RESOLUTION NO. 99-17

RESOLUTION ADOPTING A CASH MANAGEMENT AND INVESTMENT POLICY FOR THE VILLAGE OF LAKE BLUFF

WHEREAS, establishing and amending from time to time the Village of Lake Bluff Investment and Cash Management Policy demonstrates an on-going effort by the Board of Trustees of the Village to prudently manage and monitor the investment of public funds; and

WHEREAS, the purpose of the Village of Lake Bluff Investment and Cash Management Policy is to establish investment guidelines and cash management policy for the Board of Trustees and other officials responsible for the stewardship of public funds according to statutory requirements and in conformance with professional investment practices;

NOW, THEREFORE, BE IT RESOLVED BY THE PRESIDENT AND BOARD OF TRUSTEES OF THE VILLAGE OF LAKE BLUFF, COUNTY OF LAKE, STATE OF ILLINOIS, as follows:

Section 1. That the Investment Policy dated December 14, 1992 and authorized by Resolution #92-22 is hereby repealed.

Section 2. That the Banking Resolution #94-24 approved June 27, 1994 is hereby repealed.

Section 3. That the Investment and Cash Management Policy (Attachment A) dated April 12, 1999 is hereby adopted.

APPROVED THIS 12th day of April, 1999, by the President and the Board of Trustees of the Village of Lake Bluff, Illinois.

AYES: (6) Dixon, McElvain, Mullenbach, Schuetz, Skinner, and Tincher

NAYS: None

ABSENT: None

Village President

ATTEST:

Barbara Mortimer

Village Clerk

VILLAGE OF LAKE BLUFF

INVESTMENT AND CASH MANAGEMENT POLICY

Revised 4/12/99

VILLAGE OF LAKE BLUFF
INVESTMENT POLICY AND CASH MANAGEMENT POLICY

VILLAGE OF LAKE BLUFF
INVESTMENT AND CASH MANAGEMENT POLICY

I. GENERAL PROVISIONS

1. Policy

It is the policy of the Village of Lake Bluff:

- 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 entity and conforming to all state and local statutes governing the investment of public funds; and
- to maintain an adequate internal control system to safeguard Village financial assets.

2. Scope

This Investment and Cash Management Policy applies to the cash management and investment activities of the Village of Lake Bluff (the Village). The management and investment of the Village's financial assets shall be administered in accordance with the provisions of this Policy. These funds are accounted for in the Village's Comprehensive Annual Finance Report and include the General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds, Enterprise Funds, Agency Funds, and other funds that may be created from time to time.

This policy does not apply to the Lake Bluff Police Pension Fund or the Lake Bluff Public Library. The management and investment of the Police Pension fund is statutorily entrusted to the Board of Trustees of the Police Pension Fund of the Village of Lake Bluff. The management and investment of the assets of the Public Library is the responsibility of the Lake Bluff Public Library Board of Trustees.

3. Public Trust

In managing its investment portfolio, the Village shall avoid any transaction that might impair public confidence. 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 the capital as well as the probable income to be derived.

4. Conflicts 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, members of the Village Board of Trustees, and investment officials shall disclose to the Village Board of Trustees any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any material personal financial/investment positions that could be related to the performance of the Village's portfolio, particularly with regard to the timing of purchases and sales. Any trustee, officer, or employee of the Village having investment authority shall not cause the Village to engage in any activity or transaction that he or she knows or should know that such transaction constitutes a conflict of interest. The Director of Finance and the Village Administrator are precluded from receiving, in any manner, compensation of any kind from investments in which the Village is authorized to invest.

5. Objectives

The purpose of this Policy is to establish cash management and investment guidelines for the stewardship of the Village of Lake Bluff public funds. The Village's objective is to invest funds in excess of those needed for short-term operating purposes and to maximize revenue from the investment of such available cash.

a. Legality: All investments shall conform with federal and state legal requirements.

b. Safety: The safety of principal is the foremost objective of this Policy. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they are from securities defaults or erosion of market value.

c. Liquidity: The Village's investment portfolio shall remain sufficiently liquid to meet all operating requirements which may be reasonably anticipated.

d. Return on Investments: The Village's investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with the Village's investment risk constraints, prudent investment principles, and the cash flow requirements of the portfolio.

e. Diversification: The Village shall diversify its investments to avoid incurring unreasonable risks regarding specific security types and/or individual financial institutions.

f. Investments must mature or be redeemable prior to the date they will be required for Village expenditures.

g. All investments purchased with money from a particular fund must be credited to such fund. All payments received as principal or interest are to be credited to the fund by, or for which, the investments were purchased.

h. Except where otherwise provided by the Board of Trustees or State law, the Director of Finance is authorized to pool the cash of various funds to maximize investment earnings where it is advantageous and prudent to do so. Investment income shall be allocated to the various funds based upon their respective participation.

