

**CITY OF FLORENCE, KENTUCKY**  
**INVESTMENT POLICY**

**(1) GENERAL INVESTMENT POLICY**

It is the policy of the City of Florence, Kentucky ("City") to invest public funds in a manner which will provide the maximum security and highest investment of principle while meeting the daily cash flow demands of the City in accordance with KRS 91A.060 and KRS 66.480. This investment policy applies to all financial assets held directly by the City. These financial assets shall be accounted for in the City's annual financial report and included in the City's investment fund accounts.

**(2) SCOPE**

This investment policy applies to all financial assets held directly by the City. These financial assets are accounted for in the City's annual financial report and include all moneys in the following funds:

- General Fund
- Special Revenue Fund
- Capital Projects Fund
- Enterprise Fund
- Agency Fund
- Any new fund created by the City

Financial assets of the City held and invested by trustees or fiscal agents are excluded from these policies; however, such assets shall be invested in accordance with state laws applicable to the investment of local government funds and in accordance with the City's primary investment objectives.

**(3) INVESTMENT OBJECTIVES**

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

**3.1 Statutory Compliance**

At all times, the City's investment portfolio shall maintain strict compliance with all statutory requirements, including but not limited to KRS 91A.060 and KRS 66.480.

**3.2 Safety**

Safety of principle is the foremost objective of the City's investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The goal is to mitigate credit risk and interest rate risk

### 3.3 Liquidity

The City's investment portfolio shall remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.

### 3.4 Return on Investment

The City'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 City's investment risk constraints and the cash flow characteristics of the portfolio.

## **(4) INVESTMENT AUTHORITY**

Management's responsibility for the City's investment program is the joint responsibility of the Designated Officials which shall be the Mayor and the Finance Director. Both shall share the authority, subject to the approval of the Florence City Council, to establish additional specific written procedures for the operation of the investment program that 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 by the Designated Officials. These Designated Officials 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 public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets or imprudent actions by officers and employees. The Designated Officials shall maintain all records related to the entity's investment program. The Designated Officials may, in their absolute discretion, hire professional advisors to assist them in carrying out their responsibilities outlined herein.

## **(5) STANDARDS OF CARE**

### 5.1 Prudence

The actions of the Designated Officials in the performance of their duties as manager of the City's funds shall be evaluated using the "prudent person" standard. Investments shall be made with judgment 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. The Designated Officials, acting in accordance with written procedures, this investment policy, and exercising due diligence, shall be relieved of personal responsibility for an individual security's performance, provided that deviations from expectations are reported in a timely fashion to Florence City Council and appropriate action is taken to control adverse developments.

### 5.2 Ethics and Conflicts of Interest

City Officials and employees involved in the investment process shall refrain from personal activity that could conflict with the proper execution and

management of the investment program, or that could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. Disclosure shall be made to Florence City Council. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. City Officials and employees shall refrain from undertaking any personal investment transactions with the same individual with whom business is conducted on behalf of the City.

### 5.3 Delegation of Authority

#### a) Governing Body

The Florence City Council will retain ultimate fiduciary responsibility for the portfolios. The Florence City Council will receive monthly reports, designate Designated Officials and review the investment policy making any changes necessary by adoption.

#### b) Designated Officials

Authority to manage the investment program is granted to the Mayor and the Finance Director, hereinafter referred to as Designated Officials as designated by this City Ordinance. Responsibility for the operation of the investment program is hereby delegated to the Designated Officials who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. City Officials and/or employees will prepare monthly investment reports and other special reports as may be deemed necessary. All participants in the investment process shall seek to act responsibly as custodians of the public trust. No City Official and/or employee may engage in an investment transaction except as provided under the terms of this policy and supporting procedures.

#### c) Investment Adviser

The Designated Officials and/or City shall engage the services of one or more external investment managers or other professionals to assist in the management of the entity's investment portfolio in a manner consistent with the City's objectives. Such external managers may be granted discretion to purchase and sell investment securities in accordance with this investment policy. Such managers must be registered under the Investment Advisers Act of 1940.

## **(6) AUTHORIZED FINANCIAL INSTITUTIONS, DEPOSITORIES, AND BROKERS/DEALERS**

A list will be maintained of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by conducting a process of due diligence. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

6.1 The Designated Officials may determine which financial institutions are authorized to provide investment services to City. Institutions eligible to transact investment business with City include:

- Primary government dealers as designated by the Federal Reserve Bank;
- Nationally or state-chartered banks;
- The Federal Reserve Bank;
- Direct issuers of securities eligible for purchase; and
- Kentucky League of Cities Investment Pool Plus.

