every two (2) years to ensure accuracy and relevance.

3.0 ETHICS AND CONFLICTS OF INTEREST
Authorized investment officers and employees in policy-making positions shall refrain from personal business activity that could (a) conflict, or give the appearance of a conflict, with proper execution of the investment program or (b) impair their ability to make impartial investment decisions. Such individuals shall disclose to the state agency any material financial interests in financial institutions that conduct business within the State, and they shall further disclose any personal financial investment positions that could be related to the performance of the investment portfolio. In addition, such individuals shall subordinate their personal investment transactions to those of the investment portfolio, particularly with regard to the time of purchases and sales.

4.0 AUTHORIZED BROKERS/DEALERS AND FINANCIAL INSTITUTIONS
The state agency shall maintain a list of approved financial institutions, which shall be utilized by authorized investment officers. No State funds may be deposited in any financial institution, unless the institution has a current satisfactory or outstanding rating under the Community Reinvestment Act of 1977, and the state agency’s investment officers have conducted a safety and soundness review of the financial institution by consulting various bank rating services. If the financial institution has not yet been rated by the bank rating services, the institution may be eligible for a deposit that at maturity will not exceed $250,000. The amount and duration of deposits shall be based on the safety and soundness review, in accordance with guidelines established by the state agency and the diversification limits set forth in Section 8.0 of this Policy. No public deposit may be made, except in a qualified public depository, as defined by the Deposit of State Moneys Act (15 ILCS 520/et seq.).

In addition, the state agency shall maintain a list of approved security brokers/dealers, which shall be utilized by authorized investment officers. The security brokers/dealers shall be selected according to their creditworthiness and their financial significance in the State, which shall be measured in terms of the location of the broker/dealer's corporate office, the number of full-time employees, the size of its payroll, or the extent that the broker/dealer has an economic presence in the State. The list may include “primary” dealers or regional dealers who qualify under Securities and Exchange Commission Rule 17 CFR § 15C3-1 (Net Capital Requirements for Brokers or Dealers).

All broker/dealers who wish to qualify to bid for investment transactions shall initially, and on a periodic basis upon request, provide to the state agency’s authorized representative the following documents, where applicable:

a) Audited financial statements or a published Statement of Condition;

b) Proof of minority-, woman-, disabled-, and/or veteran-owned or -managed broker/dealer status;

c) A signed copy of the state agency's trading authorization;

d) Proof of State of Illinois registration;

e) Proof of registration with the Securities and Exchange Commission;

f) Completed Broker/Dealer and Authorized Counterparty Questionnaire;
g) Certification of notice and acknowledgment of this Policy; and

h) Any other documentation deemed necessary by the state agency.

To the extent that the state agency deems it advisable to hire external investment consultants, it may do so in accordance with the state agency’s procurement rules at 44 Ill. Admin. Code § 1400.

5.0 AUTHORIZED AND SUITABLE INVESTMENTS
The state agency has authorized the following types of investments, subject to the provisions of the Deposit of State Moneys Act (15 ILCS 520) and the Public Funds Investment Act (30 ILCS 235):

a) Securities that are guaranteed by the full faith and credit of the United States of America ("United States") as to principal and interest;

b) Obligations of agencies and instrumentalities of the United States, as originally issued by the agencies and instrumentalities. For purposes of this Section, the term "agencies and instrumentalities of the United States" includes the following: 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, the federal home loan banks and the federal home loan mortgage corporation, and any other agency created by an Act of Congress and issues dollar-denominated debt;

c) Interest-bearing savings accounts, interest-bearing certificates of deposit, or interest-bearing time deposits of a bank as defined by Section 2 of the Illinois Banking Act (205 ILCS 5/2);

d) Interest-bearing accounts or certificates of deposit of any savings and loan association incorporated under the laws of the State of Illinois, any other state, or the United States;

e) Interest-bearing accounts for the deposit of funds in support of local community development efforts;

f) Dividend-bearing share accounts, share certificate accounts, or class of share accounts of a credit union chartered under the laws of the State of Illinois or the United States that maintains its principal office in the State of Illinois;

g) Commercial paper of a corporation or a limited liability company that is organized in the United States with assets exceeding $500,000,000 and is rated at the time of purchase at one (1) of the two (2) highest classifications established by at least two (2) standard rating services (i.e., not less than an A-1 short-term rating or equivalent rating);

h) Money market mutual funds registered under the Investment Company Act of 1940 (15 U.S.C. § 80a-1 et seq.) and rated at the highest classification by at least one (1) standard rating service (i.e., not less than a AAA long-term rating or equivalent rating);
i) The Illinois Funds, created under Section 17 of the State Treasurer Act (15 ILCS 505/17);

j) Repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986 (1 U.S.C. § 78o-5);

k) Interest-bearing bonds, at a price not to exceed par, issued by counties or municipal corporations of the State of Illinois, whether the interest earned thereon is taxable or tax-exempt under federal law. The bonds shall be registered in the name of the State of Illinois or held under a custodial agreement at a financial institution. The bonds shall be rated at the time of purchase at one (1) of the three (3) highest classifications established by at least one (1) standard rating service with nationally recognized expertise in rating bonds of states and their political subdivisions, (i.e., not less than an A- long-term rating or equivalent). The maturity or pre-refunded date(s) of the bonds authorized by this subsection shall, at the time of purchase, not exceed ten (10) years. Notwithstanding the foregoing, a longer maturity is authorized, if the State of Illinois has a put option to tender the bonds within ten (10) years from the date of purchase;

l) Securities of a foreign government that are guaranteed by the full faith and credit of that government as to principal and interest and rated at one (1) of the three (3) highest classifications established by at least two (2) standard rating services, (i.e., not less than an A- long-term rating or equivalent rating), and only if the foreign government has not defaulted and has met its payment obligations in a timely manner on all similar obligations for at least 25 years prior to the time of acquiring those obligations;

m) Obligations of either corporations or limited liability companies organized in the United States that have a significant presence in the State of Illinois, with assets exceeding $500,000,000, and rated at the time of purchase at one (1) of the three (3) highest classifications established by at least two (2) standard rating services, (i.e., not less than an A- long-term rating or equivalent rating). At the time of purchase, the maturity or pre-refunded date(s) of the obligations authorized by this subsection shall not be less than 270 days and shall not exceed five (5) years.

6.0 INVESTMENT RESTRICTIONS
The following restrictions apply to the state agency when investing the funds of the state agency:

a) Any investments not authorized by this or any other investment policy or applicable law are prohibited;

b) Repurchase agreements may only be executed with approved financial institutions or broker/dealers that meet the state agency’s standards, which include mutual execution of a Master Repurchase Agreement adopted by the state agency;

f) Investments may not be made in any savings and loan association unless a commitment by the savings and loan association, executed by the president or chief executive officer of that association, is submitted in the form required by Section 22.5 of the Deposit of State Moneys Act (15 ILCS 520/22.5);
g) Asset-backed commercial paper is prohibited;

h) Commercial paper with a credit rating or evaluation that is derived from any factor other than the full faith and credit of the issuing institution and/or the guarantee of the parent company is prohibited;

i) Obligations may not be purchased from a corporation or limited liability company that has been placed on the list of restricted companies by the Illinois Investment Policy Board under Section 1-110.16 of the Illinois Pension Code; and

j) The authorization of the state agency to invest in new obligations under Section 5.0(m) of this Policy shall expire on June 30, 2019.

