



Policy 2007: Investment of Public Funds

Adopted: September 16, 2015

Reviewed/Revised: May 22, 2019; February 19, 2020; July 27, 2022

ARTICLE 1. PURPOSE

It is the policy of the Algonquin Area Public Library District to invest public funds in a manner which will provide maximum security with the highest investment return while meeting the daily cash flow demands of the library and conforming to all state and local statutes governing the investment of public funds. The purpose of this policy statement is to outline the responsibilities, general objectives, and specific guidelines for management of public funds by the Algonquin Area Public Library District.

ARTICLE 2. SCOPE

This Policy applies to the investment activities of all funds under the statutory jurisdiction and authority of the Board of Library Trustees (the “Board”) of the Algonquin Area Public Library District of McHenry and Kane Counties, Illinois (the “District”).¹ Financial assets or funds of the District shall be administered by the Board Treasurer (the “Treasurer”) in accordance with this Policy. In the Treasurer’s absence, the Board may designate the Executive Director, Assistant Director, or Board President to administer this Policy. For the purpose of this policy, “financial assets” are those assets available for investment over and above the current short-term cash needs for the Library.

ARTICLE 3. GENERAL OBJECTIVES

Material, relevant, and decision-useful sustainability factors have been or are regularly considered by the Library, within the bounds of financial and fiduciary prudence, in evaluating investment decisions. Such factors include, but are not limited to: (i) corporate governance and leadership factors; (ii) environmental factors; (iii) social capital factors; (iv) human capital factors; and (v) business model and innovation factors, as provided under the Illinois Sustainable Investing Act.

In selecting financial institutions and investment instruments, the following objectives should be considered in the priority listed:

- Legality - Conformance with federal, state, and other legal requirements
- Safety - Preservation of capital and protection of investment principal
- Liquidity - Maintenance of sufficient liquidity to meet operating requirements
- Yield - Attainment of highest return consistent with risk constraints and cash flow needs

Section 3.01 Legality and Safety

All investments shall conform to all federal and state statutes and other legal requirements.

Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in individual investments and the overall portfolio. The objective will be to mitigate credit risk, interest rate risk, and custodial risk.

a. Credit Risk

The District will minimize credit risk (the risk of loss due to the failure of the security issuer or backer) by:

- Limiting investments to the types of securities permitted under Illinois Public Funds Investment Act, 30 ILCS 235/1 *et seq.*

¹ The deposit and investment of pension funds is subject to other statutory requirements, e.g., the Illinois Pension Code.



- Approving by Resolution the public depositories deemed appropriate for use under applicable law.
 - Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.
- b. **Interest Rate Risk**
The District will minimize interest rate risk (the risk that the market value of securities in the portfolio will fall due to changes in market 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.
- c. **Custodial Risk**
The District will minimize custodial risk (the risk that in the event of a financial institution or custodian's failure, the District deposits or investments would not be returned to it) by:
- Maintaining a list of public depositories, financial institutions and broker/dealers authorized to provide deposit, custodial and investment services.
 - Obtaining from all public depositories, financial institutions, and broker/dealers authorized to provide deposit, custodial, and investment services audited financial statements demonstrating compliance with applicable capital adequacy guidelines as available and appropriate.
 - Securing deposits in excess of Federal Deposit Insurance Corporation (the "FDIC") insurable limits with Eligible Collateral. Eligible Collateral is any investment instrument acceptable under the applicable law with a final maturity not exceeding five (5) years. A third-party custodian must safekeep required collateral in an account in the District's name, and documented by a Safekeeping Agreement approved by the Board that, among other items, requires Board approval for substitution or exchange of securities held as collateral.
 - Keeping authorized investments with a third-party custodian in an account in the District's name and documented by a safekeeping or custody agreement approved by the Board. Original certificates of deposit will be held by the originating bank and documented by a safekeeping receipt or a copy of the original certificate.

Section 3.02 Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. Investment portfolios will be structured so that securities mature concurrent with cash needs to meet anticipated demands. Alternatively, a portion of any portfolio may be placed in money market mutual funds or local government investment pools authorized and permissible under Illinois statutes which offer same-day liquidity for short term funds.

Section 3.03 Yield

Return on investment is of secondary importance compared to the safety and liquidity objectives described above. Investment portfolios shall be designed with the objective of attempting to attain a market rate of return throughout budgetary and economic cycles, taking into account



investment risk constraints and liquidity needs. Securities shall generally be held until maturity with the following exceptions:

- A security with declining credit quality may be sold prior to maturity to minimize loss of principal.
- Liquidity needs of the District require a security or securities to be sold prior to maturity.
- A security swap would improve the safety and yield of the overall portfolio.

