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## **School District Funds Investment Policy**

### **Reason for Policy**

The purpose of this policy is to establish guidelines for the investment of school district funds.

### **Policy Statement**

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

### **Scope:**

This policy applies to all investments of the surplus 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.

### **Authority; Objectives:**

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

The primary criteria for the investment of the funds of the school district, in priority order, are:

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

### **Delegation of Authority:**

The director of business services, or designee, of the district is designated as the investment officer of the district and is responsible for the investment decisions and activities under the direction of the Board. The investment officer shall operate the

district's investment program consistent with this policy. The investment officer may delegate certain duties to a designee or designees, but shall remain responsible for the operation of the program.

All officials and employees that are a part of the investment process shall act professionally and responsibly as custodians of the public trust, and shall 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 shall avoid any transaction that could impair public confidence in the school district.

#### Standard of Conduct:

The standard of conduct regarding district investment to be applied by the investment officer shall be the "prudent person standard." Under this standard, the investment officer shall exercise that degree of judgment and care, under the circumstance then prevailing, 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 shall 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, shall not be held personally responsible for a specific security's performance or for market price changes. Deviations from expectations shall be reported in a timely manner and appropriate actions shall be taken to control adverse developments.

#### Monitoring and Adjusting Investments:

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

#### Internal Controls:

The investment officer shall establish a system of internal controls which shall be documented in writing. The internal controls shall be reviewed by the board and shall be annually reviewed for the compliance by the district's independent auditors. The internal controls shall be designed to prevent and control losses of public funds due to fraud, error, misrepresentation, unanticipated market changes or imprudent actions by officer, employees or others. The internal controls may include, but shall 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, supervision and controlling employee actions, minimizing the number of authorized investment officials, and documenting transactions and strategies.

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 school district funds.

Portfolio Diversification: Maturities:

Limitations of instruments, diversification and maturity scheduling shall depend on whether the funds being invested are considered short-term funds. All funds shall 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.

The school district shall diversify its investments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities.

Diversification by Instrument with Maximum Percent of Portfolio:

Investments in the various authorized instruments shall not exceed the following guideline percentages of total funds:

1. US Treasury Obligations (bills, notes, bonds)- 100%
2. US Government Agency Securities and Instrumentalities of Government Sponsored Corporations- 100%
3. Bankers; Acceptances (BAC's)- 25%
4. Commercial Paper- Prime (CMLP)- 75%
5. Repurchase Agreements (REPO's)- 50%
6. Certificates of Deposit (CERTS's)- Commercial Banks- 100%
7. Certificates of Deposit (CERT's)- Saving Loans- 25%
8. School District Investment Pool- 50%
9. Money Market Funds- 100%

Diversification by Financial Institution:

As a guideline, no more than 75% of the total portfolio shall be with any one depository.

Maturity Scheduling:

Investment maturities for the short-term portfolio shall be scheduled to coincide with projected cash flow need, taking into account large routine expenditures (payroll, bond payments) as well as considering sizable blocks of anticipate revenue (tuition, federal and state payments).

Competitive Selection of Investment Instruments:

Before the school district invests any surplus funds in a specific investment instrument, a competitive bid or quotation process shall be utilized. If a specific maturity date is required, either for cash flow purposes or for conformance to maturity guidelines,

quotations or bids shall 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 shall be requested for various options with regard to term and instrument. The school 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- or a 365-day yield. Records will be kept of quotations or bids received, 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.

#### Qualified Institutions and Broker- Dealers:

The district shall maintain a list of financial institutions that are approved for investment purposes. Prior to completing an initial transaction with a broker, the 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 MN 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 shall be that prepared by the state auditor. A copy of this investment policy, including any amendments thereto, shall be provided to each such broker.

#### Safekeeping and Collateralization:

All investment securities purchased by the district shall be held in third-party safekeeping by an institution designated as custodial agent. The custodial agent may be a 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 MN Statute 118A.06. The institution or dealer shall issue a safekeeping receipt to the district listing the specific instrument, the name of the issuer, the name in which the security is held, rate, maturity, serial numbers and other distinguishing marks, and other pertinent information.

Deposit-type securities shall be collateralized as required by MN Statute 118A.03 for any amount exceeding FDIC, SAIF, BIG, FCUA, or other federal deposit coverage.

Repurchase agreements shall 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 of third-party safekeeping of collateral on overnight repurchase agreements of less than \$1,000,000.

Reporting Requirements:

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

Depository of Funds:

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

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.

**Adopted by the NCS Board of Directors, April 18, 2018**