

## **Madison County Public Library Investment Policy (July 2021)**

Kentucky Revised Statute 66.480 (3) requires that every local government or political subdivision that invests or reinvests money according to the provisions of the statutes must adopt a written investment policy to govern the investment of funds. The Madison County Public Library Taxing District Board of Directors adopts the following as its Investment Policy:

(1) *Scope of policy:* The Madison County Public Library Taxing District, hereinafter referred to as “the District,” maintains a variety of funds for accounting and budgetary purposes. The funds include those used to finance the general operations of the District, reserves established to insure the District against risk, and reserves established related to debt issuance by bonding ordinances for debt service and capital improvements. All funds of the District are governed by this policy.

(2) *Investment objectives and considerations:* It is the policy of the District to invest funds in a manner which will provide the highest investment return with the maximum security of principal while meeting the daily cash flow demand of the District. In meeting these objectives, the following should be considered:

(a) *Safety of capital:* Safety of capital is the primary objective of the District. Each investment transaction shall seek to ensure that capital losses are avoided, whether they be from security defaults or erosion of market value. Therefore, funds will be deposited and invested without undue exposure to credit risk.

(b) *Liquidity:* Funds will be available when needed for disbursement and will be invested without undue exposure to market risk or maturity risk.

(c) *Yields:* Funds which are not immediately needed for operations will be invested in interest earning investments. The investments of the District shall be designed to attain a market-average rate of return, taking into account the District's investment risk constraints and cash flow requirements.

(d) *Legality:* Funds will be deposited and invested in accordance with statutes, ordinances, bond indentures and internal procedures governing the specific funds.

(3) *Delegation of investment authority:* The Madison County Public Library Taxing District Board of Directors, hereinafter referred to as “the Board of Directors,” is responsible for the custody, investment, and disbursement of all funds of the District in accordance with the procedures and standards adopted herein. The Board of Directors shall direct the President, hereinafter referred to as “the President”, or the Treasurer of the Board of Directors, hereinafter referred to as “the Treasurer,” and the Madison County Public Library Director, hereinafter referred to as “the Director,” to

implement all decisions of the Board of the Directors, and in so doing, the President, Treasurer and the Director shall have the authority to execute contracts for investment services which conform to this policy and which are necessary for the implementation of the Board's decision regarding investments. Review by the Board of Directors of the investments on a regular basis shall be used as a control to prevent and control losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets or imprudent actions by officers or employees.

(4) *Statement of prudence:* The standard of prudence to be applied by the Board of Directors shall be the "prudent person" rule, which is defined to mean "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 capital as well as the probable income to be derived." The prudent investor standard shall be applied in the context of managing the overall portfolio.

(5) *Pooling of funds:* Investment efficiencies may be realized if cash is pooled: A higher rate of interest may be obtained from investing one (1) large sum of money than investing several small sums of money. Because of these efficiencies and to the extent that there are not legal restrictions, funds accounted for separately may be pooled for investment purposes.

(6) *Eligible investments:* The funds of the District will be invested in accordance with this policy and all applicable state statutes only in the following types of investment instruments:

(a) Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, if delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian. These investments may be accomplished through repurchase agreements reached with sources including but not limited to national or state banks chartered in Kentucky;

(b) Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency, including but not limited to:

- (i) United States Treasury;
- (ii) Export-Import Bank of the United States;
- (iii) Farmers Home Administration;
- (iv) Government National Mortgage Corporation; and
- (v) Merchant Marine bonds.

(c) Obligations of any corporation of the United States District, including but not limited to:

- (i) Federal Home Loan Mortgage Corporation;
- (ii) Federal Farm Credit Banks;
- (iii) Banks for Cooperatives;
- (iv) Federal Intermediate Credit Banks;
- (v) Federal Land Banks;
- (vi) Federal Home Loan Banks;
- (vii) Federal National Mortgage Association; and
- (viii) Tennessee Valley Authority.

(d) Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution having a physical presence in Kentucky which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations, including surety bonds, permitted by KRS 41.240(4);

(e) Uncollateralized certificates of deposit issued by any bank or savings and loan institution having a physical presence in Kentucky rated in one (1) of the three (3) highest categories by a competent rating agency;

(f) Bankers' acceptances for banks rated in one (1) of the three (3) highest categories by a competent rating agency;

(g) Commercial paper rated in the highest category by a competent rating agency;

(h) Bonds or certificates of indebtedness of the Commonwealth of Kentucky and of its agencies and instrumentalities;

(i) Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States, and rated in one (1) of the three (3) highest categories by a competent rating agency; and

(j) Shares of mutual and exchange traded funds, each of which shall have the following characteristics:

- (i) The mutual fund shall be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended;
- (ii) The management company of the investment company shall have been in operation for at least five (5) years; and
- (iii) All of the securities in the mutual fund shall be eligible investments under this section;

(k) Individual equity securities if the funds being invested are managed by a professional investment manager regulated by a federal regulatory agency. The individual equity securities shall be included within the Standard and Poor's 500 Index, and a single sector shall not exceed twenty-five percent (25%) of the equity allocation; and

(l) Individual high-quality corporate bonds that are managed by a professional investment manager that:

- (i) Are issued, assumed, or guaranteed by a solvent institution created and existing under the laws of the United States;
- (ii) Have a standard maturity of no more than ten (10) years; and
- (iii) Are rated in the three (3) highest rating categories by at least two (2) competent credit rating agencies.

