



INVESTMENTS

I. PURPOSE

The purpose of this policy is to establish guidelines for the deposit and investment of all school district funds. These funds are accounted for in the District's annual financial report and include all current funds, and any other funds that may be created from time to time.

II. GENERAL STATEMENT OF POLICY

The policy of this school district is to comply with all state laws relating to investments and to guarantee that investments meet certain primary criteria.

Authority to manage the investment program is granted to the Director of Business Services. The Director of Business Services may delegate certain duties to the District Accountant, but the Director of Business Services shall remain responsible for the operation of the investment program.

III. GENERAL OBJECTIVES

- A. The funds of the school district shall be deposited or invested in accordance with this policy and Minnesota Statutes and any other applicable law or written procedures.
- B. The primary objectives of deposit and investment activities shall be safety, liquidity, yield, and maintaining the public's trust:
 - 1) Safety and Security. Safety of principal is the foremost objective of the investment program. The investments of the school district shall be undertaken in a manner that seeks to ensure the preservation of the capital in the overall investment portfolio. To attain this objective only appropriate investment instruments will be purchased and insurance or collateral may be required to ensure the return of principal. In addition, the objective will be to mitigate credit risk and interest rate risk
 - 2) Credit Risk-Big Lake Schools will minimize credit risk, which is the risk of loss due to the failure of the security insurer or backer, by:
 - Limiting investments to the types of securities listed in Section VI of this administrative policy.
 - Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the school district will do business in accordance with Section IV.
 - Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.
 - 3) Interest Rate Risk. Big Lake Schools will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity
 - Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy.
- 4) Liquidity. Big Lake Schools' investment portfolio shall be structured in such manner as to provide sufficient liquidity to pay obligations as they come due.
 - 5) Yield. The investment portfolio shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the risk constraints, the cash flow characteristics of the portfolio and legal restrictions for return on investments.
 - 6) Maintaining the Public's Trust: The Director of Business Services shall seek to act responsibly as custodians of the public trust and shall avoid any transaction that might impair public confidence in the Big Lake School District, the School Board or its administrative personnel.

IV. STANDARDS OF CARE

A. Prudence

The standard of prudence to be used by district personnel shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. District personnel acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

The "prudent person" standard states that, "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."

B. 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 school district.

V. AUTHORIZED FINANCIAL INSTITUTIONS, DEPOSITORIES, AND BROKER/DEALERS

A list will be maintained of financial institutions and depositories authorized to provide investment services. Public depositories must be qualified in accordance with Minnesota Statutes.

Prior to completing an initial transaction with a broker, the school district shall provide to the broker a written statement of investment restrictions which shall 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 school district's account in accordance with these restrictions. The school district may not enter into a transaction with a broker until the broker has provided this annual written agreement to the school district. The notification form to be used shall be the form prescribed by the Office of the State Auditor. A copy of this investment policy, including any amendments thereto, shall be provided to each such broker.

Designation of Depositories

The School Board shall annually designate one or more official depositories for school district funds. The school district and the depository shall each comply with the provisions of Minnesota Statutes 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.

VI. COLLATERALIZATION AND SAFEKEEPING OF SECURITIES

A. Collateralization

- 1) It is the policy of the District to require that time deposits in excess of FDIC insurable limits be secured by collateral at 110% or private insurance to protect public deposits in a single financial institution if it were to default.
- 2) Eligible collateral instruments are any investment instruments acceptable under Minnesota Statutes. The collateral must be placed in safekeeping at or before the time the District buys the investments so that it is evident that the purchase of the investment is predicated on the securing of collateral.
- 3) Safekeeping of Collateral
 - a. Third party safekeeping is required for all collateral. To accomplish this, the securities must be held at one or more of the following locations:
 - i. at a Federal Reserve Bank or its branch office;
 - ii. at another custodial facility in a trust or safekeeping department through book-entry at the Federal Reserve;
 - iii. by an escrow agent of the pledging institution; or
 - iv. by the trust department of the issuing bank
 - b. Safekeeping will be documented by an approved written agreement between Big Lake ISD #727 and the governing board of the bank that complies with FDIC regulations. This may be in the form of a safekeeping agreement.
 - c. Substitution or exchange of securities held in safekeeping for the District can be approved exclusively by the Director of Business Services, and only if the market value of the replacement securities is equal to or greater than the market value of the securities being replaced.

