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FILE: DFA
Critical

EXPLANATION: REVENUES FROM INVESTMENTS/USE OF SURPLUS FUNDS
(District Utilizes a Third Party to Manage Some or All of Its Investments)

NOTE: MSBA offers two versions of policy DFA, Revenues from Investments of Surplus Funds. The short version is designed for districts that manage all of their own investments. This longer version is for districts that involve a third party in managing their investments, including local banks. Many districts find the short form more attractive. However, a district that manages its own investments is still subject to state law governing those investments and must develop its own investment policy or use the model policy created by the Missouri State Treasurer. The short version is only short because the details have not been included.

This long version should be used by districts that involve third parties in their investment plan. This version already includes the details about district investment options and is consistent with the Missouri State Treasurer model investment policy. Districts that use the services of MOSIP must use this long version.

Information about investments and the state model investment policy can be found at http://www.treasurer.mo.gov.

NOTE: The district formerly had a totally custom version of this policy. As stated above, the version we are presenting is based on the model policy of the Missouri State Treasure's Office. If the district decides to retain its custom version, it should be presented to its private attorney for review as some of the custom provisions are out of date and no longer accurate.

The Government Finance Officers Association (GFOA) best practice guidance on "Collateralizing Public Deposits" indicates that governmental entities/depositors should take all possible actions to comply with state and federal requirements in order to ensure that their security interest in collateral pledged to secure deposits is enforceable against the receiver of a failed financial institution.

The section on collateralization requires the security agreement be approved by the Board. However, the Federal Deposit Insurance Corporation (FDIC) does not require every transaction to be reviewed by the Board of Directors. The Board may fulfill this function by setting parameters and authorizing a particular officer to carry out its wishes. The officer would be performing ministerial acts on behalf of the Board.

Similarly the Board may, by resolution, list specific officers who are authorized by the Board to execute agreements securing public deposits to meet this requirement.

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MSBA recommends that copies of this document be routed to the following areas because the content is of particular importance to them. The titles on this list may not match those used by the district. Please forward copies to the district equivalent of the title indicated.					
X	**Board Secretary**	**X**	**Business Office**		**Coaches/Sponsors**
	Facility Maintenance		**Food Service**		**Gifted**
	Human Resources		**Principals**		**Library/Media Center**
	Health Services		**Counselor**		**Special Education**
	Transportation		**Public Info/Communications**		**Technology**

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REVENUES FROM INVESTMENTS/USE OF ~~DISTRICT~~ SURPLUS FUNDS
(District Utilizes a Third Party to Manage Some or All of Its Investments)

~~The Board has an obligation to the citizens of the district to direct the management of district funds. The primary objective of the district's investment plan will be legality, safety, liquidity, yield and the provision of a capital base for future needs. In the management of such funds, the district adheres to the "prudent investor" rule. Investments will be made with judgment and care, under the circumstances, which persons of prudence, discretion and intelligence exercise in the management of their own investments. Funds will be managed for investment, not for speculation considering the safety of the funds invested and the probable income to be derived.~~

~~District personnel, including Board members, who are involved in the investment of district funds, will not engage in any personal business activity which could:~~

1. ~~Impair their ability to make impartial decisions concerning investment of district funds.~~
2. ~~Conflict with proper execution of the district's investment program; or~~
3. ~~Create an appearance of impropriety.~~

~~District employees and directors involved in investment of district funds will disclose any material interests in financial institutions in which they conduct business. Such disclosure will include, but not be limited to, any personal financial/investment positions that could be related to the performance of the district's investment portfolio. Similarly, district employees and directors involved in investment of district funds will not engage in personal investment transactions with the same individual with whom business is conducted on behalf of the district.~~

~~Investments will be made through banks or securities dealers who have been approved by the Investment Committee of the State Treasurer's Office. Such banks and securities dealers will have been subjected to an appropriate investigation by the staff of the State Treasurer's Office. This investigation will include, among other things, a written review of the firm's financial statements and the background of the sales representatives. All approved dealers must be fully licensed and registered NASD Broker/Dealers or exempt banks. Criteria used to select securities dealers include:~~

