VILLAGE OF FOX RIVER GROVE, ILLINOIS

INVESTMENT POLICY

November 11, 1999

POLICY

It is the policy of the Village of Fox River Grove, Fox River Grove, Illinois 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 of Fox River Grove and conforming to all state and local statutes governing the investment of public funds.

SCOPE OF INVESTMENT POLICY

This policy includes all funds established by the appropriate governing body. It applies to all the investment activities of all funds of the Village of Fox River Grove, Fox River Grove, Illinois. All financial assets of other funds, including the General Fund, Special Revenue Funds, Capital Project Funds, Debt Service Funds, Enterprise Funds, Trust and Agency Funds and any other funds that may be created shall be administered in accordance with the provisions of this Policy.

RESPONSIBILITY FOR THE INVESTMENT PROGRAM

The establishment of investment policies is the responsibility of the President and Board of Trustees of the Village. Management and administrative responsibility for the investment program of the Village of Fox River Grove is hereby delegated to the Village Administrator or his/her designee. The Village Administrator or his/her designee shall prepare and follow written procedures for the operation of the Investment Program, be responsible for all transactions undertaken, and shall establish a system of accounting controls to safeguard Village assets. The Village Administrator or his/her designee may from time to time amend the written procedures in a manner inconsistent with this Policy or with State law.

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 security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

The responsibility for investment activities of a Police Pension Fund will rest with the Board of Trustees of the fund.

PRUDENCE

The standard of prudence to be used by investment officials shall be the "prudent person" standard, when applicable and when not prevented by law, and shall be applied in the context of all investments.

Investments shall be made with judgement and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs. Such standards, therefore, avoid unwarranted speculation; emphasis is placed on the probable safety of capital rather than the probable income to be derived.

EXHIBIT A

Investment Policy – Village of Fox River Grove

ETHICS AND CONFLICT OF INTEREST

The 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. Such officers and employees shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial or investment positions that could be related to the performance of the investment portfolio. The officers and employees having influence on the Village's investment decisions shall not:

- Have any interest, directly or indirectly, in any investments in which the village is authorized to invest.
- Have any interest, directly or indirectly, in the sellers, sponsors, or managers of those investments.
- Receive, in any manner, compensation of any kind from any investments in which the Village is authorized to invest.

OBJECTIVES OF INVESTMENT POLICY

The purpose of the Investment Policy of the Village of Fox River Grove is to establish cash management and investment guidelines for the stewardship of public funds. Specific objectives include:

- **Legality** - Conformance with federal, state and other legal requirements.

- **Safety** - Protection of investment principal and preservation of capital. Each investment transaction should seek to first ensure that capital losses are avoided, whether from securities defaulting or erosion of market value. All investments should be limited to relatively low risk securities.

- **Liquidity** - Portfolio shall remain sufficiently liquid to meet all operating requirements, which may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities/financial instruments mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should also consist of securities with active secondary or resale markets (dynamic liquidity).

- **Return on Investments** - Maintain a policy of receiving the highest interest rate possible per investment on any given day. The investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with the Village of Fox River Grove's investment risk constraints and the cash flow characteristics of the portfolio. Securities shall not be sold prior to maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal;
- A security swap would improve the quality, yield, or target duration in the portfolio; and
- Liquidity needs of the portfolio require that the security be sold

- **Diversification** – Diversify investments to avoid incurring unreasonable risks from practice of concentrating investments in specific security types and individual financial institutions.

- **Periodic Review** - The portfolio should be reviewed periodically as to its effectiveness in meeting the entity's needs for safety, liquidity, rate of return, diversification and its general performance.

AUTHORIZED FINANCIAL INSTITUTIONS

1. Qualified and licensed financial institutions shall be selected which qualify as depositories/custodians under Illinois law. In making these selections, the Village Administrator or his/her designee shall consider financial stability and strength of the institution and availability of financial data regarding the institution.

2. All financial institutions who desire to become qualified for investment transactions must submit written confirmation of receipt of this investment policy and certification of having read and understood and agreeing to comply with the Village's investment policy.

3. It shall be Village policy to select financial institutions on the following basis:

- **Security:** The Village shall maintain funds in a financial institution only if the institution is federally insured or invests strictly in securities which have the full faith and credit of the U.S. Government.