6.2 Selection of financial institutions and broker/dealers authorized to engage in transactions with the City shall be at the sole discretion of the City. The Designated Officials may, in their absolute discretion, select financial institutions for investment services by issuing Requests for Proposals (“RFP”). The Designated Officials shall be responsible for preparing an RFP as the Designated Officials may deem appropriate. Selection of a financial institution being selected through the RFP process shall be subject to approval by the Florence City Council.

6.3 All brokers/dealers who desire to become qualified for investment transactions must supply the following (as appropriate):

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines;
- Proof of state registration;
- Completed broker/dealer questionnaire (not applicable to Certificate of Deposit counterparties);
- Certification of having read and understood and agreeing to comply with the entity's investment policy; and
- Evidence of adequate insurance coverage.

6.4 All financial institutions who desire to become depositories must supply the following (as appropriate):

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines;
- Proof of state registration; and
- Evidence of adequate insurance coverage.

6.5 A periodic review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the Designated Officials.

a) Minority, Emerging and Community Financial Institutions

From time to time, the Designated Officials may choose to invest in instruments offered by minority, emerging, and community financial institutions. All terms and relationships will be fully disclosed prior to

purchase and will be reported to the appropriate entity on a consistent basis and should be consistent with Kentucky law and City Ordinance.

b) Competitive Transactions

- (1) The Designated Officials shall obtain competitive bid information on all purchases of investment instruments purchased on the secondary market. A competitive bid can be executed through a bidding process involving at least three separate brokers/financial institutions or through the use of a nationally recognized trading platform.
- (2) If the City is offered a security for which there is no readily available competitive offering on the same specific issue, then the Designated Officials shall document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price.
- (3) When the City and/or Designated Officials hire an investment adviser to provide investment management services, the adviser must provide documentation of competitive pricing execution on each transaction. The investment adviser will retain documentation and provide upon request. The Designated Officials may, in their absolute discretion, select an investment adviser for investment services by issuing Requests for Proposals ("RFP"). The Designated Officials shall be responsible for preparing an RFP as the Designated Officials may deem appropriate. Selection of an investment adviser being selected through the RFP process shall be subject to approval by the Florence City Council.

**(7) SAFEKEEPING AND CUSTODY**

7.1 Delivery vs. Payment

All trades of marketable securities will be executed (cleared and settled) on a delivery vs. payment (DVP) basis to ensure that securities are deposited in the entity's safekeeping institution prior to the release of funds.

7.2 Third-Party Safekeeping

Securities will be held by an independent third-party safekeeping institution selected by the (City). All securities will be evidenced by safekeeping receipts in the name of the (City). The safekeeping institution shall annually provide a copy of its most recent report on internal controls - Service Organization Control Reports (formerly 70, or SAS 70) prepared in accordance with the Statement on Standards for Attestation Engagements (SSAE) No. 16 (effective June 15, 2011).

### 7.3 Internal Controls

Designated Officials shall establish a system of internal controls, which shall be documented in writing. Internal controls shall be reviewed by the City's Investment Advisor and the City's independent auditor when conducting the City's Annual Audit as required by law. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City.

## **(8) SUITABLE AND AUTHORIZED INVESTMENTS**

### 8.1 Investment Types and Credit Guidelines

The City may invest and reinvest money subject to its control and jurisdiction in:

- (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: 1. United States Treasury; 2. Export-Import Bank of the United States; 3. Farmers Home Administration; 4. Government National Mortgage Corporation; and 5. Merchant Marine bonds;
- (c) Obligations of any corporation of the United States government, including but not limited to: 1. Federal Home Loan Mortgage Corporation; 2. Federal Farm Credit Banks; 3. Bank for Cooperatives; 4. Federal Intermediate Credit Banks; 5. Federal Land Banks; 6. Federal Home Loan Banks; 7. Federal National Mortgage Association; and 8. Tennessee Valley Authority;
- (d) Certificates of deposit or other interest-bearing accounts issued through a 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 this state 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;
- (j) Shares of mutual funds and exchange traded funds, each of which shall have

the following characteristics: 1. The mutual fund shall be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended; 2. The management company of the investment company shall have been in operation for at least five (5) years; and 3. All of the securities in the mutual fund shall be eligible investments pursuant to 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: 1. Are issued, assumed, or guaranteed by a solvent institution created and existing under the laws of the United States; 2. Have a standard maturity of no more than ten (10) years; and 3. Are rated in the three (3) highest rating categories by at least two (2) competent credit rating agencies.

