Non-Instructional Operations and Business Services

Investments

I. Purpose

This policy establishes guidelines for the investment of school district funds.

II. General Statement of Policy

The school district will comply with all state and federal laws relating to investments and guarantee that investments meet certain primary criteria.

III. Scope

This policy applies to all investments of the funds of the school district, regardless of the fund accounts in which they are maintained, unless certain investments are specifically exempted by the school board through formal action.

IV. Authority; Objectives

A. The funds of the school district will be deposited or invested in accordance with this policy, Minn. Stat. § 118A, and any other applicable law or written administrative procedures.

B. The primary criteria for the investment of the funds of the district, in priority order, are as follows

1. Safety and Security. Safety of principal is the first priority. The investments of the district will be undertaken in a manner that seeks to ensure the preservation of the capital in the overall investment portfolio.

2. Liquidity. The funds will be invested to assure that funds are available to meet immediate payment requirements, including payroll, accounts payable and debt service.

3. Return and Yield. The investments will be managed in a manner to attain a market rate of return through various economic and budgetary cycles, while preserving and protecting the capital in the investment portfolio and taking into account constraints on risk and cash flow requirements.

V. Delegation of Authority

A. The director of business services of the school district is designated as the
investment officer of the district and is responsible for investment decisions and activities under the direction of the school board. The investment officer will operate the district’s investment program in a manner that is consistent with this policy. The investment officer may delegate certain duties to a designee or designees but will remain responsible for the operation of the program.

B. The investment officer must follow the established limits on allowable investments as authorized by the school board (see Appendix I). The school board will periodically review the limits and consider possible modifications.

C. All officials and employees that are a part of the investment process will act professionally and responsibly as custodians of the public trust and will refrain from personal business activity that could conflict with the investment program or which could reasonably cause others to question the process and integrity of the investment program. The investment officer will avoid any transaction that could impair public confidence in the district.

VI. Investment Guidelines

A. Standard of Conduct

The standard of conduct regarding school district investments to be applied by the investment officer will be the "prudent person standard." Under this standard, the investment officer will exercise that degree of judgment and care, under the current circumstances, that persons of prudence, discretion and intelligence would exercise in the management of their own affairs, investing not for speculation and considering the probable safety of their capital as well as the probable investment return to be derived from their assets. The prudent person standard will be applied in the context of managing the overall investment portfolio of the district. The investment officer, acting in accordance with this policy and exercising due diligence, judgment and care commensurate with the risk, will not be held personally responsible for a specific security’s performance or for market price changes. Deviations from expectations will be reported in a timely manner and appropriate actions will be taken to control adverse developments.

B. Monitoring and Adjusting Investments

The investment officer will routinely monitor existing investments and the contents of the district’s investment portfolio, the available markets, and the relative value of competing investment instruments.

C. Internal Controls

The investment officer will establish a system of internal controls which will be documented in writing. The internal controls will be reviewed by the school board and will be annually reviewed for compliance by the district’s independent auditors. The internal controls will be designed to prevent and control losses of public funds due to fraud, error, misrepresentation,
unanticipated market changes or imprudent actions by officers, employees, or others. The internal controls may include, but will not be limited to, provisions relating to controlling collusion, separating functions, separating transaction authority from accounting and record keeping, custodial safekeeping, avoiding bearer form securities, clearly delegating authority to applicable staff members, limiting securities losses and remedial action, confirming telephone transactions in writing, supervising and controlling employee actions, minimizing the number of authorized investment officials, and documenting transactions and strategies.

D. Reporting Requirements

1. The investment officer will generate daily and monthly transaction reports for management purposes. In addition, the school board will be provided a monthly report that will include data on investment instruments being held as well as any narrative necessary for clarification.

2. The investment officer will prepare and submit to the school board a semi-annual investment report that summarizes recent market conditions, economic developments, and anticipated investment conditions. The report will summarize the investment strategies employed in the most recent semester and describe the investment portfolio in terms of investment securities, maturities, risk characteristics, and other features. The report will explain the semester’s total investment return and compare the return with budgetary expectations. The report will include an appendix that discloses all transactions during the past semester. Each semi-annual report will indicate any areas of policy concern and suggested or planned revisions of investment strategies. Copies of the report will be provided to the district’s auditor.