7.0 COLLATERALIZATION
The following shall apply:

a) All State deposits, repurchase agreements, and securities lending shall be secured as required by the state agency and provided for by the Deposit of State Moneys Act (15 ILCS 520) and the state agency’s Acceptable Collateral Listing, which may change from time to time. The state agency may take possession and title to any securities held as collateral and hold such securities until it is prudent to dispose of them.

8.0 DIVERSIFICATION
The investment portfolio shall be diversified to mitigate the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. In order to properly manage any risk attendant to the investment of State assets, the investment portfolio shall not deviate from the following diversification guidelines, unless specifically authorized by the Executive Management of the state agency in writing:

a) The state agency shall seek to achieve diversification in the portfolio by distributing investments among authorized investment categories among financial institutions, issuers and broker/dealers.

b) The investment portfolio shall not hold time deposits that constitute more than 15% of any single financial institution’s total deposits. Any deposits that constitute more than 10% of an institution’s total deposits must qualify as community development deposits, described in Section 7 of the Deposit of State Moneys Act (15 ILCS 520/7).

c) No financial institution shall at any time hold more than $100,000,000 of time deposits other than community development deposits, described in Section 7 of the Deposit of State Moneys Act (15 ILCS 520/7). Provided, however, that financial institutions that, as a result of a merger or acquisition, hold deposits that exceed $100,000,000.00 may continue to be eligible to hold deposits that do not exceed the amount of deposits held on the date of the merger or acquisition.

d) The investment portfolio shall not contain investments that exceed the following diversification limits. These limits will apply to the total assets in the investment portfolio

Approved: June 28, 2017  ■  Effective: July 31, 2017
at the time of the origination or purchase. As maturities and or calls of instruments occur, these limits will be monitored and adjusted accordingly:

i. With the exception of cash equivalents, treasury securities and time deposits, as defined in Section 5.0 of this Policy, no more than 55% of the investment portfolio shall be invested in other investment categories;

ii. No more than one-third of the investment portfolio shall be invested in commercial paper;

iii. As much as 40% of the investment portfolio may be invested in time deposits when required by the cash flow of the State;

iv. No more than ½ of 1% of the investment portfolio shall be invested in foreign government securities, not to exceed a five (5) year maturity, as defined in Section 5.0(l) of this Policy;

v. No more than 55% of the investment portfolio shall be allocated to investments greater than two (2) years and less than or equal to three (3) years;

vi. No more than 30% of the investment portfolio shall be allocated to investments greater than three (3) years and less than or equal to four (4) years, not including foreign government securities;

vii. No more than 15% of the investment portfolio shall be allocated to investments greater than four (4) years and less than or equal to five (5) years;

viii. No more than 5% of the investment portfolio shall be allocated to investments greater than five (5) years and no less than or equal to ten (10) years;

ix. There shall be no limit to the percentage of the investment portfolio that may be allocated to investments with a 0- to 2-year maturity band; and

The investment portfolio shall not hold obligations of corporations or limited liability companies that exceed 10% of the corporation’s or the limited liability company’s outstanding obligations.

9.0 CUSTODY AND SAFEKEEPING
The custody and safekeeping of collateral will be handled by Illinois financial institutions selected in compliance with the state agency’s procurement rules. Financial institutions selected by the state agency to perform custody and safekeeping services will be required to enter into a contractual agreement approved by the state agency’s Chief Legal Counsel.
All security transactions entered into by the state agency shall be conducted on a delivery-versus-payment ("DVP") or receipt-versus-payment ("RVP") basis. Securities shall be held by a safekeeping agent designated by the state agency and evidenced by safekeeping receipts or a statement of holdings.

10.0 INTERNAL CONTROLS
The state agency shall establish a system of internal controls and written operational procedures that shall be documented and filed with the state agency’s Chief Internal Auditor for review. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by authorized investment officers.

a) Asset Allocation: The allocation of assets within investment categories authorized under Section 5.0 of this Policy shall be approved by the state agency in writing.

b) Competitive Bidding: Authorized investment officers shall obtain competitive bids from at least three (3) broker/dealers prior to executing the purchase or sale of any authorized investments. Reverse inquiry investments, investments in a new issue, and investments defined under Sections 5(a)-(b) of this Policy purchased from the agency discount window are exempt from this provision.

c) Certificates of Deposit: Authorized investment officers shall purchase certificates of deposit on the basis of a qualified financial institution’s ability to pay a required rate of interest to the state agency, which is established daily. Such rate is generally determined on the basis of treasury or other appropriate market rates for a comparable term.

11.0 LIMITATION OF LIABILITY
The standard of care to be used by authorized investment officers shall be the "prudent person" standard, which shall be applied in the context of managing an overall portfolio. Authorized investment officers, acting in accordance with written procedures and this Policy and exercising due diligence, will be relieved of personal liability for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely manner and necessary action is taken to control adverse developments.

12.0 REPORTING
As deemed necessary by the Executive Management of the state agency, monthly reports shall be presented by the designated investment officer to Executive Management for its review. The monthly report shall contain sufficient information to enable Executive Management to review the investment portfolio, its effectiveness in meeting the needs of the agency for safety, liquidity, rate of return, and diversification, and the general performance of the portfolio. The following information shall be included in the monthly reports:

a) The total amount of funds by book value and market value, held by the state agency;

b) The asset allocation for the investments made by the state agency;

c) The benchmarks established by the state agency, if any;
d) Current and historic return information;

e) Any circumstances resulting in a deviation from the standards established in Section 9.0 of this Policy; and

f) The impact of any material change in investment policy adopted during the month.

As deemed necessary by Executive Management of the state agency, the state agency shall develop performance reports in compliance with established industry reporting standards within six (6) months after the adoption of this Policy. Such reporting standards shall be in accordance with Generally Accepted Accounting Principles ("GAAP").

13.0 EMERGENCY POWERS

In the event of an emergency, the Executive Management of the state agency may, subject to the express written approval of the Illinois State Treasurer’s Office, invoke emergency powers and suspend any or all of the provisions of this Policy, provided that:

a) The state agency shall, even in the event that emergency powers are invoked, comply with all State statutes governing the use and investment of the investment portfolio including, but not limited to, the State Treasurer Act, the Treasurer as Custodian of Funds Act, the Deposit of State Moneys Act, the Securities Safekeeping Act, and any other applicable statute;

b) The state agency reasonably believes that deviating from this Policy is in the best interest of the taxpayers; and

c) Within thirty (30) days of invoking emergency powers the state agency shall provide an explanation in writing to the Chief Internal Auditor of the state agency, a copy of which shall be posted on the state agency’s website, that includes the following:

   i. The date and time that the emergency powers were invoked;

   ii. The date and time that emergency powers were repealed;

   iii. The Section or Sections of this Policy that were affected by the emergency or use of emergency powers; and

   iv. The reason for invoking emergency powers resulting in the deviation from this Policy.

14.0 STATUTORY REFERENCES

Any statutory references in this policy shall include any amendments to or repeals of those statutes.

15.0 AMENDMENTS

The Illinois State Treasurer’s Office reserves the right to amend this Policy at any time.
VILLAGE OF WESTMONT
INVESTMENT POLICY

I. POLICY

It is the policy of the Village of Westmont (Village) to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the Village government and conforming to all state and local statutes governing the investment of public funds.

II. SCOPE

This investment policy applies to all financial assets of the Village of Westmont. These funds are accounted for in the Village’s Comprehensive Annual Financial Report and include:

1. General Fund
2. Special Revenue Funds
3. Capital Projects Funds
4. Enterprise Funds
5. Trust and Agency Funds
6. Capital Improvement Funds
7. Debt Service Funds
8. Any new funds created by the Village Board of Trustees (Village Board)/Finance Director unless specifically exempted

III. OBJECTIVES

The primary objectives, in priority order, of the Village’s investment activities shall be:

1. Legality: The Village’s investments will be in compliance with all statutes governing the investment of public funds and will conform to federal, state, and other legal requirements.

