GOODHUE COUNTY EDUCATION DISTRICT #6051

80 INVESTMENT POLICY

ADOPTED: MARCH 21, 2013

REVISED:

Purpose:

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

General Statement of Purpose:

It is the policy of this education 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 education district, regardless of the fund accounts in which they are maintained, unless certain investments are specifically exempted by the Board through formal action.

Objectives:

The funds of the education district shall be deposited or invested in accordance with this policy, MN Statute 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 of Principal - Investments shall be undertaken in a manner that seeks to ensure the preservation of principal in the overall 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. Minnesota Statute 118A provides required minimum standards.

2. Liquidity - The District's investment portfolio shall be structured in such manner as to provide sufficient liquidity to pay obligations as they come due.

3. Return on Investments - 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.

4. Maintaining the Public's Trust - The investment officers shall seek to act responsibly as custodians of the public trust and shall avoid any transaction that might impair public confidence in the District, the Board, or the Business Manager.

Delegation of Authority:

The Director and Business Manager or their designees 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 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 transactions that could impair public confidence in the district.

Standard of Conduct:

The standard of conduct regarding district investments 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. Deviations from expectations shall be reported in a timely manner and appropriate actions shall be taken to control adverse developments.

Investment Instruments

The District may invest in any type of security allowed by Minnesota Statutes as may be amended from time to time. 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 amount provided by the Federal Deposit Insurance Corporation coverage limit;

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) The obligations at the time of purchase must be rated at the highest classifications (A-1/P-1) by both Standard & Poor's and Moody's rating agencies.

d) The obligations cannot have a maturity longer than 360 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 2% of the corporation's outstanding obligations.

g) The total investment in any one corporation cannot be more than $1 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.

Collateralization

1. It is the policy of the District to require that time deposits in excess of FDIC insurable limits be secured by collateral or private insurance to protect public deposits in a single financial institution if it were to default. The District requires collateral in accordance with Minnesota Statute 118A.03, sub. 3, which shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, except that where the collateral is irrevocable standby letters of credit issued by Federal Home Loan Banks, the amount of collateral shall be at least equal to the amount on deposit plus accrued interest at the close of the financial institution's banking day.

2. Eligible collateral instruments are any investment instruments acceptable under 118A.03, with the exception of mortgage-backed instruments. 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. Acceptable collateral as defined by Statute includes:

1) United States government Treasury bills, Treasury notes, Treasury bonds;

2) Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;

3)General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;

4) Unrated general obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;

5) Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and

6) Time deposits that are fully insured by any federal agency.

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:

      1) At a Federal Reserve Bank or its branch office;

      2) At another custodial facility in a trust or safekeeping department through book-entry at the Federal Reserve;

      3) By an escrow agent of the pledging institution; or

      4) By the trust department of the issuing bank

   b) Safekeeping will be documented by an approved written agreement between the Board of Education 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 Business Manager, and only if the market value of the replacement securities is equal to or greater than the market value of the securities being replaced.

<u>Diversification by Instrument with Maximum Percent of Portfolio:</u>

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 – 25%
4. Commercial Paper – 25%

5. Certificates of Deposit – Commercial Banks – 100%
6. Certificates of Deposit – Savings and Loans – 25%
7. School District Investment Pool – 50%
8. Money Market Funds – 100%

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, as well as considering sizable blocks of anticipated revenue.

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 the broker a written statement of investment restrictions which shall include a provision that all future investments are to be made in accordance with this policy and the MN Statutes governing the investment of public funds. The broker must annually acknowledge the receipt of the statement of investment restrictions and agree to handle the district's account accordingly. 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 used shall be that provided by the state auditor's office.

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

Reporting

The Business Manager shall submit to the Board a monthly investment report, which shall include information regarding securities in the portfolio by class or type, book value, income earned, and market values as of the report date. Generally accepted accounting principles shall be used for valuation purposes. The report shall indicate any areas of policy concern and planned revision of investment strategies.