

Investment Policy Sanitation District No. 1

General Policy

The objective of the Sanitation District No. 1 (“District”) is to invest public funds in a manner that will provide an investment return consistent with the maximum security, safety and liquidity to meet all necessary cash flows. This policy is required by and is in accordance with Kentucky Revised Statutes 66.480. The Executive Director is the investment officer charged with the responsibility for the purchase and sale of investments and the execution of this Investment Policy.

I. Scope

This Investment Policy applies to all financial assets of the District. The Executive Director shall routinely monitor the contents of the investment portfolio, the available markets and the relative value of competing investments and will adjust the portfolio accordingly.

Except for cash in certain restricted and special funds, the District will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

II. Investment Objectives

The primary objectives, in priority order, of investment activities shall be safety, liquidity and yield:

1. Safety

Safety of principal is the foremost objective of the investment activity. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

2. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs or by investing in securities with active secondary or resale markets. A portion of the portfolio also may be placed in money market mutual funds or local government investment pools that offer same-day liquidity for short-term funds.

3. Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. Securities shall be

purchased with the expectation that they may be held until maturity. However, securities may be sold prior to maturity:

- To minimize loss of principal
- To improve the quality, yield, or target duration of the portfolio
- To meet liquidity needs

III. Standards of Care/Prudent Person Rule

1. Prudence

The standard of prudence to be used by investment officials shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. Investments shall be made with judgment and care, under circumstances then prevailing, 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.

2. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall 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. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the District.

3. Delegation of Authority

Authority to manage the investment program is granted to the Executive Director, hereinafter referred to as investment officer and derived from the following: KRS 66.480. The investment officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the investment officer.

IV. Authorized Investments

The following investments will be permitted by this policy:

1. 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.
2. 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:
 - a) United States Treasury;

- b) Export-Import Bank of The United States;
 - c) Farmers Home Administration;
 - d) Government National Mortgage Corporation; and
 - e) Merchant Marine bonds
3. Obligations of any corporation of the United States government, including but not limited to:
 - a) Federal Home Loan Mortgage Corporation;
 - b) Federal Farm Credit Banks;
 - c) Bank for Cooperatives;
 - d) Federal Intermediate Credit Banks;
 - e) Federal Land Banks;
 - f) Federal Home Loan Banks;
 - g) Federal National Mortgage Association; and
 - h) Tennessee Valley Authority;
 4. Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Cooperation or similar entity or which are collateralized, to the extent uninsured, by any obligations, including surety bonds, permitted by KRS 41.240(4);
 5. Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;
 6. Bankers' acceptances for banks rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;
 7. Commercial Paper rated in the highest category by a nationally recognized rating agency;
 8. Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities;
 9. 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 nationally recognized rating agency; and
 10. Shares of mutual funds, each of which shall have the following characteristics:
 - a) The mutual fund 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 five (5) years; and
 - c) All of the securities in the mutual fund shall be eligible investments pursuant to this section

V. Diversification of Investments

The investment authority shall be subject to the following limitations:

- a) The amount of money invested at any time in one (1) or more of the categories of investments authorized by sections 5, 6, 7, and 9 of Section IV shall not exceed twenty percent (20%) of the total amount of money invested by the District; and
- b) The District shall not purchase any investment authorized on a margin basis or through the use of any similar leveraging technique.

With the exception of securities held as collateral for a written repurchase agreement, any investment must mature within five years from the date of settlement, unless the investment is matched to a specific obligation or debt of the District.

VI. Authorized Financial Dealers and Authorized Investment Advisors/Brokers

The Executive Director will maintain a list of financial institutions authorized to provide investment services. No public deposit shall be made except in qualified public depositories as specified in KRS 66.480. The Executive Director and the District may elect to use a broker and/or investment advisor to implement this investment policy.

VII. Safekeeping and Custody

All security transactions, including collateral for repurchase agreements, shall be conducted on a delivery-versus-payment basis. Securities will be held by a third party custodian designated by the District and evidenced by safekeeping receipts.

VIII. Internal Controls

The investment officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the District are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management. Accordingly, the investment officer shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures.

IX. Investment Reporting

The investment officer shall prepare an investment report at least quarterly that provides an analysis of the current investment portfolio. This management summary will be prepared in a manner, which will allow the District to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the investment officer and all other designated parties.

The market value of the portfolio shall be calculated regularly in compliance with all governing statutes and accounting procedures. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with current mark-to-market practices.

X. Agreement

The District shall require all brokers, advisors, and financial institutions initiating transactions with the District to acknowledge their agreement to abide by the content of this investment policy.