

Date Adopted: 09/11/2000	File Number: Detroit Lakes Policy - 705
Date Revised: 12/08/2014	

## 705 - INVESTMENTS

### I. PURPOSE

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

### II. GENERAL STATEMENT OF POLICY

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.

### III. 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.

### IV. AUTHORITY; OBJECTIVES

A. 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.

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

1. **Safety.** The foremost objective of this investment policy is to ensure the safety of the principal of public funds. The School District's investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

#### A. Custodial Credit Risk

Detroit Lakes Public Schools will minimize investment Custodial Credit Risk which is the risk of loss due to the failure of the security issuer or

backer, by permitting brokers/dealers that obtained investments for the School District to hold them only to the extent there is SIPC and excess SIPC coverage available, limiting investments to the types of securities listed in Section 6 and 9 of this Investment Policy, and obtaining necessary documentation (e.g. broker certification forms and documentation of perfected security interests in pledged collateral) from the financial institutions, broker/dealers, intermediaries and advisors, as applicable, with which the School District will do business in accordance with Section 6 of this investment policy.

School District will minimize deposit Custodial Credit Risk, which is the risk of loss due to failure of the financial institution (as defined in section 6), by obtaining collateral or bond for all uninsured amounts on deposit, and obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law.

#### **B. Concentration Credit Risk**

School District will minimize concentration of credit risk, which is the risk of loss due to the magnitude of the School District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. This will be based on the applicable opinion units.

#### **C. Interest Rate Risk**

School District 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: 1) 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 and 2) investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

#### **D. Foreign Currency Risk**

The School District is not authorized to invest in investments which have this type of risk.

2. **Liquidity.** School District's investment portfolio will remain sufficiently liquid to enable the School District to meet its cash flow requirements.
3. **Yield.** School District's 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. It is understood that return on

investment is of secondary importance when compared to the safety and liquidity objectives described above. Securities may be sold prior to maturity if a security with declining credit is sold early to minimize loss of principal or a security swap would improve the quality, yield, or target duration in the portfolio.

## **V. DELEGATION OF AUTHORITY**

- A. The Business Manager of the school district is designated as the investment officer of the school district and is responsible for investment decisions and activities under the direction of the school board. The business manager shall operate the school district's investment program consistent with this policy. The business manager may delegate certain duties to a designee or designees, but shall remain responsible for the operation of the program.
- B. 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 business manager shall avoid any transaction that could impair public confidence in the school district.

## **VI. STANDARD OF CONDUCT**

The standard of conduct regarding school district investments to be applied by the business manager shall be the "prudent person standard." Under this standard, the business manager shall exercise that degree of judgment and care, under the circumstances 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 school district. The business manager, 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.

## **VII. MONITORING AND ADJUSTING INVESTMENTS**

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

## **VIII. INTERNAL CONTROLS**

The business manager shall establish a system of internal controls which shall be documented in writing. The internal controls shall be reviewed by the school board and shall be annually reviewed for compliance by the school 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 officers, employees or others. The internal controls may include, but shall not be limited to, provisions relating to control of collusion, separation of functions, separation of transaction authority from accounting and record keeping, custodial safekeeping, avoiding bearer form securities, clear delegation of authority to applicable staff members, limiting securities losses and remedial action, written confirmation of telephone transactions, in writing, supervising and controlling employee actions, minimizing the number of authorized investment officials, and documentation of transactions and strategies.

## **IX. 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. The assets of a trust or trust account established pursuant to Minn. Stat. § 471.6175 to pay postemployment 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. Ch. 118A or § 356A.06, Subd. 7.

## **X. PORTFOLIO DIVERSIFICATION;**

- A. Limitations on instruments, diversification and maturity scheduling shall depend on whether the funds being invested are considered short-term or long-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.
- B. The school district shall diversify its investments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities.
  - 1. Positions in securities having potential default risk (e.g. commercial paper) shall be limited in size so in case of default, the portfolio's annual investment income will exceed a loss on a single issuer's securities.
  - 2. Risks of market price volatility shall be controlled through maturity diversification such that aggregate price losses on instruments with

maturities exceeding one year shall not be greater than coupon interest and investment income received from the balance of the portfolio.

3. Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity sector. Maturities selected shall provide for stability of income and reasonable liquidity.

## **XI. 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-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 school district contracts with an investment advisor, bids are not required in those circumstances specified in the contract with the advisor.

## **XII. QUALIFIED INSTITUTIONS AND BROKER-DEALERS**

- A. The school district shall maintain a list of the financial institutions that are approved for investment purposes.
- B. 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 that prepared by the State Auditor. A copy of this investment policy, including any amendments thereto, shall be provided to each such broker.

### **XIII. SAFEKEEPING AND COLLATERALIZATION**

- A. All investment securities purchased by the school district shall 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 shall issue a safekeeping receipt to the school 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 shall 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 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 school 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.

### **XIV. REPORTING REQUIREMENTS**

- A. The business manager shall submit monthly investment reports to the School District Board. The reports shall include, at a minimum, the following information for each individual investment:
  - 1. Description of investment instrument
  - 2. Interest rate or yield to maturity
  - 3. Maturity date
  - 4. Purchase price or remaining principle(Book Value)
  - 5. Market value at time of last statement
  - 6. Total fair market value adjustment
- B. When the portfolio exceeds 25 investments, the business manager shall prepare and submit to the school board quarterly an investment report that summarizes recent market conditions, economic developments, and anticipated investment conditions. The report shall summarize the investment strategies employed in the most recent quarter, and describe the investment portfolio in terms of investment securities, maturities, risk characteristics and other features. The report shall explain the quarter's total investment return and compare the return with budgetary expectations. The report shall include an appendix that discloses all transactions during the past

quarter. Each quarterly report shall indicate any areas of policy concern and suggested or planned revisions of investment strategies. Copies of the report shall be provided to the school district's auditor.

- C. When the portfolio exceeds an average 25 investments for the year, within forty-five (45) days after the end of each fiscal year of the school district, the business manager shall prepare and submit to the school board a comprehensive annual report on the investment program and investment activity of the school district for that fiscal year. The annual report shall include 12-month and separate quarterly comparisons of return and shall suggest revisions and improvements that might be made in the investment program.
- D. If necessary, the business manager 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.

## **XV. DEPOSITORIES**

The school board shall annually designate one or more official depositories for school district funds. The business manager of the school district may also exercise the power of the school board to designate a depository. The school board shall be provided notice of any such designation by its next regular meeting. The school district and the depository shall each comply with the provisions of Minn. Stat. § 118.03 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.

## **XVI. 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 (Public Funds; Depositories and Investments)  
Minn. Stat. § 118A.02 (Authorization for Deposit and Investment)  
Minn. Stat. § 118A.03 (Depositories and Collateral)  
Minn. Stat. § 118A.04 (Investments)  
Minn. Stat. § 118A.05 (Contracts and Agreements)  
Minn. Stat. § 118A.06 (Delivery and Safekeeping)  
Minn. Stat. § 356A.06, Subd. 7 (Authorized Investment Securities)  
Minn. Stat. § 471.38 (Claims)  
Minn. Stat. § 471.6175 (Trust for Postemployment Benefits)

***Cross References:*** MSBA Model Policy 703 (Annual Audit)  
MSBA Service Manual, Chapter 7, Education Funding  
Minnesota Legal Compliance Audit Guide prepared by the Office of the State Auditor