



# Investment Policies

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# Introduction

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## *General Policy*

It is the intent of the Campbell County Public Library to invest funds in a manner which will provide the highest return with the maximum security of principal while meeting the daily cash flow demands on the library and conforming to all state statutes and the library's policies 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 monies in investment fund accounts.

# Reserve Funds

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Funds held in reserve for specific purposes will, generally, be the only funds that are invested by the library.

The Campbell County Public Library Board of Trustees is responsible for allocating the library's reserves, bearing both current and future library services in mind, into funds designated for specific purposes. The Board supports the library's fiscal sustainability as its first priority when accumulating and holding assets for reasonable projected future needs.

Having an adequate level of current assets is crucial to long-term maintenance of the library's physical properties and services. Reserve funds provide financial stability by ensuring sufficient cash flow for day-to-day operations; allowing the library to respond to emergencies; and replacing, repairing, or adding to capital assets in a timely manner.

Reserve funds may also support the future expansion of library facilities, programs, and services as needs change over time. Having adequate reserves serves to avoid unnecessary borrowing and will improve the library's credit rating when borrowing is necessary.

The Board will distribute current assets to various reserve funds for designated purposes as it becomes possible while maintaining current operations. Reserve targets will be re-evaluated annually to ensure that they are adequate. Monies may be re-apportioned among the various reserve funds as current and future needs change.

## *Operational Reserve*

By statute, the library's fiscal year begins July 1, with the bulk of the Library's revenues expected to arrive six months later in December. To bridge this funding gap, the Board of Trustees will ensure that this fund contains an operational reserve at the end of each fiscal year in an amount capable of sustaining at least nine months of operating expenditures.

## *Emergency Reserve*

The Emergency Reserve may be used for unforeseen emergencies such as unusually late receipt of tax payments, replacement or major repair to systems such as a roof or HVAC, or any other circumstance that would hinder normal

operation of the Library. The library will strive to build and maintain \$200,000 in this fund. This fund amount should be evaluated annually to confirm that it is still adequate to deal with foreseeable emergencies.

#### *Capital Reserve*

The Capital Reserve will be used to support long-term capital improvements such as major furniture replacement, vehicle purchase or replacement, or construction projects forecasted to occur over the next ten years. This fund may also be used to pay off bonds issued for construction and land acquisition projects.

Operational and Emergency Reserve Funds take precedence over Capital Reserve Funds. After these reserves have met the targeted goals, available funds may be added to the Capital Reserve at the discretion of the Board.

#### *Evaluation*

Once reserve targets are met, the Board should then consider a plan to propose adjustment to tax rates over time to accurately match library income with needs.

# Investment Objectives

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The library's primary investment objectives, in order of priority, are:

- *Safety.* Safety of principal 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.
- *Liquidity.* The library's investment portfolio shall remain sufficiently liquid to enable the library to meet all operating requirements which might be reasonably anticipated.
- *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, considering the library's investment risk constraints and the cash flow characteristics of the portfolio.

# Designated Official and Prudent Person Rule

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## *Designated Official*

Management responsibility for the Investment Policy is delegated by the Board of Trustees to a designated official. Unless otherwise indicated, the designated official will be the library director.

The director shall have the authority, subject to the approval of the Board, to uphold and to establish additional specific written procedures for the operation of the investment program which are consistent with the 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 director shall be ultimately responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinates. The controls shall be designed to prevent and minimize losses of funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions.

The director has the responsibility to ensure that all records are maintained related to the library's investment program.

## *Prudent Person Rule*

The actions of the designated official in the performance of their duties as manager of the library's funds shall be evaluated using the "prudent person" standard. Investments shall be made with judgement and care under prevailing circumstances 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.

# Authorized Investments

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## *Authorized investment instruments*

The funds of the library available for investment shall be invested in accordance with this policy and all applicable state statutes. Only the following type of investment instruments are permissible:

- Obligations of the United States and of its agencies and instrumentalities (Treasury Bonds, for example), 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 in the library's name.
- Certificates of Deposit 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 Section 41.240(4) of the Kentucky Revised Statutes.
- Shares of mutual funds and money markets where the mutual funds are an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended, and the management company of the investment company shall have been in operation for at least five (5) years.

## *Limitation on investment transactions*

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

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 one year from the date of the purchase.

In general, the library has little control outside of provisions in the Kentucky Revised Statutes over the investment instruments used to collateralize its accounts. Where the library does have control, the library may collateralize its repurchase agreements using longer dated investments not to exceed thirty years if maturity of the investments is made to coincide, as nearly as practicable, with the expected use of the funds.



Reserve funds may be invested in securities exceeding one year if maturity of the investments is made to coincide as nearly as practicable with the expected use of the funds.

*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 of 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.

## **Authorized Financial Dealers and Institutions**

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All financial institutions who desire to provide investment services to the library may supply the director with information sufficient to evaluate the institution and answer any and all inquiries posed, including the following information:

- Audited financial statements
- Regulatory reports on financial condition
- Written Memorandum of Agreement for the deposit of public funds or trading resolution, as appropriate
- 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 ten percent of the institution's capital surplus and stock.

The director shall evaluate the financial capacity and creditworthiness of financial institutions prior to the placement of the library's funds.

# **Safekeeping and Custody**

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To protect against potential fraud and embezzlement, investment assets shall be secured through third-party custody and safekeeping procedures. Any officer or employee of the library authorized to engage in investment transactions shall be bonded in an amount established by the Board.

The safekeeping procedures utilized in the library's investment program shall be reviewed annually by an independent auditor.

# **Collateral**

Created 18 Oct 2005  
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It is the policy of the library to require that all cash and investments (in excess of the \$250,000 insured by 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 102% 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 for the library's funds shall be held separately from any other collateral held by the financial institution.

# Investment Reporting

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The director shall retain documentation concerning the library's investments including:

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

Where applicable, the director will indicate earnings, losses, or changes in the library's investments in their monthly report to the Board.

# **Audit**

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In connection with the audit of the 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. The results of the review and recommended changes will be presented to the Board at a regularly scheduled meeting prior to the approval of the annual audit.