FRANKFORT SQUARE PARK DISTRICT

INVESTMENT POLICY

The intent of this Policy is to outline a plan for ensuring prudent investments of Frankfort Square Park District (District) funds and maximizing the efficiency of the District's cash management procedures. The goal is to invest public funds in a manner that will provide the maximum security and the highest investment return while meeting both the daily cash flow demands of the District and conforming to all State and local statutes governing the investment of public funds, in particular, 30 ILCS 235, the Public Funds Investment Act.

This Policy applies to all financial assets of the District under the direct management by the Executive Director, with the following exceptions:

- Funds set aside in an escrow account established in an ordinance authorizing bonds will be invested in accordance with appropriate bond documents and arbitrage rules and not necessarily in compliance with this Policy.

- Should bond covenants be more restrictive than this Policy, funds will be invested in full compliance with those restrictions.

GENERAL OBJECTIVES

The primary objectives of District investment activities shall be legality, safety, liquidity and yield, in that order of precedence. The District may also favor investments in locally or minority owned institutions which otherwise meet the investment criteria described herein. The District will also consider the sustainability factors described herein.

<u>Legality.</u>

The District's investment activities will be in compliance with all statutes governing the investment of public funds and will conform to federal, state and other legal requirements.

<u>Safety.</u>

Safety refers to the preservation of capital and protection of investment principal. The protection of investment principal is the foremost objective of the investment program. District investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio by mitigating credit risk and interest rate risk.

Credit Risk.

Credit risk is the risk of loss due to the failure of the security issuer or backer. The objective will be to minimize credit risk by:

- Limiting investments to the safest type of securities,

- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the District will do business, and

- Diversifying the investment portfolio so that potential losses on individual securities will be minimized. Diversification reduces the risk that potential losses on individual securities might exceed the income generated from other investments.

Interest Rate Risk.

Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. The objective will be to minimize interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby minimizing the need to sell securities on the open market prior to maturity, and investing operating funds primarily in shorter-term securities, or cash funds.

<u>Liquidity.</u>

Liquidity is the availability of sufficient funds to meet operating requirements.

The objective will be for the investment portfolio to remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. The District will maintain sufficient liquidity by:

- Structuring the portfolio so that securities mature concurrent with the cash needs to meet anticipated demands (static liquidity), and

- Since all possible cash demands cannot be anticipated, the District portfolio will consist largely of securities with active secondary or resale markets (dynamic liquidity), and

- Utilizing qualifying money market mutual funds or local government investment pools which offer same- day liquidity for short-term investment.

<u>Yield.</u>

Yield is the return on investments. Return on investment is of secondary importance compared to the legality, safety and liquidity objectives described above.

The objective will be to attain a market rate of return over the budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs of the District. The District will accomplish this objective by:

- limiting the core of investments to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed;

- holding securities to maturity with the following unusual exceptions;

    - a declining credit security could be sold early to minimize loss of principal;

- a security swap would improve the quality yield, or target duration in the portfolio; or
- unplanned liquidity needs of the portfolio require that the security be sold.

Illinois Sustainable Investment Act.

The Park District shall consider material, relevant, and decision-useful sustainability factors, within the bounds of financial and fiduciary prudence, in evaluating investment decisions. These factors consist of but are not limited to:

a. Corporate governance and leadership factors;

b. Environmental factors;

c. Social capital factors;

d. Human capital factors;

e. Business model and innovation factors.

In addition, efforts will include the following:

i. Periodic evaluation of sustainability factors to ensure the factors are relevant to the Park District investment portfolio and the evolving marketplace;

ii. Periodic monitoring of investment managers to encourage implementation of the aforementioned factors.

STANDARDS OF CARE

Prudence

District 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.

Officers of the Frankfort Square Park District and the District’s investment advisors acting in accordance with this standard of care shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectation are reported in a timely fashion, and appropriate action is taken to control adverse developments.

Ethics and Conflicts of Interest

The District shall avoid conflicts of interest by:

- Requiring that both officers and employees, who are involved with the District investment process, disclose:
    - any material interests in financial institutions with which the District conducts business, and
    - any personal financial/investment positions that could be related to the performance of the District’s investment portfolio.
- Establishing that both officers and employees involved in the District investment process shall refrain from personal business activity that could conflict with the proper execution and management of the District's investment program, or that could impair their ability to make impartial decisions.

Delegation of Authority.

The operation of the District investment program is the responsibility of the Executive Director who shall establish written procedures consistent with this investment policy.

Written Investment Procedures.

The written procedures shall include references to:

- Safekeeping
- Delivery vs. Payment
- Investment accounting
- Repurchase agreements

- Wire transfer agreements, and
- Collateral/depository agreements

The procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this Policy and the established written investment procedures. The District Executive Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials and District investment advisors. The written procedures may be amended from time to time in a manner not inconsistent with this Policy or with state statutes.

SAFEKEEPING AND CUSTODY

<u>Qualifications of other Financial Institutions and security brokers/dealers.</u>

The Executive Director or designee will maintain a list of qualified and approved financial institutions authorized to provide investment services. No public deposit shall be made except to a qualified public depository as established by Illinois State Statutes. Furthermore, employees of any firm or financial institution offering securities or investments to the District are expected to be trained in the precautions appropriate to public-sector investments and are expected to familiarize themselves with the District's investment objectives, policies, and constraints. These firms and financial institutions are expected to make reasonable efforts to preclude imprudent transactions involving District funds.

The District will endeavor to maintain operating and investment accounts in qualifying institutions located within the District service area whenever possible.

