

# INVESTMENT POLICY

**POLICY TYPE:** ADMINISTRATIVE

**RESPONSIBLE OFFICIAL TITLE:** CHIEF FINANCIAL OFFICER

**RESPONSIBLE OFFICE:** COMPTROLLER

**EFFECTIVE DATE:** 8/1/2013

**NEXT REVIEW DATE:** 8/1/2017

**SUPERSEDES POLICY:** 8/4/1988 – ADMINISTRATIVE REGULATION AR-II-3.0-7

**BOARD OF REGENTS REPORTING (CHECK ONE):**

PRESIDENTIAL RECOMMENDATION (CONSENT AGENDA/VOTING ITEM):

PRESIDENTIAL REPORT (INFORMATION ONLY)

## 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 any 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](#) 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](#) and as further limited by 200 KAR Chapter 14 (see [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](#) and as further limited by 200 KAR Chapter 14 (see [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](#).

### **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)

## **II. ENTITIES AFFECTED**

Comptroller's Office

## **III. AUTHORITY**

**KRS 41.070:** Moneys to be deposited in state depositories – Exceptions—Designated depositories – Records of agencies. <https://apps.legislature.ky.gov/law/statutes/statute.aspx?id=21890>

**KRS 42.500:** State Investment Commission – Powers. <https://apps.legislature.ky.gov/law/statutes/statute.aspx?id=42228>

**200 KAR 14:011:** Qualified Investments. <https://apps.legislature.ky.gov/law/kar/200/014/011.pdf>

**KRS 41.240:** Pledge of securities required of depositories – Qualifications for a reduced pledge – Eligible securities and other obligations. <https://apps.legislature.ky.gov/law/statutes/statute.aspx?id=43609>

## REVISION HISTORY

REVISION TYPE	MONTH/YEAR APPROVED
<p><b>Minor edits and formatting updates</b></p> <ul style="list-style-type: none"> <li>• Edited for consistency &amp; clarity in punctuation &amp; formatting</li> <li>• Added hyperlinks and updated references to documents</li> <li>• Replaced Appendixes (which included the full text of statues, some of which had been updated/superseded) with URLs linking to the current versions as maintained by the State of Kentucky</li> </ul>	<p>August 8, 2019 (editorial)</p>
<p><b>Revision</b> –Replaced Administrative Regulation AR-II-3.0-7 “Investment Policy”</p> <ul style="list-style-type: none"> <li>• Meets criteria for <b>Board-Approved policy</b> as outlined in Presidential Recommendation C-7, p. 96, of January 14, 2015, BoR materials</li> </ul>	<p>August 1, 2013</p>
<p><b>Administrative Regulation AR-II-3.0-7 “Investment Policy”</b></p>	<p>July 27, 1988</p>