I. POLICY STATEMENT

Scope

This Investment Policy applies to the local and state funds of Northern Kentucky University (the "University") and the affiliated Northern Kentucky University Research Foundation (the "Research Foundation"). This Policy includes Agency funds to the extent the funds are not governed by a superseding, separate agreement with the external entity. The purpose of this investment program is to invest all collected cash balances on a daily basis (excluding "float" representing outstanding disbursements) in short or intermediate-term investments.

This Policy does not apply to the Northern Kentucky University Foundation (the "Foundation") which manages its investments in accordance with the Foundation’s investment policy. The Foundation manages the Regional University Excellence Trust Fund (known as “Bucks for Brains”), which matches state funds with private donations. Both the state funds and private donations are part of the Foundation-managed Endowment, and thus covered by the Foundation’s investment policy. Bond proceeds and reserves are invested pursuant to the applicable bond resolution and trust indenture.

Except for cash in certain restricted and special funds, the University will consolidate cash balances from all funds to maximize investment earnings. Earnings will be allocated to the various funds in accordance with University policy.

Objective

Consistent with the Commonwealth’s statutes and administrative regulations, the goals of the University’s investment program are safety of capital, maintenance of sufficient liquidity to meet normal and foreseeable expenditures and attainment of the greatest possible dollar return to the University while observing and statutory and policy constraints. The investment policy defines:

(a) The instruments within which the assets may be invested
(b) The benchmarks to evaluate total investment performance
(c) The responsibilities for the implementation and management of the Investment Policy
(d) The liquidity measures sufficient for operations and maintenance of the University’s credit rating.

Investment Objectives

The primary investment objective is to achieve and maintain a high degree of safety and liquidity. The secondary objective is to maximize investment income taking into consideration investment risk constraints and liquidity needs. Investments will be made in a manner that seeks to balance these goals for the overall portfolio.

The standard of prudence to be used by staff shall be the "prudent person" standard and shall be applied in the context of managing the overall portfolio. Investment officers acting in
accordance with the Investment Policy and written procedures, while exercising due diligence shall be relieved of personal responsibility for market price changes, provided deviations from expectations are reported in a timely fashion and the liquidation and sale of securities are carried out in accordance with the terms of this Policy.

Local Funds
Pursuant to KRS 41.070 (see Appendix A – KRS 41.070) all institutional funds will be transmitted to the Kentucky State Treasurer within thirty (30) days. However, non-institutional funds will be invested locally, as allowable by the applicable external agency agreements and as determined by the Investment Committee. Until reconciled as an institutional receipt of the University, all locally held funds (excluding disbursement “float”) will, at minimum, be invested in the University’s local depository account to obtain the bank contracted interest rate. The primary investment objective of local investments is preservation of principal. Before entering into any local investment, the treasury staff will obtain the most recent financial statements and regulatory report on internal controls. All investments will utilize FDIC insurance and/or collateral securities backed by the US Treasury. Under this Investment Policy, and any applicable superseding external agency agreements, local funds available for investment will be invested in allowable investment instruments.

Short Term Investments
The investment objective of the short term investment pool is to “earn the maximum level of current income consistent with liquidity and the preservation of principal” (Office of Financial Management, 2012). Funds needed for normal operating expenditures will be considered short-term on a less than one year basis. The short term investment pool is managed by the Office of Financial Management of the Commonwealth of Kentucky. The performance of the funds invested in the Commonwealth’s short term pool will be measured against the average return on three-month US Treasury bills. This index is considered riskless investment and therefore comprises a minimum standard for the portfolio’s rate of return. All short term pool investments shall be permitted investments as defined by KRS 42.500 (see Appendix B – KRS 42.500) and as further limited by 200 KAR Chapter 14 (see Appendix C – 200 KAR 14:011.)

Intermediate-Term Investments
The investment objective of the intermediate term investment pool is to "maximize current income consistent with the preservation of principal within prescribed maturity and quality standards" (Office of Financial Management, 2012). Funds needed for expenditures within one (1) to three (3) years will be considered intermediate term. The intermediate term pool is managed by the Office of Financial Management of the Commonwealth of Kentucky, and is administered to maintain an effective duration of less than three (3) years. All intermediate-term pool investments shall be permitted investments as defined by KRS 42.500 (see Appendix B – KRS 42.500) and as further limited by 200 KAR Chapter 14 (see Appendix C – 200 KAR 14:011.)

Collateralization
All cash deposits and investments in excess of FDIC insurable amounts 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 daily. Daily bank balances and associated collateral will be tracked by the treasury staff. Pledged collateral will be evaluated in accordance with KRS 41.240 (Appendix D – KRS 41.240).

Investment Custodian
The bank selected as the depository(ies) for the University will serve as the Custodian(s) (“Custodian”) for the University’s bank accounts and local investments and will perform...
standard custodial functions. The Custodian will provide monthly account statements and other reports as requested by the Office of the Comptroller. The treasury staff may also establish collateral account with the Federal Reserve Bank in the name of Northern Kentucky University for collateral requirements of local investments.

Financial Institutions
In selecting financial institutions, the condition of the institution shall be considered. Any bank seeking to be eligible for the University’s certificate of deposit program must supply audited financial statements; proof of state registration; and certification of having read, understood and agreeing to comply with the University’s Investment policy. Once an institution has received deposits and/or investments from the University, the institution shall annually submit audited financial statements and regulatory reports on internal controls.

Reporting Requirements
The Treasury Staff will generate daily, monthly, quarterly and annual investment and collateral reports for management purposes and submit monthly status reports to the Investment Committee.

Ethics and Disclosure of Conflicts of Interest
Members of the treasury staff involved in the investment process will 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. Disclosure shall be made of any material financial interests in financial institutions that conduct business with the University or personal financial interests or investments that could be related to the performance of the University's portfolio that could reasonably be considered a conflict of interest.

