

Investment Policy

GENERAL POLICY

It is the policy of the LaRue County Public Library to invest funds in a manner which will provide the highest investment return with the maximum security of principle while meeting the Library's daily cash flow demands and conforming to all state statutes and the Library's regulations governing the investment of funds.

SCOPE

This investment policy applies to all financial assets held directly by the Library. These financial assets are accounted for in the Library's annual financial report and include all moneys in investment fund accounts.

INVESTMENT OBJECTIVES

The Library's primary investment objectives, in order of priority, are the following:

- A. **Safety.** Safety of principle is the foremost objective of the Library's investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
- B. **Liquidity.** The Library's investment portfolio shall remain sufficiently liquid to enable the Library to meet all operating requirements which might be reasonably anticipated.
- C. **Return on Investment.** The Library's investment portfolio shall be designed with the objective of attaining a market rate of return throughout the budgetary and economic cycles, taking into account the Library's investment risk constraints and the cash flow characteristics of the portfolio.

INVESTMENT AUTHORITY

Management responsibility for the investment policy may be delegated by the Board to a designated official, who is usually the Library Director or Board Treasurer. The official shall have the authority to establish additional specific written procedures for the operation of the investment program, which are consistent with this investment policy. The procedures shall include explicit delegation of authority, if any, to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established. The designated official shall be ultimately responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials and employees. The controls shall be designed to prevent and control losses of

funds arising from fraud, employees' error, and misrepresentation by third parties, or imprudent actions by officers and employees. The designated official shall maintain all records related to the Library's investment program, and furnish a monthly investment report to the Board for their approval.

PRUDENT PERSON RULE

The actions of the designated official in the performance of his or her duties as manager of the Library's funds shall be evaluated using the "prudent man" standard. Investments shall be made with judgment and care under prevailing circumstances which persons of prudence, discretion, and intelligence would 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.

AUTHORIZED INVESTMENTS

The funds of the Library available for investment shall be invested in accordance with this policy and all applicable state statutes only in the following type of investment instruments:

A. Authorized Investment Instruments

1. Obligations of the United States and its agencies and instrumentalities, including obligations subject to repurchase agreements, provided that delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian.
2. Obligations and contracts for future delivery or purchase of obligations backed by the full faith credit of the United States or a United States government agency and/or obligations of any corporation of the United States government as per KRS 41.240.
3. Certificates of deposit insured by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations permitted by KRS 41.240(4).
4. Shares of mutual funds and money markets, each of which will have the following characteristics:
 - a. the mutual funds shall be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended;

- b. the management company of the investment company shall have been in operation for at least (5) years;
- c. all of the securities in the mutual fund shall be eligible investments under this section.

B. Limitation on Investment Transactions

With regard to the investments authorized in this section, the following limitation shall apply:

No investments shall be purchased for the Library on a margin basis or through the use of any similar leveraging technique.

DIVERSIFICATION OF INVESTMENTS

The Library recognizes that some level of risk is inherent in any investment transaction. Losses may be incurred due to market price changes or closing investments prior to maturity due to unanticipated cash flow needs. Diversification of the Library's investment portfolio by type of investment instrument and term to maturity is the primary method to minimize investment risk.

To the extent possible, the Library will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow need, the Library's funds should not, in general, be invested in securities maturing more than 1 year from the date of the purchase. However, the Library may collateralize its repurchase agreements using longer-dated investments not to exceed 30 years, if maturities of the investments are made to coincide as nearly as practical with the expected use of the funds. Reserve funds may be invested in securities exceeding 1 year, if maturities of the investments are made to coincide as nearly as practical with the expected use of the funds.

AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Board shall maintain a list of financial institutions authorized to provide investment services to the Library. All financial institutions that desire to provide investment services to the Library shall supply the Board with information sufficient to adequately evaluate the institution and answer any and all inquiries posed by the Board, including the following information:

- A. Audited financial statements.
- B. Regulatory reports on financial condition.
- C. Written Memorandum of Agreement for the deposit of public funds or trading resolution, as appropriate.

D. Any additional information considered necessary to allow the Board to evaluate the creditworthiness of the institution.

No financial institution shall be selected as a depository of Library funds if the Library funds on deposit at any time will exceed 10% of the institution's capital surplus and stock.

The Board shall evaluate the financial capacity and creditworthiness of financial institutions prior to the placement of the Library's funds. The Board shall conduct an annual review of the financial condition and registrations of financial institutions and based on the review, make any recommendations regarding investment policy or program changes determined to be necessary.

SAFEKEEPING AND CUSTODY

To protect against potential fraud and embezzlement, investment assets shall be secured through third-party custody and safekeeping procedures. Bearer instruments shall be held only through third-party institutions. Any officer or employee of the Library authorized to engage in investment transactions shall be bonded in an amount established by the Board. Collateralized securities, such as repurchase agreements shall be purchased using the delivery vs. payment procedure. The safekeeping procedures utilized in the Library's investment program shall be reviewed by an independent auditor in accordance with KRS 65.065.

COLLATERAL

It is the policy of the Library to require that all cash and investments in excess of the amount insured by the FDIC maintained in any financial institution named as a depository be collateralized. In order to anticipate market changes and provide a level of security for all funds, the collateralization level shall be 100% of the market value of principal, plus accrued interest. Collateral shall be limited to the types of instruments authorized as collateral for state funds in KRS 41.240.

Collateral shall always be held by an independent third-party custodian with whom the Library has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the Library and retained by the Board.

INVESTMENT REPORTING

The designated official shall prepare and submit to the Library Board a monthly report regarding the status of the Library's investment program. As to each investment, the report shall include the following information:

- A. Name of financial institution from which the investment was purchased or in which assets are deposited.
- B. Type of investment.
- C. Certificate or other reference number, if applicable.
- D. Percentage yield on an annualized basis.
- E. Purchase price, and maturity date.
- F. Current market value of the investment.

In addition, the report shall explain the month's total investment return and compare the return with the budgetary expectations.

AUDIT

In connection with the audit of Library's funds conducted by an independent certified public accountant, the auditor shall conduct a review of the Library's investment program, including internal controls and procedures, and the results of the review, including recommended changes, shall be included in the Library's audit.

INVESTMENT POLICY ADOPTION

The Library's investment policy shall be adopted by order of the Library Board and shall become effective on the date set forth in the order. The policy shall be reviewed annually and revised, as appropriate. Any amendments to this policy must be made by order of the Board.

At maturity or liquidation, the monies previously invested, if reinvested, shall be invested only in accordance with this policy. The Board may take a reasonable period of time to adjust the existing portfolio to the provisions of this policy in order to avoid the premature liquidation of any current investment.