2. Safety: Safety of principal is the foremost objective of the investment program. Investments of the Village shall be undertaken in a manner that seeks first to ensure that capital losses are avoided whether they be from securities defaults or erosion of market value. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

3. Liquidity: The Village’s investment portfolio will remain sufficiently liquid to enable the Village to meet all operating requirements which might be reasonably anticipated.

4. Return on Investments: The Village’s investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic
cycles, commensurate with the Village’s investment risk constraints and the cash flow characteristics of the portfolio.

IV. PRUDENCE

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 primary objective of safety of capital as well as the secondary objective of the attainment of market rates of return.

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. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual’s security credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion, and appropriate action is taken to control adverse developments.

V. ETHICS AND CONFLICT OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Mayor and Village Board of Trustees any material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal/financial investment positions that could be related to the performance of the Village investments.

VI.

VII. DELEGATION OF AUTHORITY

Authority to manage the Village’s investment program is derived from local ordinance. Management responsibility for the investment program is hereby delegated to the Village Treasurer who shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

The Village Treasurer shall establish written investment policy procedures for the operation of the investment program consistent with this policy. The procedures should include reference to safekeeping, repurchase agreements, wire transfer agreements, banking service contracts, collateral/depository agreements, and record keeping. Such procedures shall include explicit delegation of authority to persons secondarily responsible for investment transactions. No person may engage in an investment
transaction except as provided under the terms of this policy and the procedures established by the Village Treasurer.

VIII.

IX. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Village Treasurer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment services in the State of Illinois. These may include “primary” dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule). No public deposit shall be made except in a qualified public depository as established by state laws. Furthermore, employees of any firm or financial institution offering securities or investments to the Village are expected to be trained in the precautions appropriate to public sector investments, and are expected to familiarize themselves with the Village’s investment objectives, policies, and constraints. These firms and financial institutions are expected to make reasonable efforts to preclude imprudent transactions involving Village funds.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Village Treasurer with the following:
1. A copy of the most recent audited financial statement
2. Proof of National Association of Security Dealers (NASD) certification, if applicable
3. Copy of the trading resolution on file
4. Proof of Illinois registration
5. Copies of the last two sworn statements of resources and liabilities which the institution is required to furnish to the Commissioner of Banks and Trust Companies or to the Comptroller of the Currency
6. Certification of having read, understood and agreed to comply with the Village’s investment policy
7. Depository contracts, as appropriate
8. Evidence of adequate insurance coverage

In addition, investment pools must provide the following:
1. A description of eligible investment securities, and a written statement of investment policy and objectives.
2. A description of interest calculations, how they are distributed, and how gains and losses are treated.
3. A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
4. A description of who may invest in the program, how often, and what size deposits and withdrawals are allowed.
5. A schedule for receiving statements and portfolio listings.
6. Are reserves, retained earnings, etc. utilized by the pool?
7. A fee schedule, and when and how it is assessed.
8. Is the pool eligible for bond proceeds and/or will it accept such proceeds?

The Village Treasurer will conduct a periodic review of the financial condition and registration of qualified financial institutions and broker/dealers. A current audited financial statement is required to be on file for each financial institution and broker/dealer with which the Village invests.

X. AUTHORIZED AND SUITABLE INVESTMENTS

The Village of Westmont is empowered by statute to invest in the following types of securities:

1. Interest bearing direct obligations of the United States of America, or its agencies
   U.S. Government bonds, notes, certificates of indebtedness, treasury bills, treasury strips or other securities, which are guaranteed by the full faith and credit of the Government of the United State of America as to principal and interest. Other similar obligations of the United States of America or its agencies including obligations of the Governmental National Mortgage Association (GNMA) are approved by the Government of the United States of America and have a liquid market with a readily determinable market value;

2. Direct obligations of institutions defined in Illinois Banking Act and insured by the Federal Deposit Insurance Corporation (FDIC)
   Interest bearing savings accounts, interest bearing certificates of deposit or interest bearing time deposits or any other investment constituting direct obligations of any institution as defined by the Illinois Banking Act and is insured by the FDIC. Any such investment shall not exceed FDIC insurance limitations, including principal and interest. Exceptions are provided under section dealing with collateralization.

3. Commercial Paper
   Short-term obligations of corporations (commercial paper) organized in the United States with assets exceeding $500 million and rated at the time of purchase at the highest classification established by at least two standard rating services. These must mature within 180 days from the date of purchase. Such purchases may not exceed 10% of the corporation’s outstanding obligations and no more than 10% of the Village’s funds may be invested in commercial paper.

4. Savings and Loan Institution obligations
   Short-term discount obligations of the Federal National Mortgage Association (FNMA) or in shares or other forms of securities legally offered by saving and loan associations incorporated under the laws of this state or any other state or under the laws of the United States. Investments may be made only in those savings and loan associations of which the shared, or investment certificates are insured by the FDIC.

5. Local government investment pools
Local government investment pools, either administered by the State of Illinois or through joint powers statutes and other intergovernmental agreement legislation.

6. Public Funds
Interest bearing bonds of any county, township, city, village, incorporated town, municipal corporation, or school district, of the State of Illinois, or of any other state, or of any political subdivision or agency of the State of Illinois or of any other state. Such purchases may not exceed 10% of the Villages funds.

7. The Illinois Metropolitan Investment Fund (IMET)
An actively managed investment fund for Illinois local governments consisting of investments in obligations issued or secured by the U.S. Government and/or its agencies, and/or money market mutual funds that are permitted under HB885, adopted by the Illinois General Assembly on May 9, 1996, which amended Section 3.1-35-50 of the Illinois Municipal Code, also known as the Investment Act.

8. Government Money Market Funds
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 investments in obligations of the United States of America or its agencies, or repurchase of such obligations.

XI. MASTER REPURCHASE AGREEMENT

If repurchase agreements are legal or authorized, a Master Repurchase Agreement must be signed with the bank or dealer.

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XII. COLLATERALIZATION

It is the policy of the Village, as recommended by State Statute and Government Finance Officers Association (GFOA) Recommended Practices on the Collateralization of Public Deposits, that Village funds on deposit in excess of FDIC limits be secured by some form of collateral or separate insurance, witnessed by a written agreement and held by an independent third-party institution in the name of the Village of Westmont. The Village can accept any of the following assets as collateral:

1. Government Securities
2. Obligations of Federal Agencies
3. Obligations of Federal Instrumentalities
4. Obligations of the State of Illinois and municipalities of Illinois
5. Separate Insurance through a Triple A rated provider.

The Village reserves the right to accept or reject any form of the above named securities. The Village also requires that all depositories that hold Village deposits in excess of the FDIC limits must agree to utilize the Village’s Collateralization requirements listed below.

The amount of collateral provided will not be less than 110% of the fair market value of the net amount of public funds secured. The ratio of the fair market value of collateral to the amount of funds secured will be reviewed at least quarterly, and additional collateral will be required when the ratio declines below the level required and collateral will be released if the fair market value exceeds the required level.

Pledged collateral will be held in safekeeping, by an independent third-party custodian, or the Federal Reserve Bank, designated by the Village and evidenced by a safekeeping agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the Village and retained.