1. ~~Financial strength and capital adequacy of the firm;~~
2. ~~Services provided by firm;~~
3. ~~Research services available;~~
4. ~~Resume, reputation and qualifications of sales representatives;~~
5. ~~Due diligence and firm references; and~~
6. ~~State government expertise.~~

~~The performance goals of the district's active investment management program, over time, should produce book yields which are greater than yields from low risk passive investments. In analyzing~~

~~the results of the district's investment program, the district will calculate the book yield and total rate of return on district funds compared to the appropriate security market indexes.~~

~~The superintendent/designee will direct the preparation of quarterly investment reports providing a summary of the district's current investment portfolio and all transactions executed since the last report.~~

~~Such investment reports will be prepared by the appropriate bank(s) or security dealers for review by the Board and the superintendent. Investment reports are considered to be public records and will be made accessible to the public.~~

~~Criteria and procedures implementing the district's investment policy have been approved by the Board and are contained in regulation 3160.~~

The Board authorizes and appoints the superintendent [or business officer or treasurer] to serve as the investment officer of the school district ("district") to invest surplus school district moneys that are determined as not being immediately needed for the operation of the district. The superintendent shall follow procedures adopted by the Board in making investments and obtaining the best interest rates possible. Collateralized investments will comply with the requirements of the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) of 1989.

I. **Scope**

This policy applies to the investment of all operating funds of the district.

1. Pooling of Funds

Except for cash in certain restricted and special funds, the district will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with the generally accepted accounting principles.

2. External Management of Funds

Investment through external programs, facilities and professionals operating in a manner consistent with this policy will constitute compliance.

II. **General Objectives**

1. Safety

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

a. Credit Risk

The district will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

- Pre-qualifying the financial institutions, brokers/dealers, intermediaries and advisors with whom the district will do business.
- Diversifying the portfolio so that potential losses on individual securities will be minimized.

b. Interest Rate Risk

The district will minimize the risk that the market value of securities in the portfolio will fall due to changes in general 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.

2. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). A portion of the portfolio also may be placed in bank deposits or repurchase agreements that offer same-day liquidity for short-term funds.

3. Yield

The investment portfolio shall be designed with the objectives of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance to the safety and liquidity objectives described above. The core of investments are limited to relatively low-risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity except when:

- The early selling of a security with declining credit minimizes loss of principal.

- A security swap would improve the quality, yield or target duration in the portfolio.

- The liquidity needs of the portfolio require that the security be sold.

III. Standards of Care

1. Prudence

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

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.

2. Ethics and Conflicts of Interest

Officers and employees of the district 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 in 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 officials shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the district.

3. Delegation of Authority

Authority and responsibility for management of the day-to-day operations of the investment program may be granted to the superintendent or designee and/or an external professional organization, including Missouri Securities Investment Program (MOSIP). The investment officer shall ensure that the investment program's operations are in accordance with the established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the investment officer.

IV. Investment Transactions

1. Authorized Financial Dealers and Institutions

A list will be maintained of financial institutions authorized to provide investment transactions. In addition, a list also will be maintained of approved security brokers/dealers selected by creditworthiness. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (uniform net capital rule).

All financial institutions and brokers/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- Audited financial statements.
- Proof of Financial Industry Regulatory Authority (FINRA) certification.
- Completed broker/dealer questionnaire.
- Certification of having read, understood and agreed to comply with the district's investment policy.

An annual review of the financial condition and registration of qualified financial institutions and brokers/dealers will be conducted by the superintendent or designee and/or the designated external professional organization.

[Optional: From time to time, the investment officer may choose to invest or cause or permit investments to be made in instruments offered by emerging or minority firms and community financial institutions. In such situations, a waiver to the criteria under Paragraph 1 may be granted by the governing body. All terms and relationships will be fully disclosed prior to purchase and will be reported to the governing body of the district on a consistent basis. The governing body of the district should approve these types of investment purchases in advance.]

2. Internal Controls

The investment officer is responsible for establishing and maintaining an internal control structure that will be reviewed annually with the district's independent auditor. The internal control structure shall be designed to ensure that the assets of the district are protected from loss, theft or misuse and to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1) the cost of control should not exceed the benefits likely to be derived and 2) the valuation of costs and benefits require estimates and judgments by management.