B. Safekeeping of Securities

- 1) Third party safekeeping is required for all securities and commercial paper. To accomplish this, the securities must be held only at the following locations:
 - a. at a Federal Reserve Bank or its branch office;
 - b. at another custodial facility, which shall be a trust or safekeeping department through book-entry at the Federal Reserve, unless physical securities are involved; or
 - c. in an insured account at a primary reporting dealer
- 2) Safekeeping will be documented by an approved written agreement between Big Lake Schools and the holder of the securities. This may be in the form of a safekeeping agreement, trust agreement, escrow agreement or custody agreement.
- 3) Original certificates of deposits will be held by the originating bank. A safekeeping receipt will be acceptable documentation

VII. SUITABLE AND AUTHORIZED INVESTMENTS

The District has chosen to limit its allowable investments to those instruments listed below:

- 1) 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;
- 2) Interest bearing savings accounts, interest bearing certificates of deposit or interest bearing time deposits, or any other investments constituting direct obligations of any bank;
- 3) Certificates of deposit with federally insured institutions that are collateralized or insured in excess of the \$250,000 provided by the Federal Deposit Insurance Corporation coverage limit;
- 4) Collateralized repurchase agreements that conform to the requirements stated in Minnesota Statutes.
- 5) Commercial paper meeting the following requirements:
 - a. The corporation must be organized in the United States or be a Canadian subsidiary.
 - b. The corporation's assets must exceed \$500,000,000.
 - c. Investments are limited to those in the highest ratings category by a nationally recognized statistical rating organization (NRSRO).
 - d. The obligations cannot have a maturity longer than 150 days.
 - e. Not more than 25% of the total investment fund can be invested in commercial paper at any time.
 - f. The total investment in any one corporation cannot exceed 5% of the corporation's outstanding obligations.
 - g. The total investment in any one corporation cannot be more than \$5 million.
- 6) Investments may be made only in those savings banks or savings and loan associations that are insured by the Federal Deposit Insurance Corporation.
- 7) Investment products that are considered as derivatives are specifically excluded from approved investments.
- 8) With respect to assets of an OPEB (Other Postemployment Benefits) trust, investments provided in (1) through (7) hereof and the following allowable investments under Minnesota Statute Section 356A.06, subdivision 7:

- a. Government obligations which includes funds in governmental bonds, notes, bills, mortgages, and other evidences of indebtedness if the issue is backed by the full faith and credit of the issuer or the issue is rated among the top four quality rating categories by a nationally recognized rating agency.;
- b. Investment-grade corporate obligations;
- c. Corporate stocks and mutual funds.
- d. The maximum percentage of investments in equities shall not exceed 40% of the OPEB Trust portfolio.

VIII. DIVERSIFICATION

It is the policy of the District to diversify its investment portfolio. Investments shall be diversified to eliminate the risk of loss resulting in over concentration in a specific maturity, issuer, or class of securities. Diversification strategies shall be determined and revised periodically by the Director of Business Services.

IX. REPORTING REQUIREMENTS

- A. The Director of Business Services shall prepare and submit to the School Board a quarterly investment report that shall include data on investments being held as well as any narrative necessary for clarification.
- B. The Director of Business Services shall 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 shall be reviewed annually by the independent auditor or by another party contracted or designated to review investments for arbitrage rebate or penalty calculation purposes.

X. ELECTRONIC FUNDS TRANSFER OF FUNDS FOR INVESTMENT

The school district may make electronic funds transfers for investments of excess funds upon compliance with Minnesota Statutes 471.38.

*Legal References: Minnesota Statute Chapter 118A
Minnesota Statute Chapter 118A.03
Minnesota Statute Chapter 118A.05, subdivision 2
Minnesota Statute Chapter 356A.06, subdivision 7*