Each time collateral is changed, it must be approved by the Village Treasurer. The change must be recorded in the Bank Board Minutes and a copy of the Minutes must be furnished to the Village. This requirement will be waived, and the right of collateral substitution is granted if the bank is rated by a reputable, outside rating agency such as Moody’s, Standard and Poor’s, A.M. Best, or Fitch Ratings Ltd.

Collateral agreements will preclude the release of the pledged assets without an authorized signature from the Village of Westmont.

XIII. SAFEKEEPING AND CUSTODY

All security transactions, including collateral, entered into by the Village shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian designated by the Village Treasurer and evidenced by safekeeping receipts.

XIV. DIVERSIFICATION

The Village will diversify its investments by security type and institution.

The investment portfolio for the Village shall not exceed the following diversification limits unless specifically authorized by the Village Board:

1. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the Village’s total investment portfolio will be invested in a single security type or with a single financial institution.
2. Monies deposited at a financial institution shall not exceed 75% of the capital stock and surplus of that institution.
3. Commercial paper shall not exceed 10% of the Village’s investment portfolio, excepting bond issue proceed investments.

XV. MAXIMUM MATURITIES

To the extent possible, the Village will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Village will not directly invest in securities maturing more than three and one-half (3 ½) years from the date of purchase. However, the Village may collateralize its repurchase agreements and certificates of deposit using longer-dated investments not to exceed five (5) years to maturity.

XVI. INTERNAL CONTROL

The Village Treasurer shall establish an annual process of independent review of internal controls by an external auditor. This review will assure compliance with policies and procedures. The internal control policy will be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the Village of Westmont.

XVII. PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles commensurate with the investment risk constraints and the cash flow needs.

Market Yield (Benchmark): The Village’s investment strategy is passive due to the bulk of the portfolio being operating funds. Given this strategy, the basis used by the Village Treasurer to determine whether market yields are being achieved shall be the six-month U.S. Treasury Bill and the average Federal Funds rate.

XVIII. REPORTING

The Village Treasurer shall provide the Village Manager, Mayor and Village Board with quarterly investment reports which provide a clear picture of the status of the current investment portfolio. The management report should include comments on the fixed income markets and economic conditions, discussions regarding restrictions on percentage of investment by categories, possible changes in the portfolio structure going forward, and thoughts on investment strategies. Schedules in the quarterly report should include the following:

1. A listing of individual securities held at the end of the reporting period by authorized investment category
2. Average life and final maturity of all investments listed
3. Coupon, discount or earnings rate
4. Par value, amortized book value and market value
5. Percentage of the portfolio represented by each investment category
XIX. INVESTMENT POLICY ADOPTION

The Village of Westmont’s investment policy shall be adopted by resolution of the Village Board. The policy shall be reviewed annually by the Village Board and any modifications made thereto must be approved by the Village Board.

XX. GLOSSARY

AGENCIES - Federal agency securities and/or Government sponsored enterprises.

BROKER - A middleman who brings buyers and sellers together and handles their orders generally charging a commission for their services.

CERTIFICATES OF DEPOSIT - Instruments issued by a bank specifying that a sum of money has been deposited, payable with interest to the bearer of the certificate on a certain date.

COLLATERAL - Securities pledged by a bank to secure deposits of public monies. Also refers to securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan.

DELIVERY VS PAYMENT - Physical delivery of collateral securities or book entry control in exchange for the cash payment. Under this system funds are not transferred until the securities are delivered. If a third party acts as custodian, funds are released by the custodian only when delivery is accomplished.

DIVERSIFICATION - Dividing available funds among a variety of securities and institutions so as to minimize market risk.

DURATION - The number of years required to receive the present value of future payments, both of interest and principal, of a bond, often used as an indicator of a bond’s price volatility resulting from changes in interest rates.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC) - A federal agency that insures bank deposits, currently up to $250,000 per type of deposit per financial institution.

LIQUIDITY - The length of time required to convert any investment to cash.

MARKET VALUE - The market value of a security is the price at which the last sale of the same issue was sold.

MONEY MARKET - The market in which short-term debt instruments (bills, commercial paper, bankers’ acceptances, etc.) are issued and traded.

MATURITY - The date upon which the principal or stated value of an investment becomes due.
PRINCIPAL - The cost of an instrument on which interest is earned.

PRUDENT PERSON STANDARD - An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state – the so-called legal list. In other states, the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

REPURCHASE AGREEMENT - An agreement with an approved broker/dealer that provides for a simultaneous sale of securities by a bank or government securities dealer to a city with an agreement for the bank to repurchase the securities at a fixed date at a specified rate of interest. The difference in the sales and purchase price is the earning rate on the agreement. These agreements range in maturity from overnight to fixed time to open end.

SAFEKEEPING - An arrangement under which an organization's securities are kept in a bank vault or in the case of book entry securities, are held and recorded in the customer's name. Evidence of this arrangement is a safekeeping receipt.

SEC RULE 15c3-1 - An SEC rule that sets minimum net capital requirements for broker-dealers. Firms are expected to have liquid assets equal to or greater than a certain percentage of total liabilities. If the ratio falls below this minimum, the broker-dealer may face restrictions on soliciting new business or on keeping existing business.

UNIFORM NET CAPITAL RULE - Securities Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities. Liquid capital includes cash and assets easily converted into cash.

YIELD - The rate of annual return on an investment expressed as a percentage.
GFOA Sample Investment Policy

The purpose of this sample investment policy is to aid the general membership of the Government Finance Officers Association (GFOA) in the preparation of an investment policy. This sample policy is not intended to supplant an existing policy; rather, it is presented as a model to help investing entities customize a policy to fit their particular needs, constraints and capabilities. In order to accommodate the varying needs of government entities and stimulate conversation at the local level, certain sections of the attached policy include examples of alternative language. These examples may be used in place of or in addition to the first paragraph presented for that section, depending on the goals and objectives of the particular investing entity.

For additional information, please read Chapter Three of Investing Public Funds, second edition, a text authored by Girard Miller, with M. Corinne Larson and W. Paul Zorn, and published by the Government Finance Officers Association of the United States and Canada. You are also invited to contact current staff of the GFOA Standing Committee on Treasury & Investment Management for assistance in modifying and/or writing your government’s investment policy. Governments should obtain counsel to ensure compliance with state and local laws, regulations, and other policies concerning the investment of public funds.

I. Governing Authority

Legality
The investment program shall be operated in conformance with governing legislation and other legal requirements.

II. Scope

This policy applies to the investment of all funds, excluding the investment of employees' retirement funds. [This section should be modified to specify which assets are excluded from this policy.]

1. Pooling of Funds
Except for cash in certain restricted and special funds, the [entity] 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. Also, per SEC Rule 15B (Municipal Advisor Rule), the policy must clearly state whether or not the cash being pooled/invested includes municipal bond proceeds or not.

Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles. [This paragraph refers to the pooling of funds within a single governmental entity and implies no reference to local government investment pools. This GFOA Sample Investment Policy is not specifically designed for use by local government investment pools, although certain portions of this sample policy may apply.]

III. General Objectives

The primary objectives of investment activities shall be safety, liquidity, and return:
1. **Safety**

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**
      The [entity] will minimize credit risk, which is the risk of loss of all or part of the investment 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 and conducting ongoing due diligence of the financial institutions, broker/dealers, intermediaries, and advisers with which the [entity] 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**
      The [entity] 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 security maturities match 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 individual security maturity as well as 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. **Return**

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 investments are 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;
   - Selling a security and reinvesting the proceeds that would improve the quality, yield, or target duration in the portfolio may be undertaken;
   - Unanticipated liquidity needs of the portfolio require that the security be sold.

