

# INVESTMENT OF SCHOOL DISTRICT FUNDS

## DFA-R

The purpose of this investment policy is to aid the general membership of Government Finance Officers Association (GFOA) in the preparation of an investment policy. This policy is not intended to supplant an existing policy.

### **Scope**

This policy applies to the investment of short-term operating funds. Longer-term funds, including investments of employees' investment retirement funds and proceeds from certain bond issues, are covered by a separate policy.

#### 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 generally accepted accounting principles.

### **General Objectives**

The primary objectives of investment activities, in priority order, shall be safety, liquidity, and yield.

#### 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:

- Limiting investments to the safest types of securities.
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the District will do business.
- Diversifying the investment 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, money market mutual funds, or similar investment pools.

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 money market mutual funds or local government investment pools that offer same-day liquidity for short-term funds.

3. Yield

The 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.

Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investment is 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, with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal.
- A security swap would improve the quality, yield, or target duration in the portfolio.
- Liquidity needs of the portfolio require that the security be sold.

## **Standards of Care**

### 1. Prudence

The standard of prudence to be used by the District Treasurer and Superintendent or his/her designee (hereafter referred to as the investment officials) shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. The investment officials, acting in accordance with written procedures and this investment policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes provided deviations from expectations are reported in a timely fashion 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 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 with 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 officers 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 to manage the investment program is granted to the investment officials. Responsibility for the operation of the investment program is hereby delegated to the investment officials, who shall act in accordance with 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 officials. The investment officials shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

## **Safekeeping and Custody**

### 1. Authorized Financial Dealers and Institutions

A list will be maintained of financial institutions authorized to provide investment services. In addition, a list also will be maintained of approved security broker/dealers selected by creditworthiness (e.g., a minimum capital requirement of \$10,000,000 and at least five [5] years of operation). These may include “primary” dealers or regional dealers who qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

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

- Audited financial statements
- Proof of National Association of Securities Dealers (NASD) certification
- Proof of state registration
- Completed broker/dealer questionnaire
- Certification of having read and understood and agreeing to comply with the [entity's] investment policy.

An annual review of the financial condition and registration of qualified financial institutions and broker/dealers will be conducted by the investment officials.

From time to time, the investment officer may choose to invest in instruments offered by minority and community financial institutions. In such situations, a waiver to the criteria under Paragraph 1 may be granted. All terms and relationships will be fully disclosed prior to purchase and will be reported to the appropriate entity on a consistent basis and should be consistent with state or local law. These types of investment purchases should be approved by the appropriate legislative or governing body in advance.

### 2. Internal Controls

The investment officials are responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the District are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

Accordingly, the investment officials shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and record-keeping
- 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 an eligible financial institution prior to the release of funds. Securities will be held by a third-party custodian as evidenced by safekeeping receipts.

## **Suitable and Authorized Investments**

### 1. Investment Types

Consistent with the GFOA Policy Statement on State and Local Laws Concerning Investment Practices, the following investments will be permitted by this policy and are those defined by state and local law where applicable:

- U.S. government obligations, U.S. government agency obligations, and U.S. government instrumentality obligations, which have a liquid market with a readily determinable market value
- Canadian government obligations (payable in local currency)
- Certificates of deposit and other evidences of deposit at financial institutions, bankers' acceptances, and commercial paper, rated in the highest tier (e.g., A-1, P-1, F-1, or D-1 or higher) by a nationally recognized rating agency

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- Investment-grade obligations of state, provincial, and local governments and public authorities
- Repurchase agreements whose underlying purchased securities consist of the foregoing
- Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities
- Local government investment pools, either state-administered or through joint powers statutes and other intergovernmental agreement legislation.

Investment in derivatives of the above instruments shall require authorization by the appropriate governing authority. (See the GFOA Recommended Practice on "Use of Derivatives by State and Local Governments," 1994.)

2. Collateralization

Where allowed by state law and in accordance with the GFOA Recommended Practices on the Collateralization of Public Deposits, full collateralization will be required on non-negotiable certificates of deposit.

3. Repurchase Agreements

Repurchase agreements shall be consistent with GFOA Recommended Practices on Repurchase Agreements.

**Investment Parameters**

1. Diversification

The investments shall be diversified by:

- Limiting investments to avoid over-concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities)
- Limiting investment in securities that have higher credit risks, investing in securities with varying maturities, and continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money market funds, or overnight repurchase agreements, to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

## 2. Maximum Maturities

To the extent possible, the District shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the District will not directly invest in securities maturing more than five (5) years from the date of purchase or in accordance with state and local statutes and ordinances. The District shall adopt weighted average maturity limitations (which often range from 90 days to 3 years), consistent with the investment objectives.

Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding five (5) years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of funds. The intent to invest in securities with longer maturities shall be disclosed in writing to the legislative body.

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 LGIPs, money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

## **Reporting**

### 1. Methods

The investment officials shall prepare 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 investment officials, the legislative body, and any pool participants. 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 one-year duration that are not intended to be held until maturity (in accordance with Governmental Accounting Standards Board [GASB] requirements)
- Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks

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- Listing of investment by maturity date
- Percentage of the total portfolio that 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 shall be established against which portfolio performance shall be compared on a regular basis.

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 quarterly. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with the GFOA Recommended Practice on "Mark-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools." In defining market value, considerations should be given to the GASB Statement 31 pronouncement.

**Policy Considerations**

1. Exemption

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

2. Amendments

This policy shall be reviewed on an annual basis. Any changes must be approved by the investment officials and any other appropriate authority, as well as the individual(s) charged with maintaining internal controls.



## COLLATERALIZATION OF PUBLIC DEPOSITS

This agreement is between the \_\_\_\_\_ School District and the \_\_\_\_\_ Bank of \_\_\_\_\_. The \_\_\_\_\_ School District requires collateralization of deposits of school district funds pursuant to Chapter 383 of New Hampshire Laws of 1991 in accordance with the rules of the collateralization of Public Deposits, Chapter Ban 1400, and PART Ban 1450, as adopted by the Bank Commissioner and approved by the Joint Legislative Committee in Administrative Rules on September 18, 1992.

The \_\_\_\_\_ Bank hereby agrees to provide permanent collateral in the amount of \$ \_\_\_\_\_ to secure all of the School District's deposit amounts. If additional collateral is required, the District's Treasurer, or other district agent, agrees to contact the Bank's CFO/Treasurer by telephone, fax, or mail with the request. The Bank's CFO/Treasurer agrees to then purchase the additional collateral requested to secure all of the School District's deposit account.

This agreement shall remain in effect until the Treasurer of the School District provides \_\_\_\_\_ Bank with a written notice canceling this agreement or until the \_\_\_\_\_ Bank no longer accepts municipal deposits. The \_\_\_\_\_ Bank must provide the School District with a 90-day written notice before this agreement can be cancelled by the bank. The collateralization of the municipal deposits will remain in effect until the day of cancellation.

Statutory Reference:  
RSA 197:23-a  
RSA 383:22

Adopted: April 18, 2002  
Reviewed/Adopted: July 2, 2014  
Reviewed/Adopted: July 8, 2015  
Reviewed/Adopted: June 30, 2016