

4.07 INVESTMENT POLICY AND PRACTICES

1. Purpose.

The purpose of this investment policy (the “Policy”) is to govern the investment activities of the Northwest Special Recreation Association (the “Association”). This Policy applies to all of the Association’s financial assets and is intended to be broad enough to allow the Association to function properly within the parameters of responsibility and authority, while adequately safeguarding such assets. All transactions involving the Association’s financial assets, and all related activity, shall be administered and conducted in accordance with this Policy.

2. Reserves Funds

Funds designated as reserves shall be classified in one of the two categories below:

- **General Reserve:** This account should maintain a balance equal to or greater than 3 months’ worth of expenses.
- **Capital Reserve:** This account shall be used for capital purchases and should maintain a balance in an amount equal to 125% of total budgeted capital expenditures.

3. Objectives.

In order of priority, the primary objectives of all investment activities involving the financial assets of the Association shall be safety, liquidity, and rate of return:

- **Safety:** All investments shall be undertaken in a manner that ensures the preservation of capital in the Association’s overall portfolio (the “Portfolio”).
- **Liquidity:** The Portfolio shall maintain the necessary liquidity to enable the Association to meet all operating requirements and liabilities that may be reasonably anticipated in any Association fund.
- **Return:** The Portfolio shall be designed to obtain a reasonable return on investment, which for the purposes of this Policy, means that the Portfolio should obtain a market-average rate of return, taking into account the Association’s investment risk constraints and cash flow needs. The Federal Funds rate shall be used as the basis for determining whether market-average returns are being achieved.

4. Authorized Investments

The Association may invest only in the types of securities allowed by Illinois law, including the Public Funds Investment Act, and shall be limited to the following:

- Bonds, notes, certificates of indebtedness, treasury bills, or other securities which are guaranteed by the full faith and credit of the United States of America;
- Bonds, notes, debentures, or other similar obligations of U. S. Government or its agencies;
- Interest-bearing savings accounts, interest-bearing certificates of deposit, interest-bearing deposits, or any other investments constituting direct obligations of any bank as defined by the Illinois Banking Act, 205 ILCS 5/1 et seq. provided, however, that such

investments may be made only in banks which are insured by the Federal Deposit Insurance Corporation;

- Money market mutual funds registered under the Investment Company Act of 1940, 15 U.S.C.A. § 80a-1 et seq., provided the portfolio is limited to 1) bonds, notes, certificates, treasury bills, or other security which are guaranteed by the full faith and credit of the United States of America as to principal and interest, 2) bonds, notes, debentures, or other similar obligations of U. S. Government or its agencies, or 3) agreements to repurchase such obligations;
- Illinois Trust, IPDLAF+ Class
- The Illinois Funds
- Short term obligations of corporations organized in the United States with assets exceeding \$500,000,000 if (i) such obligations are rated at the time of purchase at one of the three highest general short-term classifications established by at least 2 standard rating services and is on the Approved List of a SEC registered Investment Advisor under agreement with the Association, (ii) mature not later than 270 days from the date of purchase, (iii) such purchases do not exceed 10% of the corporation's outstanding obligations and (iv) no more than one-third of the associations funds may be invested in short term obligations of corporations.
- Interest-bearing bonds of any county, township, city, village, incorporated town, municipal corporation, or school district, of the State of Illinois, of any other state, or of any political subdivision or agency of the State of Illinois or of any other state, whether the interest earned thereon is taxable or tax-exempt under federal law. The bonds shall be registered in the name of the association, or held under a custodial agreement at a bank. 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.

5. Prudent Person Rule Requirement

It shall be the practice of the Association to follow the “prudent person rule.”

The prudent person standard requires that investments 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 probably safety of their capital as well as the probable income to be derived.

6. Diversification

It shall be the practice of the Association to invest in a diversified manner and not have undue concentrations in any single investment.

7. Collateral Requirements

It shall be the practice of the Association to require that time deposits in excess of FDIC insurable limits be secured by collateral or AAA rated private insurance at the time of purchase, to protect public deposits in a single financial institution if it were to default.

- a) Financial institutions must collateralize all deposits in excess of FDIC insurance limits, to 102% of market value. The ratio of market value of collateral to the amount of funds on deposit shall be reviewed on a monthly basis. Additional collateral shall be required should the ratio fall below the minimum required level.

- b) Acceptable collateral includes the following:
- 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 as to principal and interest;
 - Bonds, notes or other securities constituting the direct and general obligations of any agency of the United States, the interest and the principal of which is guaranteed by the United States;
 - Obligations of the United States Government agencies.

8. Safekeeping of Collateral

An executed collateral agreement must be on file with the Association. Third party safekeeping is required for all collateral. To accomplish this, the securities must be held at one or more of the following locations:

- a) At a Federal Reserve Bank of its branch office;
- b) By a custodial agent of the pledging institution; or
- c) By the trust department of the issuing bank.

9. Internal Controls System

Separate individuals shall be responsible for the receipts, records, agency accounting systems, bank deposits and monthly financial reviews. The adequacy of internal controls that are in place shall be reviewed annually by an independent audit firm and shall be the subject of an annual report to the Board of Trustees of the Association.

10. Responsibilities

It shall be the responsibility of the Association's director to ensure compliance with the Policy and to review all Association investments on a monthly basis.

The Association may engage the services of one or more external investment managers to assist in the management of the Portfolio in a manner consistent with the Association's objectives. Such external managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Such managers must be registered under the Investment Advisers Act of 1940.

11. Performance measures

The Association will measure the performance of all investments on a monthly basis.

12. Periodic Review

The Board of Trustees' Finance Committee shall periodically review the Association's investment holdings, and the Board shall set targeted reserves and review those reserves on an annual basis.

13. Quarterly Reporting

It shall be the practice of the Association to report on all investments on a monthly basis and to

note any significant issues or changes that may be required on a quarterly basis.

14. Ethics and Conflicts of Interest

Board members, officers and employees involved in the investment process will refrain from personal business activity that could conflict with the proper execution and management of the Association's investment program, or that could impair their ability to make impartial decisions.

Last revised on December 9, 2013