- **Location:** Every attempt will be made to invest Village funds locally provided local institutions are price competitive with respect to rates of return on comparable investment products.

- **Size:** The Village will not maintain deposits in any financial institution in which the Village funds on deposit will exceed fifty (50%) percent of the institution's capital stock and surplus.

- **Diversification:** In order to reduce the risk of default, no financial institution shall hold more than 50% of the Village's investment portfolio at the current time of investment placement, exclusive of United States Treasury securities or Governmental National Mortgage securities held in safekeeping and of all funds on deposit which are fully collateralized.

- **Collateral:** All Funds on deposit (checking accounts, certificates of deposit, etc) in excess of FDIC limits must be secured by collateral. Direct investments guaranteed by the United States or an agency of the United States do not require collateral.

  Pledged collateral shall be held by an independent third party custodian designated by the Village and evidenced by receipts and a written agreement. The collateral agreement will preclude the release of the pledged assets without authorized signatures of the Village Administrator or his designee, but the agreement may allow for an exchange of collateral of like value.

  This agreement shall outline the types of assets that may be pledged as collateral, the amount of collateral required and the placement procedures. The Village shall accept any of the following securities as collateral:

  - Negotiable obligations of the United States Government
  - Negotiable obligations of any agency or instrumentality of the United States Government

4. The Village will maintain for public and managerial inspection, current statements of condition for each financial institution named as depository. If, for any reason the information furnished is considered by the Village to be insufficient, the Village may request additional information

5. An annual written review of the financial conditions of the utilized financial institutions will be conducted by the Village Administrator or his/her designee.

<u>AUTHORIZED INVESTMENT ADVISORS</u>:
The Village Administrator, with the approval of the Board of Trustees, may appoint investment advisors. The investment advisor shall be a fiduciary with respect to the security decisions and shall be one of the following:

- An investment advisor registered under the Federal Investment Advisors Act of 1940 (15 U.S.C. 80b-1, *et seq.*) and the Illinois Securities Law of 1953;
- A bank or trust company authorized to conduct a trust business in Illinois;
- A life insurance company authorized to transact business in Illinois; or
- An investment company defined and registered under the Federal Investment Company Act of 1940 (15 U.S.C. 80A-1, *et seq.*) and registered under the Illinois Securities Law of 1953.

The investment advisor shall be person who:

- Has the power to manage, acquire, or dispose of any security;

- Has the knowledge in writing that he or she is a fiduciary with respect to the Village's securities; and
- Is at least one of the following: (i) registered as an investment advisor under the
- Federal Investment Advisors Act of 1940 (15 U.S.C. 80b-1, et seq.); (ii) registered as an investment advisor under the Illinois Securities Law of 1953; (iii) a bank, as defined in the Investment Advisors Act of 1940; or (iv) an insurance company authorized to transact business in Illinois.

All investment advise and service provided by an investment advisor so appointed shall be rendered pursuant to written contract between the investment advisor and the Village, and in accordance with the Village's investment policy. The contract shall include all the following:

- Acknowledgement in writing by the investment advisor that he or she is a fiduciary with respect to the Village's securities.
- The Village's investment policy;
- Full disclosure of direct and indirect fees, commission, penalties, and any other compensation that may be received by the investment advisor, including reimbursement for expenses; and
- A requirement that the investment advisor submit periodic written reports, on at least a quarterly basis, for the Board of Trustees' regularly scheduled meetings. All returns on investments shall be reported as net returns after payment of all fees, commissions, and any other compensation.

CASH MANAGEMENT

The Village Administrator or his/her designee shall prepare written cash management procedures, which shall include, but not be limited to, the following:

- **Receipts:** All monies due the Village shall be collected as promptly as possible. Monies that are received shall be deposited in an approved financial institution no later than the next business day after receipt by the Village. Amounts that remain uncollected after a reasonable length of time shall be subject to any available legal means of collection. One of the objectives of the Village's cash management procedures is to comply with the provisions of the Illinois Revised Statutes, which mandates prompt investment of funds.

- **Disbursements:** Any disbursement to suppliers of goods and/or services or to employees for salaries and wages shall be contingent upon available budget appropriations.

- **Financial Forecast:** At least annually, a financial forecast will be prepared using expected revenue sources and items of expenditure to project cash requirement for future years of the village. An analysis will be prepared for both operating and non-operating revenues and expenditures. This analysis will provide a guide for determining the length and amount of investments.