With the exception of cash accounts, all investments will be selected on the basis of competitive quotations.

ARTICLE 4. STANDARDS OF CARE

Section 4.01 Prudence

The standard of prudence to be used by investment officials shall be the “prudent person” standard, which states “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” and shall be applied in the context of managing the District’s portfolio.

Investment officers acting in accordance with written procedures and this 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 manner and the liquidity and the sale of securities are carried out in accordance with the terms of this Policy. Notwithstanding any other provision of law, neither a Library Trustee nor the District Executive Director nor other District employee who deposits public money in any authorized public depository in compliance with applicable law is liable for any loss of public monies which results from the failure of any public depository to repay the full amount of the deposits.

Section 4.02 Authorized and Suitable Investments

Investments shall be made in accordance with Illinois Public Funds Investment Act, 30 ILCS 235/1 and 30 ILCS 238 *et seq.* Consistent with the Act and this Policy:

- Unless matched to a specific cash flow requirement, the District will not directly invest in securities maturing more than five (5) years from the date of purchase.
- Reserve funds may be invested in securities exceeding five (5) years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.
- Material, relevant, and decision-useful sustainability factors have been or are regularly considered by the District, within the bounds of financial and fiduciary prudence, in evaluating investment decisions. Such factors include, but are not limited to: (i) corporate governance and leadership factors; (ii) environmental factors; (iii) social capital factors; (iv) human capital factors; and (v) business model and innovation factors, as provided under the Illinois Sustainable Investing Act.



Section 4.03 Authorized Financial Institutions and Advisors

Financial institutions may include banking institutions, savings and loan associations, investment advisors, brokers/dealers, and local government investment pools as authorized in this Policy. Financial institutions and dealers will be selected based on financial condition and security, size, proper registration, level of service and associated fees, location, and experience with Illinois municipal bodies including libraries. Selection of the financial institutions and dealers authorized to engage in transactions with the Library shall be at the sole discretion of the Board. Institutions holding library investments and other funds shall provide the District with a copy of their annual report(s) for the year(s) in which business is transacted with the District upon request.

Consideration and selection of investment advisors, money managers, and financial institutions will be made by action of the Board upon the advisement of the Treasurer. All investment advisors shall be registered under the Investment Advisors Act of 1940. All brokers/dealers shall be insured by the Securities Investor Protection Corporation (SIPC).

Section 4.04 Ethics and Conflicts of Interest

Library Trustees, 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. Library Trustees, officers, and employees shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the District.

Section 4.05 Delegation of Authority

The Board will retain ultimate fiduciary responsibility for the investment portfolio. Authority to manage the investment policy and approve investment transactions is delegated to the Executive Director. The Executive Director, with the assistance as needed of the Treasurer, Assistant Director, investment advisor, and accountant, shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this Policy.

Article 5. INTERNAL CONTROLS

The Board, Treasurer, and Executive Director shall establish a system of internal controls designed to prevent loss of District funds arising from fraud, misrepresentation by third parties, unanticipated changes in financial markets, employee error, or imprudent actions by employees.

Internal controls shall address:

- Separation of transaction authority from accounting and record keeping.
- Clear delegation of authority to subordinate staff members.
- Written confirmation of transactions for investments and wire transfers.
- Dual authorizations of wire transfers.
- Development of a wire transfer agreement with the lead bank and third-party custodian.
- Recording of investment and interest earnings in the District accounting records based on generally accepted government accounting procedures.



Article 6. DIVERSIFICATION

To avoid unreasonable risks, diversification of the investment portfolio shall be consistent with the objectives of this Policy. Investments shall be diversified by:

- Avoiding over-concentration in securities from a specific issuer, industry, or business sector, excluding U.S. Treasury obligations.
- Investing in securities with varying maturities.
- Continuously investing a portion of the investment portfolio in readily available funds such as local government investment pools, money market accounts, or money market mutual funds permissible under applicable law.

Article 7. REPORTING

The Executive Director shall present to the Board periodic reports on the investment program and investment activity. The frequency of periodic reports will be determined by investment activity and possible need for input from the Board. A report will be presented at least every six months.

The Executive Director's periodic reports shall include a summary displaying new and existing investments, type of investment, amount invested, yield to maturity, and expected maturity date. The reports shall provide information sufficient to enable the Board to verify that investment activities conform to the objectives of this Policy.

Article 8. POOLING OF CASH

Except where otherwise provided by the Board, the Executive Director is authorized to pool the cash of various funds to maximize investment earnings where it is advantageous and prudent to do so. Investment income will be allocated to the various funds based on the pro rata portion of each fund.

Article 9. REVIEW

This Policy shall be reviewed as needed but at least every three years to assess the Policy's effectiveness and compliance with applicable law.