The internal controls shall address the following points:

- Control of collusion.
- Separation of transaction authority from accounting and recordkeeping.
- Custodial safekeeping.
- Avoidance of physical delivery securities.
- Clear delegation of authority to subordinate staff members.
- Written confirmation of transactions for investments and wire transfers.
- Development of a wire transfer agreement with the lead bank and third party custodian.

3. Delivery vs. Payment

All trades where applicable will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in eligible financial institutions prior to the release of funds. All securities shall be perfected in the name of, or for the account of, the district, MOSIP or another designated external professional organization and shall be held by a third-party custodian as evidenced by appropriate safekeeping receipts.

V. Suitable and Authorized Investments

1. Investment Types

   In accordance with and subject to restrictions imposed by current statutes, the following list represents the entire range of investments that the district will consider and that shall be authorized for the investments of funds by the district.

   a. Securities issued by State of Missouri – The district may invest in obligations of the Missouri government for which the full faith and credit of the State of Missouri are pledged for the payment of principal and interest.

   b. United States Treasury Securities – The district may invest in obligations of the United States government for which the full faith and credit of the United States are pledged for the payment of principal and interest.

   c. United States Agency Securities – The district may invest in obligations issued or guaranteed by any agency or any wholly owned corporation of the United States Government as described in section V (2) of this policy.

   d. Repurchase Agreements – The district may invest in contractual agreements between the district and commercial banks or primary government securities dealers. The purchaser in a repurchase agreement (repo) enters into a contractual agreement to purchase U.S. Treasury and government agency securities while simultaneously agreeing to resell the securities at predetermined dates and prices.

   e. Collateralized Public Deposits (Certificates of Deposit) – Instruments issued by financial institutions that state that specified sums have been deposited for specified periods of time and at specified rates of interest. The certificates of deposit are required to be backed by acceptable collateral securities as described in §§ 110.010 - .020, RSMo.

   f. Bankers' Acceptances – Time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances. The district may invest in bankers' acceptances issued by domestic commercial banks possessing the highest rating issued by Moody's Investor Services, Inc. or Standard and

Poor's Corporation.

g. Commercial Paper – The district may invest in commercial paper issued by domestic corporations that have received the highest rating issued by Moody's Investor Services, Inc., Standard and Poor's Corporation or another nationally recognized statistical rating organization. Eligible paper is further limited to issuing corporations that have a commercial paper program size in excess of $250,000,000.

2. Security Selection: The following list represents the entire range of United States Agency Securities that the district will consider and that shall be authorized for the investment of funds by the district. Additionally, the following definitions and guidelines should be used in purchasing the instruments:

a. U.S. Govt. Agency Coupon and Zero Coupon Securities – Bullet coupon bonds with no embedded options.

b. U.S. Govt. Agency Discount Notes – Purchased at a discount with maximum maturities of one year.

c. U.S. Govt. Agency Callable Securities – Restricted to securities callable at par only with final maturities of five years.

d. U.S. Govt. Agency Step-Up Securities – The coupon rate is fixed for an initial term. At coupon date, the coupon rate rises to a new, higher, fixed term. Restricted to securities with final maturities of five years.

e. U.S. Govt. Agency Floating Rate Securities – The coupon rate floats off one index restricted to coupons with no interim caps that reset at least quarterly.

f. U.S. Govt. Mortgage-Backed Securities – Restricted to securities with final maturities of five years.

3. Investment Restrictions and Prohibited Transactions

To provide for the safety and liquidity of the district's funds, the investment portfolio will be subject to the following restrictions:

a. Borrowing for investment purposes ("Leverage") is prohibited.

b. Instruments known as Structured Notes (e.g., inverse floaters, leveraged floaters and equity-linked securities) are not permitted. Investment in any instrument that is commonly considered a "derivative" investment (e.g., options, futures, swaps, caps, floors and collars) is prohibited.

c. Contracting to sell securities not yet acquired in order to purchase other securities for purposes of speculating on developments or trends in the market is prohibited.

d. No more than five percent of the total market value of the portfolio may be invested in bankers' acceptances issued by any one commercial bank, and no more than five percent of the total market value of the portfolio may be invested in commercial paper of any one issuer.