All financial institutions and brokers/dealers who desire to perform investment services for the District must supply the District Executive Director with the following:

- Two years audited financial statements
- Rating — when applicable
- Two years of call reports for banking institution
- Proof of National Association of Security Dealers (NASD) certification
- Proof of state registration
- Certification of having read, understood and agreed to comply with the District's investment policy
- Depository contracts, if appropriate.

Maintenance of Authorized Status

The Executive Director will conduct a periodic review of financial condition and registration of qualified financial institutions and brokers/dealers.

Internal Controls

The Executive Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the District 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 require estimates and judgments by management.

The internal controls shall address the following:

- Clear delegation of authority to subordinate staff members
- Separation of investment approval and account reconciliation functions
- Custodial safekeeping
- Written confirmation of transactions for investments and wire transfers
- Development of a procedure for making wire transfers

Delivery vs. Payment (DVP)

Delivery vs. Payment is the delivery of securities with an exchange of money, not just a signed receipt, for the securities. All security transactions, including collateral for repurchase agreements, entered into by the District shall be conducted on a delivery vs. payment basis to ensure that securities are deposited in an eligible financial institution prior to the release of funds. Purchased securities will be held by a third-party custodian and will be evidenced by safekeeping receipts.

SUITABLE AND AUTHORIZED INVESTMENTS

Investment types

The District is empowered to invest in certain types of securities as detailed in the Public Funds Investment Act, 30 ILCS 235/2. This Policy authorizes the District to invest in the following investment types:

> U.S. Government bonds, notes, certificates of indebtedness, treasury bills, treasury strips or other securities that 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 United States of America or its agencies including obligations of the Governmental

National Mortgage Association are approved by the Government of the United States of America and have a liquid market with a readily determinable market value;

Direct obligations of institutions defined in the 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 current FDIC insurance limitations including principal and interest, except with adequate collateral.

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 District's funds may be invested in commercial paper.

Short-term discount obligations of the Federal National Mortgage Association or in shares or other forms of securities legally offered by 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.

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

Interest-bearing bonds sold by 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 20% of the District's funds. 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.

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.

<u>Collateralization</u>

It is the policy of the District, as recommended by State Statute and Government Finance Officers Association (GFOA) Recommended Practices on the Collateralization of Public Deposits, that District 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 District. The District can accept, but is not limited to, any of the following assets as collateral:

- Government Securities
- Direct Obligations of Federal Agencies
- Direct Obligations of Federal Instrumentalities
- Direct Obligations of the State of Illinois and municipalities of Illinois
- Letters of Credit issued by the Federal Home Loan Bank
- Separate Insurance through a Triple A rated provider.

The District reserves the right to accept or reject any form of the above-named securities.

The District also requires that all depositories that hold District deposits in excess of the FDIC limits must agree to utilize the District's Collateralization requirements listed below.

The amount of collateral provided will be between 100% to 103% of the fair market value of the net amount of public funds secured. The ratio of the fair market value of collateral to a number of funds secured will be reviewed monthly, 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 District and evidenced by a safekeeping agreement. Each time collateral is changed, it must be approved by the District Executive Director. Collateral statements will be provided to the District within fifteen (15) days after the end of the month unless alternative arrangements are agreed upon by the District Executive Director.

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

INVESTMENT PARAMETERS

Diversification

Diversification is related to the types of investments, number of institutions invested in, and the length of maturity for investments. It is the policy of the District to diversify its investments to the best of its ability based on the types of funds invested and the cash flow needs of those funds.

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

- No financial institution shall hold more than 40% of the District's investment portfolio, exclusive of securities in safekeeping.
- Monies deposited at a financial institution shall not exceed 45% of the capital stock and surplus of that institution.

- Commercial paper shall not exceed 10% of the District's investment portfolio,

- Deposits in any one public investment pool shall not exceed 50% of the District's investment portfolio, provided, however, that 3% in excess of 50% deviation may result due to daily volatility, on any given day. In this event, staff shall continue to monitor the balance to ensure that no audit management letter comment should be generated as a result of this allowable deviation.

Maximum Maturity

To the extent possible, the District will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the District will not directly invest in securities maturing more than five (5) years with an average weighted investment maturity (duration) of no longer than three and one-half (3 1/2) years. No more than 10% of the District's total portfolio may be invested in the 4-5 year time frame.

REPORTING

Methods

The Executive Director shall provide an investment report to the District Board on a quarterly basis. The investment report will include the following:

- A succinct management summary which provides a clear picture of the status of the current investment portfolio.

- A listing of individual securities held at the end of the reporting period, by maturity date.

- The percentage of the total portfolio which each type of investment represents.

- The average weighted maturity of the portfolio.

AUDIT

In conjunction with the annual examination of the financial records of the District by an independent certified public accountant, all accounts and investment records will be confirmed with the financial institution involved. The annual financial statement will also include information as to the insured collateralized limits of all public funds examined.

POLICY CONSIDERATIONS

Exemption

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

Adoption & Amendments

This Policy shall be adopted by resolution of the District Board and will replace any previous investment policies adopted by the District Board. In the event that any state or federal legislation or regulation should further restrict instruments, institutions or procedures authorized by this Policy, such restrictions shall be deemed to be immediately incorporated into this Policy. If new legislation or regulation should liberalize the permitted instruments, institutions or procedures, such changes shall be available and included in this Policy only after written notification to the District Board and their subsequent approval of said changes.

The District Executive Director shall review this Policy on a regular basis, and the Park Board must approve any modifications made thereto. Following adoption, any subsequent changes to this policy shall require 2/3 Board majority vote. This shall mean 2/3rd of those Board members currently holding office.

This policy is effective as of March 18, 2021.

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Board President

ATTEST:

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Park Board Secretary