3. Within ninety (90) days after the end of each fiscal year of the district, the investment officer will prepare and submit to the school board a comprehensive annual report on the investment program and investment activity of the district for that fiscal year. The annual report will include 12-month and separate quarterly comparisons of return and will suggest revisions and improvements that might be made in the investment program.

4. If necessary, the investment officer will establish systems and procedures to comply with applicable federal laws and regulations governing the investment of bond proceeds and funds in a debt service account for a bond issue. The record keeping system will be reviewed annually by the independent auditor or by another party contracted or designated to review investments for arbitrage rebate or penalty calculation purposes.

VII. Permissible Investment Instruments

The school district may invest its available funds in those instruments specified in Minn. Stat. §§ 118A.04 and 118A.05, as these sections may be amended from time to time, or any other law governing the investment of district funds. The assets of other post-employment benefits (OPEB) trust or trust account established
pursuant to Minn. Stat. § 471.6175 to pay post-employment benefits to employees or officers after their termination of service, with a trust administrator other than the Public Employees Retirement Association, may be invested in instruments authorized under Minn. Stat. § 118A or § 356A.06, Subd. 7. Investment of funds in an OPEB trust account under Minn. Stat. § 356A.06, Subd.7, as well as the overall asset allocation strategy for OPEB investments, will be governed by an OPEB Investment Policy Statement (IPS) developed between the investment officer, as designed herein and the trust administrator.

VIII. Portfolio Diversification; Maturities

A. Limitations on instruments, diversification, and maturity scheduling will depend on whether the funds being invested are considered short-term or long-term funds. All funds will normally be considered short-term except those reserved for building construction projects or specific future projects and any unreserved funds used to provide financial-related managerial flexibility for future fiscal years.

B. The school district will diversify its investments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions, or maturities (see Appendix I).

1. The investment officer will prepare and present to the school board for its review and approval a recommendation as to the district's investment portfolio that may be invested in a single type of investment instrument, such as U.S. Treasury Obligations, certificates of deposit, repurchase agreements, banker’s acceptances, commercial paper, etc. The approved recommendation will be attached as an exhibit or part of an exhibit to this policy and will be incorporated herein by reference.

2. Investment maturities will be scheduled to coincide with projected district cash flow needs, taking into account large routine or scheduled expenditures, as well as anticipated receipt dates of anticipated revenues. Maturities for short-term and long-term investments will be timed according to anticipated need. Within these parameters, portfolio maturities will be staggered to avoid undue concentration of assets and a specific maturity sector. The maturities selected will provide for stability of income and reasonable liquidity.

IX. Competitive Selection of Investment Instruments

Before the school district invests any surplus funds in a specific investment instrument, a competitive bid or quotation process will be utilized. If a specific maturity date is required, either for cash flow purposes or for conformance to maturity guidelines, quotations or bids will be requested for instruments which meet the maturity requirement. If no specific maturity is required, a market trend analysis, which includes a yield curve, will normally be used to determine which maturities would be most advantageous. Quotations or bids will be requested for various options with regard to term and instrument. The district will accept the
quotation or bid which provides the highest rate of return within the maturity required and within the limits of this policy. Generally, all quotations or bids will be computed on a consistent basis, i.e. a 360-day or a 365-day yield. Records will be kept of the quotations or bids received, the quotations or bids accepted, and a brief explanation of the decision that was made regarding the investment. If the district contracts with an investment advisor, bids are not required in those circumstances specified in the contract with the advisor.

X. Qualified Institutions and Broker-Dealers

A. The school district will maintain a list of the financial institutions that are approved for investment purposes.

B. Prior to completing an initial transaction with a broker, the district will provide to the broker a written statement of investment restrictions which will include a provision that all future investments are to be made in accordance with Minnesota statutes governing the investment of public funds. The broker must annually acknowledge receipt of the statement of investment restrictions and agree to handle the district’s account in accordance with these restrictions. The district may not enter into a transaction with a broker until the broker has provided this annual written agreement to the district. The notification form to be used will be that prepared by the state auditor. A copy of this investment policy, including any amendments thereto, will be provided to each such broker.