6. Responsibility and Delegation of Authority

The establishment of the Investment and Cash Management Policy is the responsibility of the Board of Trustees of the Village of Lake Bluff. The Director of Finance shall be responsible for implementing the Policy, managing the portfolio within its guidelines, and developing procedures for the operation of the investment program. Procedures should include: safekeeping, delivery-versus-payment, investment accounting, repurchase agreements, wire transfer agreements, collateral/depository agreements and banking service contracts.

Investments are to be authorized by the Director of Finance, and when required pursuant to this policy, the Village Administrator. The Director of Finance, with Board approval may, upon execution of a written agreement, delegate authority to persons for executing investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy.

II. INVESTMENT POLICY

1. Investment Instruments

The Village may invest in the below listed securities pursuant to Public Funds Investment Act 30 ILCS 235/2 (1996). All investments shall be held and, when issued in registered form, registered in the name of the Village of Lake Bluff.

a. 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.

b. Bonds, noted debentures, or other similar obligations of the Uinted States of America or its agencies.

c. 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 which is authorized to do business in the State of Illinois.

d. Short term obligations of corporations organized in the United States with assets exceeding $500,000,000 if (1) such obligations are rated at the time of purchase at one of the three highest classifications established by at least two standard rating services which mature not later than 180 days from the date of purchase; (2) such purchases do not exceed one percent of the corporation's outstanding obligations; and, (3) no more than one-tenth of the Village's funds may be invested in these obligations.

e. Short term discount obligations of the Federal National Mortgage Association or in shares or other forms of securities legally issuable by savings and loan associations incorporated under the laws of the State of Illinois or any other state or under the laws of the United States.

f. Money market mutual funds registered under the Investment Company Act of 1940, as from time to time amended, provided that the portfolio of any such money market mutual fund is limited to obligations described in subsections (a) and (b) of this Section and to agreements to repurchase such obligations.

g. Public Treasurers' Investment Pool Accounts, created under Section 17 of the State Treasurer's Act, provided that the portfolio of any such pooled account is limited to obligations described in subsections (a) through (d) of this Section and to agreements to repurchase such obligations.

h. Local Government Pooled funds managed, operated, and administered by a bank, subsidiary of a bank, or subsidiary of a bank holding company, provided that the portfolio of any such pooled account is limited to obligations described in subsections (a) through (d) of this Section and to agreements to repurchase such obligations.

i. Repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986 subject to the provisions of said Act and the regulations issued thereunder. The government securities, unless registered of inscribed in the name of of the Village of Lake Bluff, shall be purchased through banks or trust companies authorized to do business in the State of Illinois. The Village shall comply with all statutory provisions for investment in a Repurchase Agreement as set forth in the 30 ILCS 235/2-h (1996), as may be amended from time to time.

j. Interest bearing bonds of any county, township, city, village, incorporated town, municipal corporation, or school district. 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.

Pursuant to this Policy, 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 and Acts amendatory thereto; (ii) the federal home loan banks and federal home loan mortgage corporation; and (iii) any other agency created by Act of Congress.

2. Diversification

In order to reduce the risk of default, the investment portfolio of the Village shall not exceed the following diversification limits:

a. Not more than 60% of the Village funds shall be invested in any one financial institution, provided that such limitation shall not apply to funds invested in the Illinois Public Treasurers' Investment Pool (Illinois Funds), local government pooled funds, or U.S. Treasury securities held in safekeeping by such institution.

b. Funds deposited at a financial institution shall not exceed 10% of the capital stock and surplus of that institution.

c. Commercial paper shall not comprise more than 10% of the Village's portfolio.

3. Maturities

To the extent possible, the Village will attempt to match the maturity schedule of 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 five (5) years from the date of purchase or in accordance with state statutes. The Village shall adopt weighted average maturity limitations, consistent with the investment objectives. At least 5% of the portfolio shall be continuously invested in readily available market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

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 maturities exceeding five (5) years shall be disclosed in writing to the Village Board.