4. Collateralization

Collateralization will comply with the requirements of FIRREA. Collateralization will be required on two types of investments:

a. Certificates of deposit. In order to anticipate market changes and provide a level of security for all funds, the market value (including accrued interest) of the collateral shall be at least 102 percent (except for a Federal Home Loan Bank letter of credit, which shall be at 100 percent) or the greater of the amount of certificates of deposit, less the amount, if any, that is insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Unions Share Insurance Fund. Market value shall be calculated using industry convention (collateral substitution may be granted).

All securities that serve as collateral against the deposits of a depository institution must be safekept at a non-affiliated custodial facility. Depository institutions pledging collateral against deposits must, in conjunction with the custodial agent, furnish the necessary custodial receipts within five business days from the settlement date.

Federal law provides that a depositor's security agreement that tends to diminish or defeat the interest of the FDIC in an asset acquired by it as receiver of an insured depository shall not be valid against the FDIC unless the agreement:

- Is in writing,
- Was approved by the Board of Directors of the depository or its loan committee, and

- Has been continuously, from the time of its execution, an official record of the depository institution.

b. Repurchase Agreements

The securities for which repurchase agreements will be transacted will be limited to Treasury and government agency securities that are eligible to be delivered via the Federal Reserve's Fedwire book entry system. In addition to the collateral requirements above, a public entity shall also have in place a Master Repurchase Agreement and Custodian Bank Agreement to hold such securities.

VI. Investment Parameters

1. Diversification

The investments shall be diversified to minimize the risk of loss resulting from overconcentration of assets in specific maturity, specific issuer, or specific class of securities. Diversification strategies shall be established and periodically reviewed. At a minimum, diversification standards by security type and issuer shall be:

a. U.S. Treasury securities having principal and/or interest guaranteed by the U.S. government – 100 percent

b. Collateralized time and demand deposits – 100 percent

c. U.S. government agencies and government-sponsored enterprises – No more than 60 percent

d. Collateralized repurchased agreements – 50 percent

e. U.S. government agency callable securities – No more than 30 percent

f. Commercial paper and bankers' acceptances – No more than 75 percent

2. Maximum Maturities

To the extent possible, the district shall attempt to match its investments with anticipated cash flow requirements. Investments in bankers' acceptances and commercial paper shall mature and become payable not more than 180 days from the date of purchases. All other investments shall mature and become payable not more than five years from the date of purchase. The district shall adopt weighted average maturity limitations that should not exceed three years and are consistent with the investment objectives.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds, such as in bank deposits or overnight repurchase agreements, to ensure that appropriate liquidity is maintained to meet ongoing obligations.

VII. Reporting

1. Methods

The investment officer shall prepare or cause to be prepared an investment report at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner that will allow the district to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the governing body of the district. The report will include the following:

- Listing of individual securities held at the end of the reporting period.
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over a one-year duration (in accordance with the Government Accounting Standards Board (GASB) 31 requirements). [Note: This is only required annually.]
- Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.
- Listing of investment by maturity date.
- Percentage of the total portfolio each type of investment represents.

2. Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market-average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks may be established against which portfolio performance shall be compared on a regular basis.

Commercial paper and bankers' acceptances must be reviewed not less often than monthly by the investment officer to determine if the rating level has changed. The commercial paper and bankers' acceptances should be reviewed for possible sale if the securities are downgraded below the minimum acceptable rating levels.

3. Marking to Market

The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least annually to the Board. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed.

VIII. **Policy Considerations**

1. Exemption

Any investment currently held that does not meet the guidelines of this policy shall be exempt from the requirements of this policy. At maturity or liquidation, such moneys shall be reinvested only as provided by this policy.

2. Adoption

This policy shall be reviewed annually by the investment officer, and recommended changes will be presented to the Board for consideration.

* * * * * * *

Note: The reader is encouraged to check the index located at the beginning of this section for other pertinent policies and to review administrative procedures and/or forms for related information.

Adopted: 08/08/1994

Revised: 01/10/2000;

Legal Refs: Mo. Const., art. IV, § 15
§§ 30.260, 110.010 - .020, 165.051, ~~165~~.091, ~~110.010 - .020,~~ RSMo.

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~~Mo. Const., Art. IV, § 15~~
12 U.S.C. § 1823(e)

Camdenton R-III School District, Camdenton, Missouri