Assignment of Responsibilities
The Vice President for Administration and Finance, acting as University treasurer, is responsible for investment decisions and activities, under the direction of the Board of Regents. The Office of the Comptroller has the delegated responsibility for the custody, investment and disbursement of all funds of the University in accordance with established policies and procedures. The Office of the Comptroller shall establish additional specific written procedures for the operation of the investment program which are consistent with the approved Investment Policy. No person may engage in an investment transaction except as provided under the terms of this Policy and the established procedures. The Office of the Comptroller will establish a system of controls to regulate investment activities. The controls shall be designed to prevent and limit losses of funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets or imprudent actions by officers or employees.

The treasury staff includes the Comptroller, the Investments/Financial Reporting Systems Manager and the Budget/Investments Officer. The treasury staff will manage daily cash, track short-term and intermediate-term investments and prepare analysis and recommendations for the Investment Committee. In addition, the treasury staff will prepare daily, monthly, quarterly and annual assessments of the investment balances and performance. Quarterly investment reports will be submitted to the Board along with the quarterly financial statements.

Investment Committee
An investment committee consisting of the following members, and any other individual
designated by the Vice President for Administration and Finance, will correspond on a regular basis to review the University’s investments:

- Vice President for Administration and Finance
- Comptroller
- Investment/Financial Reporting Systems Manager
- Director of Research Foundation Accounting and Grant administration (to the extent Research Foundation funds are invested)

Appendix A - KRS 41.070

41.070 Moneys to be deposited in state depositories -- Exceptions -- Designated depositories -- Records of agencies.

(1) Unless otherwise expressly provided by law, no receipts from any source of state money or money for which the state is responsible shall be held, used, or deposited in any personal or special bank account, temporarily or otherwise, by any agent or employee of any budget unit, to meet expenditures or for any other purpose. All receipts of any character of any budget unit, all revenue collected for the state, and all public money and dues to the state shall be deposited in state depositories in the most prompt and cost-efficient manner available. However in the case of state departments or agencies located outside Frankfort, and all state institutions, the Finance and Administration Cabinet may permit temporary deposits to be made to the accounts maintained by the agency, department, or institution in a bank which has been designated as a depository for state funds for a period not to exceed thirty (30) days, and may require that the money be forwarded to the State Treasury at the time and in the manner and form prescribed by the cabinet. Nothing in this section shall be construed as authorizing any representative of any agency, department, or institution to enforce or cash, even for the purpose of a deposit, any check or other instrument of value payable to the Commonwealth or any agency thereof.

(2) Each agency depositing its receipts direct with the State Treasurer shall do so in the manner approved by the State Treasurer as agent in charge of public funds deposits.

(3) The Department of Revenue may deposit receipts to the credit of the State Treasury directly with a depository designated by the Treasurer and utilized by the Commonwealth for its primary banking services. The State Treasurer, with the approval of the Finance and Administration Cabinet, may authorize other agencies to deposit receipts directly with a depository designated by the Treasury to the credit of the State Treasury if the Treasurer prescribes the manner in which the deposit is to be made and reports to be filed with the Treasury Department. The Finance and Administration Cabinet shall prescribe the forms and reports to be filed with it when this type of deposit is made.

(4) Each department agency or other budget unit which receives funds to be deposited into the State Treasury shall maintain records to report adequately each amount received, from whom received and date received. Agency records shall be easily reconcilable with the information forwarded to the State Treasurer.

Effective: June 20, 2005


Appendix B- KRS 42.500

KRS 42.500 State Investment Commission-- Powers.
(9) The commission shall have authority and may, if in its opinion the cash in the State Treasury is in excess of the amount required to meet current expenditures, invest any and all of the excess cash in:

(a) Obligations and contracts for future delivery 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;

(b) 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;
      a. Bank for Cooperatives;
      b. Federal Intermediate Credit Banks;
      c. Federal Land Banks;
   3. Federal Home Loan Banks;
   4. Federal National Mortgage Association; and
   5. Tennessee Valley Authority obligations;

(c) Collateralized or uncollateralized certificates of deposit, issued by banks rated in one (1) of the three (3) highest categories by a nationally recognized rating agency or other interest bearing accounts in depository institutions chartered by this state or by the United States, except for shares in mutual savings banks;

(d) Bankers acceptances for banks rated in one (1) of the three (3) highest categories of a nationally recognized rating agency;

(e) Commercial paper rated in the highest category by a nationally recognized rating agency;

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

(g) United States denominated corporate, Yankee or Eurodollar securities, excluding corporate stocks, issued by foreign and domestic issuers, including sovereign and supranational governments, rated in one (1) of the three (3) highest categories by a nationally recognized agency;

(h) Asset-backed securities rated in the highest categories by a nationally recognized rating agency;
   (i) Shares of mutual funds, not to exceed ten percent (10%) of the total funds available for investment as described in subsection (9) of this section, each of which shall have the following characteristics:
      1. The mutual fund shall be an open-end diversified investment company registered under 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;
3. At least ninety percent (90%) of the securities in the mutual fund shall be eligible investments pursuant to this section; and

(j) State and local delinquent property tax claims which upon purchase shall become certificates of delinquency secured by interests in real property not to exceed twenty-five million dollars ($25,000,000) in the aggregate. For any certificates of delinquency that have been exonerated pursuant to KRS 132.220(5), the Department of Revenue shall offset the loss suffered by the Finance and Administration Cabinet against subsequent local distributions to the affected taxing districts as shown on the certificate of delinquency.

II. ENTITIES AFFECTED

Comptroller's Office

REVISION HISTORY

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