*Alternative sample language:*

The [entity’s] cash management portfolio shall be designed with the objective of regularly meeting or exceeding an appropriate performance benchmark, which could be the average yield on either three-month U.S. Treasury bills, the state investment pool, a money market mutual fund (specify) or the
average rate on Fed funds. These indicators are considered benchmarks for lower risk investment transactions and therefore comprise a minimum standard for the portfolio's rate of return. The investment program shall seek to augment returns above this threshold, consistent with risk limitations identified herein and prudent investment principles. (See Section IX on performance standards and selecting a benchmark.)

IV. Standards of Care

1. Prudence
The standard of prudence to be used by investment officials shall be the "uniform prudent investor act" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

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, in accordance with applicable laws. 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 individual with whom business is conducted on behalf of the [entity].

3. Delegation of Authority
Authority to manage the investment program is granted to [designated official, hereinafter referred to as investment officer] and derived from the following: [insert code citation, ordinances, charters or statutes]. 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. At a minimum, procedures should include references to the following: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. [Please refer to GFOA's Investment Procedures Manual, 2003.] 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 all 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 and/or other factors, such as FINRA broker check.

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 Financial Industry Regulatory Authority (FINRA) 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 the [entity'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. (See Appendix for the GFOA Recommended Practice on “Governmental Relationships with Securities Dealers.”)

VI. Safekeeping and Custody

1. 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 custody account prior to the release of funds.

2. Safekeeping
   Securities will be held by a [centralized] independent third-party custodian selected by the entity as with all securities held in the [entity’s] name. The safekeeping institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).

3. Internal Controls
   The investment officer shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed annually by the investment committee, where present, and with the independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, mis-representation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the [entity].

VII. Suitable and Authorized Investments

1. Investment Types – Note: Each entity needs to confirm the investment types allowed by statute or authorized by their government.
   Consistent with the GFOA Policy Statement on State and Local Laws Concerning Investment Practices¹ and other binding documents, the following investments will be permitted by this policy:
   - U.S. Treasury obligations which carry the full faith and credit guarantee of the United States government;
   - U.S. government agency and instrumentality obligations that have a liquid market with a readily determinable market value;
   - Canadian government obligations (payable in base currency);

¹ [Link](http://gfoa.org/public-policy-statements-treasury-and-investment-management#investmentpractices)
• Certificates of deposit and other evidences of deposit at financial institutions,
• Bankers' acceptances;
• Commercial paper, rated in the highest tier (e.g., A-1, P-1, F-1, or D-1 or higher) by a nationally recognized rating agency;
• Corporate Bonds;
• Obligations of state, provincial and local governments and public authorities rated A or better;
• Repurchase agreements whose underlying purchased securities consist of the aforementioned instruments;
• Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities; and
• Local government investment pools either state-administered or developed through joint powers statutes and other intergovernmental agreement legislation;
• Other investment types or asset classes as approved by the governing authority.

Investment in derivatives of the above instruments shall require authorization by the appropriate governing authority. (See the GFOA Advisory on "Use of Derivatives by State and Local Governments, 2010.)

2. Collateralization
Where allowed by governing legislation and in accordance with the 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. (See GFOA Recommended Practices in Appendix.)

3. Repurchase Agreements
Repurchase agreements shall be consistent with GFOA Recommended Practices on Repurchase Agreements. (See GFOA Recommended Practices in Appendix.)

VIII. Investment Diversification & Constraints

1. Diversification
It is the policy of the [entity] to diversify its investment portfolios. To eliminate risk of loss resulting from the overconcentration of assets in a specific maturity, issuer, or class of securities, all cash and cash equivalent assets in all [entity] funds shall be diversified by maturity, issuer, and security type. Diversification strategies shall be determined and revised periodically by the investment committee/investment officer for all funds except for the employee retirement fund.

In establishing specific diversification strategies, the following general policies and constraints shall apply: Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity sector. Maturities selected shall provide for stability of income and reasonable liquidity.

• 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 and duration management.
• The investment committee/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. The committee shall conduct a quarterly review of these guidelines and evaluate the probability of market and default risk in various investment sectors as part of its considerations.

The following diversification limitations shall be imposed on the portfolio:
• **Maturity:** No more than xx percent of the portfolio may be invested beyond xx months, and the weighted average maturity of the portfolio shall never exceed xx years.
• **Default risk:** No more than xx percent of the overall portfolio may be invested in the securities of a single issuer, except for securities of the U.S. Treasury. No more than xx percent of the portfolio may be invested in each of the following categories of securities:
  a) Commercial paper,
b) Negotiable certificates of deposit,
c) Bankers’ acceptances,
d) Any other obligation that does not bear the full faith and credit of the United States government or which is not fully collateralized or insured and
• **Liquidity risk:** Based on liquidity needs, at least xx percent of the overall portfolio shall be invested in overnight instruments or in marketable securities which can be converted to cash within one day.

2. **Maximum Maturities**
To the extent possible, the [entity] shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the [entity] will not directly invest in securities maturing more than five (5) years from the date of purchase or in accordance with governing legislation. The [entity] shall adopt weighted average maturity limitations consistent with the investment objectives.

Reserve funds and other funds with longer-term investment horizons may be segregated into a long-term “core” investment portfolio and 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 legislative body. (See the GFOA Recommended Practice on "Maturities of Investments in a Portfolio" in Appendix.)

3. **Competitive Bids**
The investment officer shall obtain competitive bids from at least three brokers or financial institutions on all purchases and sales of investment instruments transacted on the secondary market.
IX. Reporting

1. Methods
The investment officer shall prepare an investment report at least quarterly [or 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 quarter [or month]. This management summary will be prepared in a manner which will allow the [entity] to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the entity's chief administrative officer, the legislative body, the investment committee and any pool participants. The report will include the following:

- Listing of individual securities held at the end of the reporting period including type, acquisition cost, book cost, and market value.
- 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).
- Average weighted return on investments as compared to applicable benchmarks.
- Percentage of the total portfolio which each type of investment represents.
- A statement that the investment portfolio is in compliance with the investment policy and is meeting the investment policy objectives.

2. Performance Standards
The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis. The benchmarks shall be reflective of the actual securities being purchased and risks undertaken, and the benchmarks shall have a similar weighted average maturity as the portfolio.

3. Marking to Market
The market value of the portfolio shall be calculated at least quarterly [or monthly] and a statement of the market value of the portfolio shall be issued at least quarterly [or monthly]. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with the GFOA Recommended Practice on "Mark-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools." (See GFOA Recommended Practices in Appendix.) In defining market value, considerations should be given to the GASB Statement 31 pronouncement.

X. Policy Considerations

1. Amendments
This policy shall be reviewed on an annual basis. Any changes must be submitted by the investment officer and approved by the investment oversight committee or authoritative body acting in such capacity.

XI. Approval of Investment Policy
The investment policy shall be formally approved and adopted by the governing body of the [entity] and reviewed annually.
XII. List of Attachments

The following documents, as applicable, are attached to this policy:

- Listing of authorized personnel;
- Relevant investment statutes and ordinances;
- Listing of authorized broker/dealers and financial institutions;
- Detailed listing of authorized investment classes, sectors, and types;
- Internal Controls;
- Glossary

XIII. Other Documentation

- Master Repurchase Agreement, other repurchase agreements and tri-party agreements,
- Broker/Dealer Questionnaire,
- Credit studies for securities purchased and financial institutions used,
- Safekeeping agreements,
- Wire transfer agreements,
- Sample investment reports,
- Methodology for calculating rate of return,
Illinois Compiled Statutes

FINANCE
(30 ILCS 235/) Public Funds Investment Act.