### 8.2 Public Project/Economic Development

The Designated Officials and/or City may provide interest bearing loans for public and private entities where the funds are to be used for the advancement of public purposes and economic development within the City. Such investments shall be fully collateralized by a first mortgage on real estate. The funding shall not exceed 75% of the value of the mortgaged collateral. Funding will only be available to those public and/or private entities who meet minimum financial requirements as may be determined by the Designated Officials and/or City in their absolute discretion. The Designated Officials and/or the City may in their absolute discretion establish any and all other regulations relating to a recipient's qualifications, amounts of loans granted, payment terms, collateralization requirements, and the like.

### 8.3 Collateralization

Where allowed or required by Kentucky law full collateralization will be required on all demand deposit accounts, including checking accounts and negotiable (as authorized by respective State Statutes) and non-negotiable certificates of deposit. Acceptable collateral for bank deposits and repurchase agreements shall include only:

- Obligations of the U.S. government, its agencies and GSEs, including mortgage-backed securities; or
- Obligations of any state, city, county or authority rated at least AA by two nationally recognized statistical rating organizations.

## **(9) INVESTMENT PARAMETERS**

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. The City shall mitigate credit risk by adopting the following:

- (a) The amount of money invested at any time by the City in any one (1) of the categories of investments authorized by subsection (1)(e), (f), (g), (k), and (l) of §8.1

shall not exceed twenty percent (20%) of the total amount of money invested by the City;

- (b) The amount of money invested at any one (1) time by the City in the categories of investments authorized in §8.1 (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 §8.1 (a), (b), (c), (h), or (j) of this section, or any combination thereof;
- (c) The City shall purchase any investment authorized by §8.1 on a margin basis or through the use of any similar leveraging technique; and
- (d) At the time the investment is made, no more than five percent (5%) of the total amount of money invested by the City shall be invested in any one (1) issuer unless:
  - 1. 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;
  - 2. The money is invested in a certificate of deposit or other interest-bearing accounts as authorized by §8.1 (d) and (e);
  - 3. The money is invested in bonds or certificates of indebtedness of this state and its agencies and instrumentalities as authorized in §8.1 (h); or
  - 4. 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 §8.1 (i).

#### **(10) PERFORMANCE STANDARDS/EVALUATION**

The City's investment management portfolio shall be designed with the levels of risk appropriate to conform to performance benchmarks while meeting cash flow demands and comply with state law.

#### **(11) REPORTING/DISCLOSURE**

The Designated Officials, upon request from City Council, shall file an investment report that summarizes recent market conditions, economic developments and anticipated investment conditions. The report shall summarize the investment strategies employed in the most recent quarter, and describe the portfolio in terms of investment securities, maturities, risk characteristics and other features. The report shall explain the quarter's total investment return and compare the return with budgetary expectations. The report shall include an appendix that discloses all transactions during the past quarter. The report shall be in compliance with Kentucky law and shall be distributed as required by law. Each quarterly report shall indicate any areas of policy concern and suggested or planned revision of investment strategies. Copies shall be transmitted to the independent auditor. Within 40 days of the end of the fiscal year, the Designated Officials shall present a comprehensive annual report for Florence City Council on the investment program and investment activity. The annual report shall include both 12-month and quarterly comparisons of return and shall suggest policies and improvements that might be made in the investment program. Alternatively, this report may be included within the annual Comprehensive Annual Financial Report.



## **(12) POLICY CONSIDERATIONS**

### 12.1 Exemption

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy. Provided, however, the Designated Officials shall have full authority to terminate any noncompliant investment currently held by the City as they may deem appropriate in their discretion.

### 12.2 Amendments

This policy shall be reviewed on an annual basis. Any changes must be approved by the Designated Officials and any other appropriate authority, as well as the individuals charged with maintaining internal controls. The Designated Officials annual report as provided for in paragraph 11 herein shall include any recommended changes which the Designated Officials may deem appropriate.

## **(13) APPROVAL OF INVESTMENT POLICY**

The investment policy and any modifications to that policy shall be formally approved and adopted by Florence City Council.