XI. Safekeeping and Collateralization

A. All investment securities purchased by the school district will be held in third-party safekeeping by an institution designated as custodial agent. The custodial agent may be any federal reserve bank, any bank authorized under the laws of the United States or any state to exercise corporate trust powers, a primary reporting dealer in United States Government securities to the Federal Reserve Bank of New York, or a securities broker-dealer defined in Minn. Stat. § 118A.06. The institution or dealer will issue a safekeeping receipt to the district listing the specific instrument, the name of the issuer, the name in which the security is held, the rate, the maturity, serial numbers and other distinguishing marks, and other pertinent information.

B. Deposit-type securities will be collateralized as required by Minn. Stat. § 118A.03 for any amount exceeding FDIC, SAIF, BIF, FCUA, or other federal deposit coverage.

C. Repurchase agreements will be secured by the physical delivery or transfer against payment of the collateral securities to a third party or custodial agent for safekeeping. The district may accept a safekeeping receipt instead of requiring physical delivery or third-party safekeeping of collateral on overnight repurchase agreements of less than $1,000,000.
XII. Depositories

The school board will annually designate one or more official depositories for school district funds. The treasurer or the chief financial officer or the director of business services of the district may also exercise the power of the school board to designate a depository. The school board will be provided notice of any such designation by its next regular meeting. The district and the depository will each comply with the provisions of Minn. Stat. § 118A.03 and any other applicable law, including any provisions relating to designation of a depository, qualifying institutions, depository bonds, and approval, deposit, assignment, substitution, addition, and withdrawal of collateral.

XIII. Electronic Funds Transfer of Funds for Investment

The school district may make electronic fund transfers for investments of excess funds upon compliance with Minn. Stat. § 471.38.

Legal References:
Minn. Stat. § 118A.01 (Definitions)
Minn. Stat. § 118A.02 (Depositories; Investing: Sales, Proceeds, Immunity)
Minn. Stat. § 118A.03 (When and What Collateral Required)
Minn. Stat. § 118A.04 (Investments)
Minn. Stat. § 118A.05 (Contracts and Agreements)
Minn. Stat. § 118A.06 (Safekeeping; Acknowledgments)
Minn. Stat. § 356A.06, Subd. 7 (Expanded List of Authorized Investment Securities)
Minn. Stat. § 471.38 (Claims)
Minn. Stat. § 471.6175 (Trust for Postemployment Benefits)

Cross References:
Policy 704 (Annual Audit)
Minnesota Legal Compliance Audit Guide Prepared by the Office of the State Auditor
Appendix I to Policy 706

LIMITS ON ALLOWANCE INVESTMENTS

The school board authorizes the investment officer to invest temporary cash surpluses, as determined, in securities authorized by law. The district has chosen to limit its allowable investments to the following instruments:

A. Bonds, notes, certificates of indebtedness, treasury bills or other securities now or hereafter issued by the United States of America, its agencies, and allowable instrumentalities – up to 100% of district’s investments.

B. Savings accounts, certificates of deposit or time deposits, or any other investments constituting direct obligations of any federally insured bank not to exceed $250,000 per bank at any one time – up to 100% of district’s investments.

C. Certificates of deposit and savings accounts with federally insured institutions that are collateralized or insured in excess of the $250,000 provided by the Federal Deposit Insurance Corporation coverage limit – up to 100% of district’s investments.

D. Commercial paper meeting the following requirements:
   1. The corporation must be organized in the United States.
   2. The corporation must have at least ($1,000,000,000) one billion dollars outstanding in commercial paper obligations.
   3. The obligations at the time of purchase must be rated at the highest classifications by Standard and Poor's, Moody's Investors Service (A1-P1) and not on Credit Watch for potential downgrades.
   4. Not more than 50% of the district’s investments can be invested in commercial paper on any given day.
   5. The total investment on any given day, in any one corporation cannot be more than ($1,000,000) one million dollars.

E. Investment products that are considered as derivatives are specifically excluded from approved investments.

F. All time deposits in excess of FDIC insurable limits must be secured by collateral or private insurance.

G. Money market accounts or fixed-rate investments offered by the Minnesota School District Liquid Asset Fund Plus (MSDLAF+) or MNTrust.