(30 ILCS 235/0.01) (from Ch. 85, par. 900)
Sec. 0.01. Short title. This Act may be cited as the
Public Funds Investment Act.
(Source: P.A. 86-1324.)

(30 ILCS 235/1) (from Ch. 85, par. 901)
Sec. 1. The words "public funds", as used in this Act,
mean current operating funds, special funds, interest and
sinking funds, and funds of any kind or character belonging to
or in the custody of any public agency.

The words "public agency", as used in this Act, mean the
State of Illinois, the various counties, townships, cities,
towns, villages, school districts, educational service
regions, special road districts, public water supply
districts, fire protection districts, drainage districts,
levee districts, sewer districts, housing authorities, the
Illinois Bank Examiners' Education Foundation, the Chicago
Park District, and all other political corporations or
subdivisions of the State of Illinois, now or hereafter
created, whether herein specifically mentioned or not. This
Act does not apply to the Illinois Prepaid Tuition Trust Fund,
private funds collected by the Illinois Conservation
Foundation, or pension funds or retirement systems established
under the Illinois Pension Code, except as otherwise provided
in that Code.

The words "governmental unit", as used in this Act, have
the same meaning as in the Local Government Debt Reform Act.
(Source: P.A. 98-297, eff. 1-1-14.)

(30 ILCS 235/2) (from Ch. 85, par. 902)
Sec. 2. Authorized investments.
(a) Any public agency may invest any public funds as
follows:
(1) in 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;
(2) in bonds, notes, debentures, or other similar
obligations of the United States of America, its agencies,
and its instrumentalities;
(3) in 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) in short term obligations of corporations organized in the United States with assets exceeding $500,000,000 if (i) such obligations are rated at the time of purchase at one of the 3 highest classifications established by at least 2 standard rating services and which mature not later than 270 days from the date of purchase, (ii) such purchases do not exceed 10% of the corporation's outstanding obligations and (iii) no more than one-third of the public agency's funds may be invested in short term obligations of corporations; or

(5) in 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) of this subsection and to agreements to repurchase such obligations.

(a-1) In addition to any other investments authorized under this Act, a municipality, park district, forest preserve district, conservation district, county, or other governmental unit may invest its public funds in 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 thereon is taxable or tax-exempt under federal law. The bonds shall be registered in the name of the municipality, park district, forest preserve district, conservation district, county, or other governmental unit, or held under a custodial agreement at a bank. The bonds shall be rated at the time of purchase within the 4 highest general classifications established by a rating service of nationally recognized expertise in rating bonds of states and their political subdivisions.

(b) Investments may be made only in banks which are insured by the Federal Deposit Insurance Corporation. Any public agency may invest any public funds in short term discount obligations of the Federal National Mortgage Association or in shares or other forms of securities legally issuable by savings banks or savings and loan associations incorporated under the laws of this State or any other state or under the laws of the United States. 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. Any such securities may be purchased at the offering or market price thereof at the time of such purchase. All such securities so purchased shall mature or be redeemable on a date or dates prior to the time when, in the judgment of such governing authority, the public funds so invested will be required for expenditure by such public agency or its governing authority. The expressed judgment of any such governing authority as to the time when any public funds will be required for expenditure or be redeemable is final and
conclusive. Any public agency may invest any public funds in dividend-bearing share accounts, share certificate accounts or class of share accounts of a credit union chartered under the laws of this State or the laws of the United States, provided, however, the principal office of any such credit union must be located within the State of Illinois. Investments may be made only in those credit unions the accounts of which are insured by applicable law.

(c) For purposes of this Section, the term "agencies of the United States of America" includes: (i) 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 (12 U.S.C. 2001 et seq.) 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.

(d) Except for pecuniary interests permitted under subsection (f) of Section 3-14-4 of the Illinois Municipal Code or under Section 3.2 of the Public Officer Prohibited Practices Act, no person acting as treasurer or financial officer or who is employed in any similar capacity by or for a public agency may do any of the following:

(1) have any interest, directly or indirectly, in any investments in which the agency is authorized to invest.

(2) have any interest, directly or indirectly, in the sellers, sponsors, or managers of those investments.

(3) receive, in any manner, compensation of any kind from any investments in which the agency is authorized to invest.

(e) Any public agency may also invest any public funds in a Public Treasurers' Investment Pool created under Section 17 of the State Treasurer Act. Any public agency may also invest any public 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.

(f) To the extent a public agency has custody of funds not owned by it or another public agency and does not otherwise have authority to invest such funds, the public agency may invest such funds as if they were its own. Such funds must be released to the appropriate person at the earliest reasonable time, but in no case exceeding 31 days, after the private person becomes entitled to the receipt of them. All earnings accruing on any investments or deposits made pursuant to the provisions of this Act shall be credited to the public agency by or for which such investments or deposits were made, except as provided otherwise in Section 4.1 of the State Finance Act or the Local Governmental Tax Collection Act, and except where by specific statutory provisions such earnings are directed to be credited to and paid to a particular fund.

(g) A public agency may purchase or invest in 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 public agency, shall be purchased through banks or trust companies authorized to do business in the State of Illinois.

(b) Except for repurchase agreements of government securities which are subject to the Government Securities Act of 1986, as now or hereafter amended or succeeded, no public agency may purchase or invest in instruments which constitute repurchase agreements, and no financial institution may enter into such an agreement with or on behalf of any public agency unless the instrument and the transaction meet the following requirements:

(1) The securities, unless registered or inscribed in the name of the public agency, are purchased through banks or trust companies authorized to do business in the State of Illinois.

(2) An authorized public officer 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, which acts for the public agency in connection with repurchase agreements involving the investment of funds by the public agency. The State Treasurer may act as custodial bank for public agencies executing repurchase agreements. To the extent the Treasurer acts in this capacity, he is hereby authorized to pass through to such public agencies any charges assessed by the Federal Reserve Bank.

(3) A custodial bank must be a member bank 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 public agency on the records of the custodial bank and the transaction must be confirmed in writing to the public agency 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 public agency enters into a written master repurchase agreement which outlines the basic responsibilities and liabilities of both buyer and seller.

(7) Agreements shall be for periods of 330 days or less.

(8) The authorized public officer of the public agency 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 public agency and confirm the transaction in writing to the public agency. The Custodial Undertaking shall provide that the custodian takes possession of the securities exclusively for the public agency; that the securities are free of any claims against the trading partner; and any claims by the custodian are subordinate
to the public agency's claims to rights to those securities.

(10) The obligations purchased by a public agency may only be sold or presented for redemption or payment by the fiscal agent bank or trust company holding the obligations upon the written instruction of the public agency or officer authorized to make such investments.

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

(i) Notwithstanding the foregoing restrictions on investment in instruments constituting repurchase agreements the Illinois Housing Development Authority may invest in, and any financial institution with capital of at least $250,000,000 may act as custodian for, instruments that constitute repurchase agreements, provided that the Illinois Housing Development Authority, in making each such investment, complies with the safety and soundness guidelines for engaging in repurchase transactions applicable to federally insured banks, savings banks, savings and loan associations or other depository institutions as set forth in the Federal Financial Institutions Examination Council Policy Statement Regarding Repurchase Agreements and any regulations issued, or which may be issued by the supervisory federal authority pertaining thereto and any amendments thereto; provided further that the securities shall be either (i) direct general obligations of, or obligations the payment of the principal of and/or interest on which are unconditionally guaranteed by, the United States of America or (ii) any obligations of any agency, corporation or subsidiary thereof controlled or supervised by and acting as an instrumentality of the United States Government pursuant to authority granted by the Congress of the United States and provided further that the security interest must be perfected by either the Illinois Housing Development Authority, its custodian or its agent receiving possession of the securities either physically or transferred through a nationally recognized book entry system.