- **Pooling of Cash:** Except where otherwise provided by the Board of Trustees, the Village Administrator or his/her designee will be authorized to pool the cash of various funds to maximize investment earnings where in his/her opinion it is advantageous and prudent to do so. Investment income will be allocated to the various funds based upon their respective participation.

INVESTMENT SELECTION

The Village may invest in any type of security allowed for in Illinois statutes regarding the investment of public funds. Approved investments are hereby limited to:

- Bonds, notes, certificates or indebtedness, treasury bills, or other securities, including obligations of the Governmental National Mortgage Association and Federal National Mortgage Association which are guaranteed as to principal by the full faith and credit of the government of the United States of America.
- 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 Ace and that is insured by the Federal Deposit Insurance Corporation.
- Illinois Public Treasurer's Investment Pool.

Selection Procedures on Certificates of Deposit

In obtaining competitive quotations for certificates of deposit at least three qualified institutions will be contacted each time an investment is placed. In no instance shall an investment be placed without the authority of the Village Administrator or his/her designee.

Investments shall be placed with the institution that best exhibits the ability to meet the investment criteria and objectives in this policy.

ACCOUNTING

The assets, liabilities, revenues and expenditures of each fund are maintained as separate entities on the full or modified accrual basis. All investment transactions shall be recorded in accordance with generally accepted accounting principles as promulgated by the Government Accounting Standards Board. Accounting principles will include:

- Investments will be carried at cost or amortized cost which approximates market value.
- Any premium or discount on investment will be amortized over the life of the investment.
- Gains or losses of investments in all funds will be recognized at the time of

disposition of the security.

MAXIMUM MATURITY

The Village of Fox River Grove will match its investments with anticipated cash flow requirements.

INTERNAL CONTROL

Where deemed necessary, the Village Administrator or his/her designee shall establish a system of internal controls, which shall be documented in writing. These internal controls and this Investment Policy shall be reviewed by an independent, certified public accountant in conjunction with the annual examination of the financial statements of the Village. The controls shall be designed to prevent losses of the Village funds arising from fraud, employee error, and misrepresentations by third parties, unanticipated changes in financial markets, or imprudent actions by employees. The internal controls shall address the following points:

- Control of collusion
- Separation of transaction from accounting
- Clear delegation of authority to subordinate staff members
- Custodial safekeeping
- Written confirmation of telephone transactions for investments and wire transfers

FINANCIAL REPORTING

The Director of Finance shall submit a monthly cash flow report and a quarterly investment report to the Village Board for review. The quarterly report shall include a list of securities in the portfolio by class or type; income earned, market value, transactions and a management analysis of the status of the portfolio. The Comprehensive Annual Financial Report shall include all investment information as promulgated by the Government Accounting Standards Board.

PERFORMANCE STANDARD

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, unless annually required, and cash flow needs.

INVESTMENT POLICY ADOPTION

The Village of Fox River Grove's investment policy shall be adopted by resolution of the Village of Fox River Grove's legislative authority. The policy shall be reviewed periodically by the legislative authority and the Board of Trustees must approve any modifications made thereto.

A copy of the Village's Investment Policy shall be kept on file in the Village Clerk's office and made available to the public during normal business hours.

GLOSSARY

AGENCIES: Federal Agency securities and/or Government sponsored enterprises.

ASKED: The price at which securities are offered.

BANKERS' ACCEPTANCE (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BID: The price offered by a buyer of securities. When you are selling securities you ask for a bid.

BROKER: A broker brings buyers and sellers together for a commission.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large denomination CD's are typically negotiable.

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

COUPON: The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. A certificate attached to a bond evidencing interest due on a payment date. DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to $100,000 per deposit.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open market operations.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL: The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and could be purchased or sold.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

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

PRUDENT PERSON RULE: 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.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad Valero taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income returns.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them as a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money, that is, increasing bank reserves.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises and Corporations which have imbedded options (e.g., call features, set-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months or one yr.

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TREASURY BONDS: Long-germ coupon-bearing U.s. Treasury Securities issued as direct obligations of the U.S. Government and having initial maturates of more than 10 years.

TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturates from two to 10 years.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security. (b) NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.