(7) *Investment limitations:* With regard to the eligible investments, the following limitations shall apply:

(a) The amount of money invested at any time in any one (1) or more of the categories of investments authorized by subsection (6)(e), (f), (g), and (i) (k), and (l) of this section shall not exceed twenty percent (20%) of the total amount of money invested by the local government;

(b) The amount of money invested at any one (1) time by a local government or a political subdivision in the categories of investments authorized in subsection (6)(j), (k), and (l) of this section shall not, aggregately, exceed forty percent (40%) of the total money invested unless the investment is in a mutual fund consisting solely of the investments authorized under subsection (6)(a), (b), (c), (h), or (i) of this section, or any combination thereof;

(c) No investment authorized by subsection (6) shall be purchased on a margin basis or through the use of any similar leveraging technique;

(d) At the time the investment is made, no more than five percent (5%) of the total amount of money invested by the local governments or political subdivisions shall be invested in any one (1) issuer unless:

- (i) The issuer is the United States government or an agency or instrumentality of the United States government, or an entity which has its obligations guaranteed by either the United States government or an entity, agency, or instrumentality of the United States government;
- (ii) The money is invested in a certificate of deposit or other interest-bearing accounts as authorized by subsection (6)(d) and (e) of this section;
- (iii) The money is invested in bonds or certificates of indebtedness of this state and its agencies and instrumentalities as authorized in subsection (6)(h) of this section; or
- (iv) The money is invested in securities issued by a state or local government, or any instrumentality or agency thereof, in the United States as authorized in subsection (1)(i) of this section.

(8) *Diversification of investments:* The District recognizes that investment risk can result from changes in credit quality underlying a security, issuer defaults, market price changes or temporary liquidity problems. In order to reduce investment risk while attaining market average rates of return, it is the policy of the District to diversify its investment portfolio with respect to the type of securities in the portfolio, the concentration of investments held by with any financial institution, and the length of maturities of investments.

- (a) In order to reduce credit risk, the following principles will be pursued:
  - (i) The investments held by a financial institution, excluding that held in a money market mutual fund should be limited to no more than thirty-five (35) percent of the total investments.
  - (ii) Financial institutions and brokers wishing to conduct business with the District shall annually submit audited financial reports to the District.
  - (iii) In the event of significant changes in credit quality of an issuer of a security, the financial institution holding the security, or with the custodian of the security, the Board of Directors shall review and, if appropriate, proceed to liquidate securities.

(b) In order to ensure liquidity and reduce market and maturity risk, the following actions and principles will be pursued:

- (i) Annual cash flow forecasts, based on reasonable knowledge of future fiscal events and historical fiscal trends, will be developed by the President, the Treasurer and the Director. Investment lengths will be based on this forecasts so that cash may be available to meet anticipated expenditures.
- (ii) Market price volatility should be controlled through maturity diversification.
- (iii) Yields on investments will be monitored and compared to that currently available in the market. In the event that current market yields are higher than that of current investments and the cost of liquidating current investments are relatively small when compared to potential interest earnings, the Board of Directors may liquidate securities prior to maturity.
- (iv) In the event that there are unanticipated disruptions of cash flows which create liquidity problems for the District, the Board of Directors may liquidate securities prior to maturity.

(9) *Selection of financial institutions and broker-dealers:* In selecting financial institutions, the credit-worthiness of the institution shall be considered. Banks and savings and loan associations seeking to be eligible for the District's certificate of deposit purchase program, security transactions, repurchase agreements and safekeeping agreements shall annually submit to the District audited financial statements and regulatory reports on financial condition. For broker-dealers of securities not associated with a bank, the District may select only primary District securities dealers that report daily to the New York Federal Reserve Bank. In all cases the broker-dealer must provide proof of certification and state registration by the National Association of Security Dealers.

(10) *Safekeeping and collateralization:* All investments securities purchased by the District shall be held in third-party safekeeping by an institution designated as primary agent. All cash deposits in excess of FDIC insurable amounts and investments maintained by any financial institution will be collateralized. Collateralized securities shall be purchased using the delivery versus payment procedure. Collateral shall be marked to market periodically.

(11) *Reporting requirements:* The President, the Treasurer, and the Director will generate quarterly and annual reports for management purposes and will submit said reports to the Board of Directors. The performance of the investments shall be reported to the District annually. Investments and conformity to this investment policy will be reviewed annually by the independent auditor.

(12) *Competent Rating Agency*. As used in this policy, “competent rating agency” means a rating agency certified or approved by a national entity that engages in such a process. The certification or approval process shall include but not necessarily be limited to the following elements the subject rating agency must possess:

(a) A requirement for the rating agency to register and provide an annual updated filing;

(b) Record retention requirements;

(c) Financial reporting requirements;

(d) Policies for the prevention of misuse of material nonpublic information;

(e) Policies addressing management of conflicts of interest, including prohibited conflicts;

(f) Prohibited acts practices;

(g) Disclosure requirements;

(h) Any policies, practices, and internal controls required by the national entity; and

(i) Standards of training, experience, and competence for credit analysts.