(j) In addition to all other investments authorized under this Section, a community college district may invest public funds in any mutual funds that invest primarily in corporate investment grade or global government short term bonds. Purchases of mutual funds that invest primarily in global government short term bonds shall be limited to funds with assets of at least $100 million and that are rated at the time of purchase as one of the 10 highest classifications established by a recognized rating service. The investments shall be subject to approval by the local community college board of trustees. Each community college board of trustees shall develop a policy regarding the percentage of the college's investment portfolio that can be invested in such funds.

Nothing in this Section shall be construed to authorize an intergovernmental risk management entity to accept the deposit of public funds except for risk management purposes.

(Source: P.A. 97-129, eff. 7-14-11; 98-297, eff. 1-1-14; 98-390, eff. 8-16-13; 98-756, eff. 7-16-14.)
(30 ILCS 235/2.5)
Sec. 2.5. Investment policy.
(a) Investment of public funds by a public agency shall be
governed by a written investment policy adopted by the public
agency. The level of detail and complexity of the investment
policy shall be appropriate to the nature of the funds, the
purpose for the funds, and the amount of the public funds
within the investment portfolio. The policy shall address
safety of principal, liquidity of funds, and return on
investment and shall require that the investment portfolio be
structured in such manner as to provide sufficient liquidity
to pay obligations as they come due. In addition, the
investment policy shall include or address the following:
(1) a listing of authorized investments;
(2) a rule, such as the "prudent person rule",
establishing the standard of care that must be maintained
by the persons investing the public funds;
(3) investment 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) a policy regarding diversification of the
investment portfolio that is appropriate to the nature of
the funds, the purpose for the funds, and the amount of
the public funds within the investment portfolio;
(5) guidelines regarding collateral requirements, if
any, for the deposit of public funds in a financial
institution made pursuant to this Act, and, if applicable,
guidelines for contractual arrangements for the custody
and safekeeping of that collateral;
(6) a policy regarding the establishment of 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;
(7) identification of the chief investment officer
who is responsible for establishing the internal controls
and written procedures for the operation of the investment
program;
(8) 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 investment
portfolio;
(9) a policy regarding appropriate periodic review of
the investment portfolio, its effectiveness in meeting the
public agency's needs for safety, liquidity, rate of
return, and diversification, and its general performance;
(10) a policy establishing at least quarterly written
reports of investment activities by the public agency's
chief financial officer for submission to the governing
body and chief executive officer of the public agency. 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;
(11) a policy regarding the selection of investment
advisors, money managers, and financial institutions, and
(12) a policy regarding ethics and conflicts of interest.
(b) For purposes of the State or a county, the investment policy shall be adopted by the elected treasurer and presented to the chief executive officer and the governing body. For purposes of any other public agency, the investment policy shall be adopted by the governing body of the public agency.
(c) The investment policy shall be made available to the public at the main administrative office of the public agency.
(d) The written investment policy required under this Section shall be developed and implemented by January 1, 2000. (Source: P.A. 90-688, eff. 7-31-98.)

(30 ILCS 235/2.10)
Sec. 2.10. Unit of local government; deposit at reduced rate of interest. The treasurer of a unit of local government may, in his or her discretion, deposit public moneys of that unit of local government in a financial institution pursuant to an agreement that provides for a reduced rate of interest, provided that the institution agrees to expend an amount of money equal to the amount of the reduction for senior centers. (Source: P.A. 93-246, eff. 7-22-03.)

(30 ILCS 235/3) (from Ch. 85, par. 903)
Sec. 3. If any securities, purchased under authority of Section 2 hereof, are issuable to a designated payee or to the order of a designated payee, then the public agency shall be so designated, and further, if such securities are purchased with money taken from a particular fund of a public agency, the name of such fund shall be added to that of such public agency. If any such securities are registerable, either as to principal or interest, or both, then such securities shall be so registered in the name of the public agency, and in the name of the fund to which they are to be credited. (Source: Laws 1943, vol. 1, p. 951.)

(30 ILCS 235/4) (from Ch. 85, par. 904)
Sec. 4. All securities purchased under the authority of this Act shall be held for the benefit of the public agency which purchased them, and if purchased with money taken from a particular fund, such securities shall be credited to and
deemed to be a part of such fund, and shall be held for the benefit thereof. All securities so purchased shall be deposited and held in a safe place by the person or persons having custody of the fund to which they are credited, and such person or persons are responsible upon his or their official bond or bonds for the safekeeping of all such securities. Any securities purchased by any such public agency under authority of this Act, may be sold at any time, at the then current market price thereof, by the governing authority of such public agency. Except as provided in Section 4.1 of "An Act in relation to State finance", all payments received as principal or interest, or otherwise, derived from any such securities shall be credited to the public agency and to the fund by or for which such securities were purchased.
(Source: P.A. 84-1378.)

(30 ILCS 235/5) (from Ch. 85, par. 905)
Sec. 5. This Act, without reference to any other statute, shall be deemed full and complete authority for the investment of public funds, as hereinabove provided, and shall be construed as an additional and alternative method therefor.
(Source: Laws 1943, vol. 1, p. 951.)

(30 ILCS 235/6) (from Ch. 85, par. 906)
Sec. 6. Report of financial institutions.
(a) No bank shall receive any public funds unless it has furnished the corporate authorities of a public agency submitting a deposit with copies of the last two sworn statements of resources and liabilities which the bank is required to furnish to the Commissioner of Banks and Real Estate or to the Comptroller of the Currency. Each bank designated as a depository for public funds shall, while acting as such depository, furnish the corporate authorities of a public agency with a copy of all statements of resources and liabilities which it is required to furnish to the Commissioner of Banks and Real Estate or to the Comptroller of the Currency; provided, that if such funds or moneys are deposited in a bank, the amount of all such deposits not collateralized or insured by an agency of the federal government shall not exceed 75% of the capital stock and surplus of such bank, and the corporate authorities of a public agency submitting a deposit shall not be discharged from responsibility for any funds or moneys deposited in any bank in excess of such limitation.
(b) No savings bank or savings and loan association shall receive public funds unless it has furnished the corporate authorities of a public agency submitting a deposit with copies of the last 2 sworn statements of resources and liabilities which the savings bank or savings and loan
association is required to furnish to the Commissioner of Banks and Real Estate or the Federal Deposit Insurance Corporation. Each savings bank or savings and loan association designated as a depository for public funds shall, while acting as such depository, furnish the corporate authorities of a public agency with a copy of all statements of resources and liabilities which it is required to furnish to the Commissioner of Banks and Real Estate or the Federal Deposit Insurance Corporation; provided, that if such funds or moneys are deposited in a savings bank or savings and loan association, the amount of all such deposits not collateralized or insured by an agency of the federal government shall not exceed 75% of the net worth of such savings bank or savings and loan association as defined by the Federal Deposit Insurance Corporation, and the corporate authorities of a public agency submitting a deposit shall not be discharged from responsibility for any funds or moneys deposited in any savings bank or savings and loan association in excess of such limitation.

