

# VILLAGE OF OAK PARK

## INVESTMENT POLICY

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### I **Scope**

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

1. **Pooling of Funds.** Except in certain restricted and special funds. The Village of Oak Park will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their restrictive participation and in accordance with generally accepted accounting principles.

### II **General Objectives**

The primary objectives of all investment activities shall be safety, liquidity and yield.

#### 1. **Safety**

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

##### A. *Credit Risk*

Credit Risk is the risk of loss due to the failure of the security issuer or backer. The Village of Oak Park will mitigate credit risk by:

- ◆ Limiting investments to the safest types of securities;
- ◆ Diversifying the investment portfolio to minimized losses on individual securities

##### B. *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 Village Of Oak Park will attempt to minimized the risk due to change in market value of securities by:

- ◆ Structuring the investment portfolio so that securities mature to meet the cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and
- ◆ By investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

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### 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 (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist of securities with active secondary or resale markets (dynamic liquidity). A portion of the portfolio may be placed in money market mutual funds or local government investment pools that offer the same-day liquidity for short-term funds.

### 3. *Yield*

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of least 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 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
- ◆ liquidity needs of the portfolio require that the security be sold.

## III **Standards of Care**

### 1. *Prudence*

The standard of prudence 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.

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### **2. *Ethics and Conflict 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 Village portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of The Village of Oak Park.

### **3. *Delegation of Authority***

Authority to manage the investment program is granted to the Treasurer/Finance Director and Assistant Finance Director derived from the Illinois codified statutes. Responsibility for the operation of the investment program is hereby delegated to the Village Treasurer/Finance Director and the Assistant Finance Director, who shall act in accordance with procedures and internal controls for the operation of the investment program consistent with this investment policy. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer. The Treasurer/Finance Director and the Assistant Finance Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of the subordinate officials.

## **IV Safekeeping and Custody**

### **1. *Authorized Financial Dealer and Institution***

A list will be maintained of financial institutions authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by creditworthiness (minimum capital requirement \$10,000,000 and at least five years operation).

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

- ◆ Audited Financial Statements
- ◆ Proof of National Association of Securities Dealers certification
- ◆ Proof of State registration
- ◆ Completed broker/dealer questionnaire
- ◆ Certification of having read, understood and agreeing to comply with the Village of Oak Park Investment Policy

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An annual review of the financial condition and registration of qualified bidders will be conducted by the Village Treasurer.

From time to time the Village Treasurer 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 the state or local law.

### **2. *Internal Controls***

The Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure the assets of the Village of Oak Park are protected for 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 Treasurer shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

- a. *Control of collusion.* Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
- b. *Separation of transaction authority from accounting and record keeping.* By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
- c. *Custodial safekeeping.* Securities purchased from any bank or dealer including appropriate collateral shall be placed with an independent third party for custodial safekeeping.
- d. *Avoidance of physical delivery of securities.* Book entry securities are much easier to transfer and account for since the actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities,
- e. *Clear delegation of authority to subordinate staff members.* Subordinate staff members must have a clear understanding for their authority and responsibilities to avoid improper actions.
- f. *Written confirmation of transactions for investments and wire transfer.*

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### 3. *Delivery vs. Payment (DVP)*

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

## V **Suitable and Authorized Investments**

### 1. *Investment Types*

Consistent with Illinois Compiled Statutes 23 5/2, the following investments will be permitted by this policy:

- ◆ U.S. Government obligations, U.S. Government agency obligations and U.S. Government instrumentality obligations, which have a liquid market and a readily determinable market value
- ◆ Investment-grade obligations of state, provincial and local governments and public authorities
- ◆ Certificates of deposits and other evidences of deposit at financial institutions, bankers' acceptances and commercial paper, rated in the highest tier by a nationally recognized rating agency
- ◆ Money market mutual funds regulated by the SEC and whose portfolios consist only of domestic securities
- ◆ Local government investment pools, either state-administered or through joint powers statutes and other intergovernmental agreement legislation.

### 2. *Collateralization*

In accordance with Illinois Compiled Statutes, collateralization of Public Deposits will be required on non-negotiable certificates of deposits.

## VI **Investment Parameters**

### 1. *Diversification*

The investments will be diversified:

- ◆ limiting investments to avoid over concentration in securities from a specific issuer or business sector(excluding U.S. Treasury securities),
- ◆ minimizing investment in securities that have higher credit risks,
- ◆ continuously investing a portion of the portfolio in readily available funds to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

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### **2. *Maximum Maturities***

The Village of Oak Park will limit maximum final stated maturities to five (5) years unless specific authority is given to exceed or the investment is matched to a specific cash flow. To the extent possible, the Village will attempt to match its investments with anticipated cash flow requirements.

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 is made to coincide with the expected use of funds.

## **VII Reporting**

### **1. *Methods***

The Village Treasurer 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 that will allow the Village of Oak Park to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the Village Board 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 cost and market value.
- ◆ Listing of investment by maturity date.
- ◆ Percentage of the total portfolio which each type of investment represents.

### **2. *Performance Standards***

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

### **3. *Market to Market***

The market value of the portfolio shall be calculated at least quarterly and a statement of market value of this portfolio shall be issued at least quarterly. This will ensure the review of the investment portfolio, in terms of value and price volatility.

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### VIII Policy Considerations

#### 1. *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.

#### 2. *Amendments*

This policy shall be reviewed on an annual basis. Any changes must be approved by the Village Board.