4. Collateralization or Alternative Insurance, Safekeeping, and Custody

a. It is the policy of the Village that funds on deposit in excess of FDIC or SPIC limits shall be secured by collateral conforming to the provisions outlined below.

b. The Village shall accept only the following assets as collateral:
   - U.S. Government Securities
   - Obligations of Federal Agencies
   - Obligations of the State of Illinois

c. The amount of collateral provided shall not be less than 110% of the fair market value of the net amount of public funds secured. The ratio of fair market value of collateral to the amount of funds secured shall be reviewed quarterly, or as needed, and additional collateral be requested when the ratio declines below the level required.

d. Third party safekeeping is required for all collateral. The securities shall be held in the name of the Village of Lake Bluff at any of the following locations:
   - A Federal Reserve Bank or its branch office.
   - At another custodial facility – generally in a trust department through book-entry at the Federal Reserve, unless physical securities are involved.
   - By an escrow agent of the pledging institution.

e. Safekeeping will be documented by an approved written agreement. This may be in the form of a safekeeping agreement, trust agreement, escrow agreement, or custody agreement. All security transactions, including collateral for repurchase agreements, entered into by the Village shall be conducted on a delivery-versus-payment (DVP) basis.

f. Substitution or exchange of securities held in safekeeping can be done without prior written notice of the Village provided the market value of the replacement securities are equal or greater than the market value of the securities being replaced. The Village shall be notified in writing of all substitutions.

5. Investment Goals and Performance Standards

The investment goal of the Village is to achieve the maximum rate of return consistent with a minimum degree of risk and prudent investment practices. Measurement of the average rate of return for the portfolio will be made annually, however, this policy does not constitute a guarantee of performance. The portfolio should obtain a comparable rate of return during a market/economic environment of stable interest rates. Portfolio performance shall be compared to benchmarks with similar maturity, liquidity, and credit quality as the portfolio.

6. Prohibited Transactions and Due Diligence

The Village shall not intentionally purchase any investment in instruments not covered by this Policy. Village management and administrative personnel 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.

7. Qualified Brokers/Dealers

The Director of Finance is authorized to approve security broker/dealers selected by credit worthiness, ability to compete effectively in the marketplace, and who maintain an office in the State of Illinois. The Director of Finance shall maintain a list of authorized security brokers/dealers.

8. Qualified Investment Advisors

Investment advisory services must be approved by the Village Board. Qualified Investment Advisors must acknowledge in writing fiduciary responsibility and must be registered under the Investment Advisors Act of 1940. All investment advisor services must be in writing, must fully disclose both direct and indirect fees, must provide for quarterly reports with returns accounted for net of fees, and must include the Village's Investment and Cash Management Policy as part of the contract. Banks, trust companies, or life insurance companies acting as investment advisors must be authorized investment advisors in the State of Illinois. Investment companies acting as investment advisors must be registered under the Federal Investment Act of 1940 and the Illinois Securities Law of 1953.

III. CASH MANAGEMENT POLICY

1. Qualified Financial Institutions

The Director of Finance is authorized to designate an institution as qualified to do business with the Village. It shall be the policy of the Village to select financial institutions on the following basis:

a) Security:
   1) Investments may be made only in banks that are insured by the Banking Insurance Fund of the FDIC.
   2) Investments may be made only in those savings and loan associations which are insured by the Savings Association Insurance Fund of the FDIC.

b) Statement of Condition:
   No financial institution shall receive any Village funds unless it has furnished the Village with copies of the last 2 sworn statements of resources and liabilities that the financial institution is required to submit to its primary regulatory agency. Once selected, the financial institution shall remit a copy of its statement of resources and liabilities annually to

the Director of Finance. Not included in this policy are financial institutions that have total assets in excess of $10 billion.

c) Services and Fees:
Any financial institution selected shall provide normal banking services, including, but not limited to: checking accounts, wire transfers, purchase and sale of investment securities and safekeeping services. Fees for banking services shall be mutually agreed to by an authorized representative of the depository bank and the Director of Finance.

2. Deposits

The Director of Finance is authorized for and on behalf of the Village to designate any financial institution qualifying pursuant to this Policy as a depository, and to open an account or accounts with said depository and to make such arrangements for the conduct thereof as (s)he shall deem proper, and also, that any officer, agent, or employee of the Village is authorized to deposit the funds of the Village in such account or accounts, and to endorse for deposit or collection checks, drafts, notes, certificates of deposit, and orders for the payment of money. Endorsements for deposit or collection may be by the written or stamped endorsement of the Village, without designation of the person making the endorsement.