(c) No credit union shall receive public funds unless it has furnished the corporate authorities of a public agency submitting a share deposit with copies of the last two reports of examination prepared by or submitted to the Illinois Department of Financial Institutions or the National Credit Union Administration. Each credit union designated as a depository for public funds shall, while acting as such depository, furnish the corporate authorities of a public agency with a copy of all reports of examination prepared by or furnished to the Illinois Department of Financial Institutions or the National Credit Union Administration; provided that if such funds or moneys are invested in a credit union account, the amount of all such investments not collateralized or insured by an agency of the federal government or other approved share insurer shall not exceed 50% of the unimpaired capital and surplus of such credit union, which shall include shares, reserves and undivided earnings and the corporate authorities of a public agency making an investment shall not be discharged from responsibility for any funds or moneys invested in a credit union in excess of such limitation.

(d) Whenever a public agency deposits any public funds in a financial institution, the public agency may enter into an agreement with the financial institution requiring any funds not insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration or other approved share insurer to be collateralized by any of the following classes of securities, provided there has been no default in the payment of principal or interest thereon:

1. Bonds, notes, or other securities constituting direct and general obligations of the United States, the bonds, notes, or other securities constituting the direct and general obligation of any agency or instrumentality of the United States, the interest and principal of which is unconditionally guaranteed by the United States, and bonds, notes, or other securities or evidence of indebtedness constituting the obligation of a U.S. agency or instrumentality.
(2) Direct and general obligation bonds of the State of Illinois or of any other state of the United States.

(3) Revenue bonds of this State or any authority, board, commission, or similar agency thereof.

(4) Direct and general obligation bonds of any city, town, county, school district, or other taxing body of any state, the debt service of which is payable from general ad valorem taxes.

(5) Revenue bonds of any city, town, county, or school district of the State of Illinois.

(6) Obligations issued, assumed, or guaranteed by the International Finance Corporation, the principal of which is not amortized during the life of the obligation, but no such obligation shall be accepted at more than 90% of its market value.

(7) Illinois Affordable Housing Program Trust Fund Bonds or Notes as defined in and issued pursuant to the Illinois Housing Development Act.

(8) In an amount equal to at least market value of that amount of funds deposited exceeding the insurance limitation provided by the Federal Deposit Insurance Corporation or the National Credit Union Administration or other approved share insurer: (i) securities, (ii) mortgages, (iii) letters of credit issued by a Federal Home Loan Bank, or (iv) loans covered by a State Guarantee under the Illinois Farm Development Act, if that guarantee has been assumed by the Illinois Finance Authority under Section 845-75 of the Illinois Finance Authority Act, and loans covered by a State Guarantee under Article 830 of the Illinois Finance Authority Act.

(9) Certificates of deposit or share certificates issued to the depository institution pledging them as security. The public agency may require security in the amount of 125% of the value of the public agency deposit. Such certificate of deposit or share certificate shall:

(i) be fully insured by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, or the National Credit Union Share Insurance Fund or issued by a depository institution which is rated within the 3 highest classifications established by at least one of the 2 standard rating services;

(ii) be issued by a financial institution having assets of $15,000,000 or more; and

(iii) be issued by either a savings and loan association having a capital to asset ratio of at least 2%, by a bank having a capital to asset ratio of at least 6% or by a credit union having a capital to asset ratio of at least 4%.

The depository institution shall effect the assignment of the certificate of deposit or share certificate to the public agency and shall agree that, in the event the issuer of the certificate fails to maintain the capital to asset ratio required by this Section, such certificate of deposit or share certificate shall be replaced by additional suitable security.

(e) The public agency may accept a system established by the State Treasurer to aggregate permissible securities
received as collateral from financial institutions in a collateral pool to secure public deposits of the institutions that have pledged securities to the pool.

(f) The public agency may at any time declare any particular security ineligible to qualify as collateral when, in the public agency's judgment, it is deemed desirable to do so.

(g) Notwithstanding any other provision of this Section, as security a public agency may, at its discretion, accept a bond, executed by a company authorized to transact the kinds of business described in clause (g) of Section 4 of the Illinois Insurance Code, in an amount not less than the amount of the deposits required by this Section to be secured, payable to the public agency for the benefit of the People of the unit of government, in a form that is acceptable to the public agency.

(h) Paragraphs (a), (b), (c), (d), (e), (f), and (g) of this Section do not apply to the University of Illinois, Southern Illinois University, Chicago State University, Eastern Illinois University, Governors State University, Illinois State University, Northeastern Illinois University, Northern Illinois University, Western Illinois University, the Cooperative Computer Center and public community colleges.
(Source: P.A. 95-331, eff. 8-21-07.)

(30 ILCS 235/6.5)
Sec. 6.5. Federally insured deposits at Illinois financial institutions.

(a) Notwithstanding any other provision of this Act or any other statute, whenever a public agency invests public funds in an interest-bearing savings account, demand deposit account, interest-bearing certificate of deposit, or interest-bearing time deposit under Section 2 of this Act, the provisions of Section 6 of this Act and any other statutory requirements pertaining to the eligibility of a bank to receive or hold public deposits or to the pledging of collateral by a bank to secure public deposits do not apply to any bank receiving or holding all or part of the invested public funds if (i) the public agency initiates the investment at or through a bank located in Illinois and (ii) the invested public funds are at all times fully insured by an agency or instrumentality of the federal government.

(b) Nothing in this Section is intended to:

1) prohibit a public agency from requiring the bank at or through which the investment of public funds is initiated to provide the public agency with the information otherwise required by subsection (a), (b), or (c) of Section 6 of this Act as a condition of investing the public funds at or through that bank; or

2) permit a bank to receive or hold public deposits if that bank is prohibited from doing so by any rule, sanction, or order issued by a regulatory agency or by a court.
(c) For purposes of this Section, the term "bank" includes any person doing a banking business whether subject to the laws of this or any other jurisdiction.
(Source: P.A. 98-703, eff. 7-7-14; 98-756, eff. 7-16-14; 99-78, eff. 7-20-15.)

(30 ILCS 235/7) (from Ch. 85, par. 907)
Sec. 7. When investing or depositing public funds, each custodian shall, to the extent permitted by this Act and by the lawful and reasonable performance of his custodial duties, invest or deposit such funds with or in minority-owned financial institutions within this State.
(Source: P.A. 84-754.)

(30 ILCS 235/8)
Sec. 8. Consideration of financial institution's commitment to its community.
(a) In addition to any other requirements of this Act, a public agency is authorized to consider the financial institution's record and current level of financial commitment to its local community when deciding whether to deposit public funds in that financial institution. The public agency may consider factors including, but not necessarily limited to:
   (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 deposits of public funds might have on the financial institution;
   (4) the financial impact to the public agency 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 resources of the public agency that might result from ceasing to maintain deposits of public funds at the financial institution under consideration.
(b) Nothing in this Section shall be construed as authorizing the public agency to conduct an examination or investigation of a financial institution or to receive information that is not publicly available and the disclosure of which is otherwise prohibited by law.
(Source: P.A. 93-251, eff. 7-1-04.)
Sec. 9. Municipal and county investment in not-for-profit community development financial institutions. Municipalities and counties may invest up to $250,000 per year in public funds in not-for-profit community development financial institutions across all institutions. These financial institutions must have at least $5,000,000 in net assets and have earned at least an "A" rating by an investment rating organization that primarily provides services for community development financial institutions. Investments made under this Section shall be made for a term and at a rate acceptable to the municipality or county and the municipality or county may set benchmarks in order to continue investing in the not-for-profit community development financial institution.
(Source: P.A. 99-676, eff. 7-29-16.)