

Gail Borden Public Library District Investment Policy

SCOPE

This policy applies to the investment activities of all funds (except for pension funds to the extent the deposit and investment of such funds is otherwise regulated under the Illinois Pension Code) under the statutory jurisdiction and authority of the Board of Trustees (the “Board”) of the Gail Borden Public Library District of Elgin, IL (the “District”). Financial assets or funds of the District shall be administered in accordance with this Policy by the Board Treasurer (the “Treasurer”) of the District. In the Treasurer’s absence the Board may designate the Business Manager, Deputy Director, Executive Director or Board President to administer the policy.

I. GENERAL OBJECTIVES

1. Safety

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, which is 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.* (the “Act”)
- The District Board shall by resolution approve the public depositories that are deemed appropriate for use under Illinois and Federal 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, which is 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, which is the risk that in the event of a financial institution or custodians failure, the District deposits or investments may 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.
- All public depositories, financial institutions and broker/dealers authorized to provide deposit, custodial and investment services must supply as appropriate audited financial statements demonstrating compliance with state and federal capital adequacy guidelines.
- Deposits in excess of Federal Deposit Insurance Corporation (the “FDIC”) insurable limits shall be secured by Eligible Collateral. Eligible Collateral is any investment instrument acceptable under the

Act 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 in safekeeping.

- Authorized investments shall be safekept by 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.

2. 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.

3. 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 and consistent with the average rate of return for U.S. Treasury securities and the average weighted maturity of the District's investment portfolio. 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 are 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.

II. STANDARDS OF CARE

1. Authorized and Suitable Investments

Authorized investments include any investment stipulated in Illinois Public Funds Investment Act, 30 ILCS 235/1 *et.seq.*

- 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.
- Investment products that are considered as derivatives are specifically prohibited.
- Financial institutions insured by the FDIC and eligible depositories as defined in the Act are qualified depositories for the District.

2. 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 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 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, the District Executive Director, or other District employee in the absence of the District Executive Director, who deposits public money in any authorized public depository, in compliance with Illinois statutes regarding public deposits, is relieved of any liability for any loss of public monies which results from the failure of any public depository to repay the public depositor the full amount of its deposits.

3. Ethics and Conflicts of Interest

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

4. Delegation of Authority

Management responsibility for the investment program of the District is entrusted to the Treasurer under the directions of the District Board. Individuals authorized to engage in investment transactions on behalf of the District are the Treasurer or those individuals designated by the District Board. Administrative responsibility for the investment program is hereby delegated to the Business Manager.

III. INTERNAL CONTROLS

The District Executive Director shall establish a system of internal controls designed to prevent losses 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.
- Investment and interest earnings will be recorded in the District accounting records based on generally accepted government accounting procedures.

- A monthly summary of all investment transactions will be prepared by the District Executive Director for review by the District Board.

IV. INVESTMENT PARAMETERS

Diversification

Investments shall be diversified by:

- Limiting investments to avoid 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 Illinois statutes.

V. REPORTING

The District Executive Director shall present a monthly report on the investment program and investment activity to the District Board. The report shall include a management summary displaying the status of the investment portfolio and transactions made over the previous month. The management summary shall be prepared in a manner that will allow the District Board to determine if investment activities during the reporting period conform to this Investment Policy.

VI. POOLING OF CASH

Except where otherwise provided by the District Board, the District 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.

VII. ADOPTION AND APPROVAL

The Investment Policy shall be formally approved and adopted by the District Board. The Investment Policy shall be reviewed as needed but at least every three years to determine the Policy's effectiveness in the District's requirements for safety, liquidity, rate of return, diversification and general performance.