3. Withdrawals and Transfers of Funds

Any financial institution designated as a depository is authorized and directed to pay out funds on deposit with it to the credit of the Village, upon checks or other orders for the payment of money drawn upon the Village's account and signed in the name of the Village, as follows:

a. Amounts less than $10,000 requires the manual or facsimile signature of two (2) of these Village Officials: Village President, Village Administrator, or Director of Finance.
b. Amounts of $10,000 or greater require the signatures of two (2) of these Village officials: Village President, Village Administrator, or Director of Finance; of which one (1) must be a manual signature.

The Director of Finance is authorized to transfer funds between Village accounts maintained in any designated depository institution. All transactions shall be evidenced by written confirmation.

4. Internal Controls and Annual Audit

The Director of Finance shall establish and maintain an adequate system of internal controls. The internal controls shall 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.

The Village maintains its records on a fund basis of accounting in conformance with generally accepted accounting principles. All bank accounts are reconciled to the Fund's books on a monthly basis under the supervision of the Director of Finance. The current investment portfolio and all related records are maintained for public and managerial inspection by the Director of Finance.

The cash management and investment activities will be audited in conjunction with the annual examination of the books and records of the Village by an independent certified public accountant. The reporting of cash and investments shall be in accordance with the Governmental Accounting Standards Board (GASB).

5. Reporting

The Director of Finance shall submit an investment report to the Board of Trustees monthly and at such other times as requested by the Village Administrator, Village President, Finance Committee, or Board of Trustees, which shall describe in detail the components of the portfolio in terms of investment securities, maturities, cost, interest rate, and earnings by fund. The market value of the portfolio shall be determined and reported on a quarterly basis.

6. Amendments to Policy

It shall be the responsibility of the Director of Finance to review this Policy from time to time and to present any recommended changes to the Village Board of Trustees for their consideration and approval.

7. Definitions - Appendix A

In order to assist the Trustees, the public, and other interested parties, the terms in Appendix A have been defined for the purpose of promoting universal understanding of some of the terminology which may be used in this policy or applied to investments in general.

8. Resolution - Appendix B

This policy was adopted by the Board of Trustees of the Village of Lake Bluff on this 12th day of April, 1999.

Appendix A

Accretion: The upward adjustment of the book value (cost of acquisition) of a zero coupon bond.

Accrual Basis: An accounting procedure whereby debits and credits are entered in the books on the date incurred rather than on the date they are paid or received.

Accrued Interest: The accumulated interest due on a bond as of the last interest payment made by the issue that must be paid by the buyer of a security to its seller.

Agency: A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government. Federally sponsored agencies are baced by each particular agency with a market perception that there is an implicit government guarantee.

Amortization: The systematic reduction of the amount owed on a debt issue through periodic payments of principal.

Annuity: An investment contract sold by a life insurance company or a series of equal payments made or received at equal intervals over a designated period.

Basis Point: Equal to 1/100 of 1 percent. For example, 25 basis points represent 1/4 of 1%. If interest rates rise from 5.50 to 5.60% the difference is referred to as an increase of 10 basis points.

Beneficiary: A person who will receive financial benefits of an asset, subject to certain conditions.

Bid: The indicated price at which a buyer is willing to purchase a security or commodity.

Bills: Short-term securities of the U.S. Treasury sold at a discount from face value. The difference between the purchase price and face value represents interest income if held to maturity.

Book value: The value at which a security is carried on the inventory lists or other ifnancial records of an investor. The book value may differ significantly from the security's current value in the market.

Callable: A security which, at the option of the issuer, may be redeemed prior to maturity.

Commercial Paper: Unsecured promissory notes issued by corporations for up to a maximum of 270 days. The credit risk of almost all commercial paper is rated by a rating service.

Consumer Price Index (CPI): Government sponsored index of change in prices for consumer goods and services over a period of time.

Coupon Rate: The annual rate of interest received by an investor form the issuer of certain types of fixed-income securities. Also known at the interest rate.

Credit Quality: The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower.

Credit Risk: The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

Current Yield: Percentage measured by taking the annual interest from an investment and dividing it by the current market value.

