

Procedure 705 - NON-INSTRUCTIONAL OPERATIONS AND BUSINESS SERVICES - INVESTMENTS

- I. Delegation of Authority

The Director of Business Services, or designee, is designated as Investment Officer of the District and is responsible for investment decisions and activities under the direction of the Assistant Superintendent of Administration. The Director of Business Services, or designee, will operate the investment program consistent with this Policy 705 - Investments. In order to optimize total return through vigilant portfolio management, resources will be allocated to the cash management program.

 - A. 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 of the investment program, or which could impair their ability to make impartial investment decisions. Further, no officer involved in the investment process shall have any interest in, or receive any compensation from, any investments in which the District is authorized to invest, or the sellers, sponsors, or managers of those investments.
 - B. Indemnification

Investment officers and employees of the District acting in accordance with this Investment Procedure and such written operational policies as may be established by the District, and who otherwise exercise due diligence and act with reasonable prudence, shall be relieved of personal liability for an individual security's credit risk or market changes. 118.02 sub.2.
 - C. Amendment

This procedure shall be reviewed from time to time by the Board Treasurer with regards to the procedure's effectiveness in meeting the District's needs for safety, liquidity, rate of return, diversification, and general performance. Any substantive changes will be reported to the Independent School District 279 School Board.
- II. General Standard Prudent Investment

The standard of prudence to be applied by the Investment Officer in the context of managing the overall portfolio. This standard requires the exercise of reasonable care, skill, and caution, and is to be applied to investments not in isolation but in the context of the portfolio and as a part of an overall investment strategy, which should incorporate risk and return objectives reasonably suited to the District.
- III. Monitoring and Adjusting the Portfolio

The Investment Officer will routinely monitor the contents of the portfolio, the available markets, and the relative values of competing instruments.
- IV. Internal Controls

The Business Services Department will establish a system of internal controls, which will be reviewed annually by the independent auditor. The controls will be designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes, or imprudent actions.

V. Credit Risk – Short-term Portfolio Diversification

The District will diversify use of investments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities.

- A. Diversification by Instrument with Maximum Percent of Portfolio. For example, a maximum of 100% of the portfolio could be invested in U.S. Treasury Obligations; a maximum of 25% of the portfolio could be invested in Repurchase Agreements.

U.S. Treasury Obligations (Bills, notes and bonds)--100%
U.S. Government Agency Securities and Instrumentalities of Government
Sponsored Corporations – 75%
Repurchase Agreements (Repos) – 25%
Certificates of Deposit (CDs) Commercial Banks (Government Collateral
not to exceed F.D.I.C. insurance level) – 100%
Certificates of Deposit (CDs) Savings and Loan Associates (not to exceed
F.S.L.I.C. insurance level) – 75%
Local Government Investment Pool – 75%
Money Market Funds--75%

Concentration Risk – The District does not further restrict the District’s investments in securities of a single issuer.

- B. Diversification by Financial Institution: Effort to be made of no more than 66% of the total portfolio can be placed with any one depository.
- C. Maturity Scheduling: Investment maturities for operating funds will be scheduled to coincide with projected cash flow needs, taking into account large routine expenditures (such as payroll and bond payments) as well as sizable anticipated revenue (e.g. property tax and state aid payments).

- VI. Credit Risk – Long-Term Portfolio Diversification (i.e., maturities of at least six months) Instruments and diversification for the long-term portfolio will be the same as for the short-term portfolio. Maturity scheduling will be timed according to anticipated need. For example, investment of building construction funds will be timed to meet contractor payments.

VII. Competitive Selection of Investment Instruments

Before the District invests any surplus funds, a competitive quote process will be conducted. If a specific maturity date is required, either for cash flow purposes or for conformance to maturity guidelines, quotes 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 as a method to determine which maturities would be most advantageous.

Quotes will be requested from financial institutions for various options with regard to term and instrument. The District will accept the quote which provides safety, liquidity, yield, and trust within the maturity required and within the parameters of Policy 705 - Investments. Generally, all quotes will be on the basis of a 360-day base yield.

VIII. Qualified Institutions

The District will maintain a listing of financial institutions which are approved for investment purposes. Banks and securities brokers-dealers will annually provide their most recent audited Consolidated Report of Condition to the District.

Securities brokers-dealers will be required to be classified as reporting dealers affiliated with the New York Federal Reserve Bank, as primary dealers or be a Minnesota regional dealer with combined capital and surplus of at least one hundred million dollars (\$100 million), exclusive of subordinated debt.

A. Banks and Savings and Loans – Certificates of Deposit

Any financial institution selected to be eligible for the District's competitive certificate of deposit purchase program must:

1. provide wire transfer and certificate of deposit safekeeping services;
2. be a member of FDIC system and be willing and capable of posting required collateral or private insurance for funds in excess of FDIC insurable limits and in amounts required by the District; and
3. meet at all times the financial criteria as established in the investment procedures of the District.

IX. Collateralization

A. 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.

B. Eligible collateral instruments are any investment instruments acceptable under 118A.03. 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.

C. Safekeeping of Collateral

1. Third party safekeeping is required for all collateral. To accomplish this, the securities must be held at one or more of the following locations;
 - a. at a Federal Reserve Bank or its branch office;
 - b. at another custodial facility in a trust of safekeeping department through book-entry at the Federal Reserve;
 - c. by an escrow agent of the pledging institution; or
 - d. by the trust department of the issuing bank.
2. Safekeeping will be documented by an approved written agreement between the Independent School District 279 School Board and the governing board of the bank that complies with FDIC regulations. This may be in the form of a safekeeping agreement.
3. Substitutions or exchange of securities held in safekeeping for the District can be approved by the Assistant Superintendent of Administration, and only if the market value of the replacement securities is equal to or greater than the market value of the securities being replaced.

X. Safekeeping of Securities

- A. Third party safekeeping is required for all securities. To accomplish this, the securities must be held only at the following locations:
1. at a Federal Reserve Bank or its branch office;
 2. 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
 3. in an uninsured account with an eligible broker.
- B. Safekeeping will be documented by an approved written agreement between the Independent School District 279 School Board and the holder of the securities. This may be in the form of a safekeeping agreement, trust agreement, escrow agreement or custody agreement.
- C. Original certificates of deposits will be held by the originating bank. A safekeeping receipt will be acceptable documentation.

XI. Reporting Requirements

The investment officer will generate daily and monthly reports for management purposes. In addition, the Independent School District 279 School Board will be provided with a monthly report which will include data on investment instruments being held, as well as any narrative necessary for clarification.

Procedure Revised: 2/23/10

Procedure 705 Dated: 1/19/99 (formerly Procedure 3900)

Procedure Revised: 4/20/93

Procedure Dated: 3/7/89

Legal references

M.S. 118.A

School Board
INDEPENDENT SCHOOL DISTRICT 279
Maple Grove, Minnesota