

SOUTH LYONS TOWNSHIP SANITARY DISTRICT

COOK COUNTY, ILLINOIS

ORDINANCE NO. 1999- 7

**AN ORDINANCE OF THE SOUTH LYONS TOWNSHIP SANITARY DISTRICT
ESTABLISHING A SANITARY DISTRICT INVESTMENT POLICY IN
COMPLIANCE WITH PUBLIC FUNDS INVESTMENT ACT
30 ILCS 235/2.5**

WHEREAS, the General Assembly has enacted 30 ILCS 235/2.5 requiring local governmental entities to enact an Investment Policy to safeguard funds, equitably distribute investments and maximize income

NOW, THEREFORE, BE IT ORDAINED BY THE President AND THE BOARD OF TRUSTEES OF THE South Lyons Township Sanitary District, COUNTRYSIDE, ILLINOIS, as follows:

Pursuant to Public Act 90-0688 enacted by the Illinois General Assembly as 30 ILCS 235/2.5, the following provisions are enacted to implement the requirements of the Act:

Section I. Scope

This policy applies to the investment of short-term operating funds.

Pooling of Funds Except for cash in certain restricted and special funds, the Sanitary District will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

Section II. General Objectives

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

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.

Credit Risk The Sanitary District will minimize credit risk, the risk of loss due to the failure of these security issuer or backer, by:

Limiting investments to the safest types of securities.

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

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

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

Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

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

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. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets. 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.

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 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:

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

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

Liquidity needs of the portfolio require that the security be sold.

Section III. Standards of Care

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 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.

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 South Lyons Township Sanitary District.

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

Section IV. Safekeeping and Custody

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:

Audited financial statements.

Proof of National Association of Securities Dealers (NASD) certification

Proof of state registration.

Completed broker/dealer questionnaire.

Certification of having read and understood and agreeing to comply with the Sanitary District'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.

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

be approved by the Board of Trustees in advance. As required by statute, the Sanitary District board shall designate the depositories in which the funds and moneys of the Sanitary District in the custody of the treasurer may be kept. 70 ILCS 2805/16.

Internal Controls The investment officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Sanitary 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 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:

Control of collusion.

Custodial safekeeping.

Avoidance of physical delivery securities.

Clear delegation of authority to subordinate staff members.

Written confirmation of transactions for investments and wire transfers.

Delivery vs. Payment All trades where applicable will be executed by delivery vs. payment to ensure that securities are deposited in an eligible financial institution prior to the release of funds. Securities will be held by a third-party custodian as evidenced by safekeeping receipts.

Section V. Suitable and Authorized Investments

Investment Types The following investments will be permitted by this policy and are those defined by state and local law where applicable:

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;

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;

Investment-grade obligations of state, and local governments and public authorities;

Repurchase agreements whose underlying purchased securities consist of the foregoing;

Money markets 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 through joint powers statutes and other intergovernmental agreement legislation.

Collateralization Where allowed by state law, collateralization will be required on non-negotiable certificates of deposit.

Section VI. Investment Parameters

Diversification The investments shall be diversified by:
limiting investments to avoid overconcentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities),
limiting investment in securities that have higher credit risks,
investing in securities with varying maturities, and
continuously investing a portion of the portfolio in readily available funds such as local government investment pools, money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

Maximum Maturities To the extent possible, the Sanitary District shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Sanitary District will not directly invest in securities maturing more than five (5) years from the date of purchase or in accordance with state and local statutes and ordinances.

Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding five (5) years if the maturity 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 Sanitary District Trustees.

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

Section VII. Reporting

Methods The investment officer 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 Sanitary District 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:

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

Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity (in accordance with Governmental Accounting Standards Board (GASB) requirements).

Listing of investment by maturity date.

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.

Marking to Market 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 Recommended Practice on "Mark-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools." In defining market value, considerations should be given to the GASB Statement 31 pronouncement.


Section VIII. Policy Considerations

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

Amendments This policy shall be reviewed on an annual basis. Any changes must be approved by the investment officer and any other appropriate authority, as well as the individual(s) charged with maintaining internal controls.

This Ordinance shall be in full force and effect as of the 16th day of December 1999.

DATED this 16th day of December 1999.



PRESIDENT, South Lyons Township
Sanitary District