Discount: The amount by which the par or face value of a security exceeds the price paid for the security.

Diversification: A process of investing assets among a range of security types by sector, maturity, and quality rating.

Dollar Cost Averaging: A method or formula of investing based on periodic investment, in the same security, of equal dollar amounts.

Federal Funds: Excess reserves of member banks of the Federal Reserve which acts as a central bank and fiscal agent of the United States.

Fiduciary: A person legally entrusted with the control of assets for the benefit of others.

Government Securities: An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. Also referred to as Treasury Bills, Notes, and Bonds.

Illinois Funds/IPTIP: A short term money market fund for public funds in Illinois managed by the Illinois State Treasurer's office.

Interest Rate Risk: The risk associated with changes in the interest rates which cause an investment in a fixed-income security to increase or decrease in value.

Investment-grade Obligations: An investment instrument suitable for purchase by insitutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated BBB or higher by a rating agency.

Liquidity: An asset that can be converted easily and quickly into cash without a substantial decrease in the fair value.

Local Government Investment Pool (LGIP): An investment by local government in which their money is pooled as a method for managing local funds. (See Illinois Fund)

Mark-to-market: The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

Market Risk: The risk that the value of a security will rise or decline as a result of changes in the market.

Monetary policy: A general term which describes the actions of the Federal Reserve as it controls the supply of money and credit in the U.S. economy.

Mutual fund: An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by the following Securities and Exchange Commission (SEC) disclosure guidelines:

- Report standardized performance calculations.
- Disseminate timely and accurate information regarding the fund's holdings, performance, management and general investment policy.
- Have the fund's investment policies and activities supervised by a board of trustees, which are independent of the advisor, administrator, or other vendor of the fund.
- Maintaint he daily liquidity of the fund's shares.
- Value their portfolios on a daily basis.
- Have all individuals who sess SEC-registered products licenses with a self-regulation organization (SRO) such as the National Association of Securities Dealers (NASD).
- Have an investment policy governed by a prospectus which is updated and filed with the SEC annually.

Offer: An indicated price at which market participants are willing to sell a security or commodity. Also referred to as the "Ask Price."

Par: In the securities industry, par is any security whose market or offering price is the same as its face value at the time of redemption.

Premium: The amount by which the the price paid for a security exceeds its par or face value.

Prime Rate: A preferential rate of interest on short term loans granted by commercial banks to their most credit worthy customers.

Prudent Person Rule: An investment standard outlining the fiduciary responsiblities of public funds investors relating to investment practices.

Reinvestment Risk: The risk that income proceeds from a fixed-income security holding will not be reinvested at the same rate of return currently generated by that holding.

Repurchase Agreement (Repo): An agreement of one party to *sell* securities at a specified price to a second party and a simultaneous agreement of the first party to *repurchase* the securities at a specified price or at a specified later date.

Reverse Repurchase Agreement: An agreement of one party to *purchase* securities at a specified price from a second party and a simultaneous agreement by the first party to *resell* the securities at a specified price to the second party on demand or at a specified date.

Rule 2a-7 of the Investment Company Act: Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13-month maturity limit and a 90 day average maturity on investments, to help maintain a constand net asset value of one dollar ($1.00).

Safekeeping: Holding of assets by a financial institution for the owner.

Sinking fund: Money accumulated on a regular basis in a separte custodial account that is used to redeem debt securities or preferred stock issues.

Separate Account: A term used of variable annuities. The risk is borne by the investor in a variable annuity the issuer may not commingle funds invested in the variable annuity with the general funds of the issuer.

Settlement Date: The date at which a security transaction is completed (a buyer pays for and a seller delivers the security purchased).

Standard & Poor's Index: A measurement of the value movement of 500 widely held common stocks which is considered a measure of average stock market performance.

Total Return: The sum of all investment income plus changes in the capital value of the portfolio.

Treasury Bill: A short term debt obligation of the U.S. government with a maturity date of 1 year or less.

Treasury Note: Intermediate debt obligation of the U.S. government with a maturity date of one (1) to ten (10) years.

Treasury Bond: Long term debt obligations of the U.S. government with a maturity of 10 years or more and issued in minimum denominations of $1,000.

Zero Coupon: Debt securities issued at a discount from its face value, matures at face value, and promises no other cash flow than the payment of the face value at maturity. The interest coupons are essentially "stripped" from the bond. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.