

INDEPENDENT SCHOOL DISTRICT 719  
PRIOR LAKE - SAVAGE AREA SCHOOLS**705 INVESTMENTS****I. PURPOSE**

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

**II. DEFINITION**

- A. Short Term Investments are investments of 12 months or less in duration.
- B. Long Term Investments are investments of 12 months or more in duration.
- C. FDIC, SAIF, BIF, FCUA are forms of federal deposit coverage that protects the District investment. Intermediary is a financial entity selected to provide wire transfer, investment, and deposit safekeeping services for the District's competitive investment program.

**III. GENERAL STATEMENT OF POLICY**

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.

**A. AUTHORITY; OBJECTIVES**

1. The funds of the school district shall be deposited or invested in accordance with this policy, Minnesota Statutes chapter 118A and any other applicable law or written administrative procedures.
2. The primary criteria for the investment of the funds of the school district, in priority order, are as follows:
  - a. Safety and Security  
Safety of principal is the first priority. The investments of the school district shall be undertaken in a manner that seeks to ensure the preservation of the capital in the overall investment portfolio. To attain this objective only appropriate investment instruments will be purchased and insurance or collateral may be required to ensure the return of the principal.
  - b. Liquidity  
The funds shall be invested to assure that funds are available to meet immediate payment requirements, including payroll, accounts payable and debt service.
  - c. 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 and legal restrictions for return on investments.

d. 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 or the school board.

B. DELEGATION OF AUTHORITY

1. The Executive Director of Business Services 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 investment officer shall operate the school 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.
2. 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 or school board.

C. STANDARD OF CONDUCT

The standard of conduct regarding school 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 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 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.

D. 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 of the investment program, or which could impair their ability to make impartial investment decisions. Further, no officer involved in the investment process shall have any interest in, or receive any compensation from, any investments in which the District is authorized to invest, or the sellers, sponsors or managers of those investments.

E. MONITORING AND ADJUSTING INVESTMENTS

The investment officer 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.

#### F. 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 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 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, supervising and controlling employee actions, minimizing the number authorized investment officials, and documenting transactions and strategies.

#### G. PERMISSIBLE INVESTMENT INSTRUMENTS

The school district may invest its available funds to include operating and bond funds in those instruments specified in Minnesota Statute section 118A.04 and 118A.05, as these statutes may be amended from time to time, or any other law governing the investment of school district funds. The district has chosen to limit its allowable investments to those instruments listed below:

1. Bonds, notes, certificate 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 \$250,000 provided by the Federal Deposit Insurance Corporation coverage limit;
4. Collateralized repurchase agreements that conform to the requirements stated in Minnesota statutes;
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 150 days.
  - e. Not more than 75% of the total investment fund can be invested in commercial paper at any time, unless reviewed by the Superintendent and Executive Committee.

- f. The total investment in any one corporation cannot exceed 10% of the corporation's outstanding obligations.
  - g. The total investment in any one corporation cannot be more than \$10 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.
  8. The assets of a trust or trust account established pursuant to Minnesota statute 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 MN Statute chapter 118A or Minnesota Statute section 356A.06 subd 7.

Investment of funds in an OPEB trust or trust account under MN Statute section 356A.06 subd 7, as well as the overall asset allocation strategy for OPEB trust investments, shall be governed by the district's investment policy statement (IPS) developed in conjunction with the Executive Director of Business Services, the trust administrator, and the Finance Advisory Committee.

#### H. PORTFOLIO DIVERSIFICATION; MATURITIES

It is the policy of the District to diversify its investment portfolio. Investments shall be diversified to eliminate the risk of loss resulting in over concentration in a specific maturity, issuer, or class of securities. Diversification strategies shall be determined and revised periodically by the School Treasurer or Executive Director of Business Services. The diversification shall be as follows:

1. Up to 100% of section G. item 1, above.
2. Up to 90% of section G. item 2. and section G. item 3, above.
3. Up to 75% of section G. item 4. and section G. item 5, above.

Limitations on instruments, diversification and maturity scheduling shall depend on whether the funds being invested are considered short-term (12 months or less) or long-term funds (12 to 36 months). 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.

#### I. COLLATERALIZATION

1. It is the policy of the District to require that time deposits in excess of FDIC insurable limits be secured by collateral at 110% or private insurance to protect public deposits in a single financial institution if it were to default.
2. Eligible collateral instruments are any investment instruments acceptable under Minnesota statutes section 118A.03. 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.
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 Executive Director of Business Services, and only if the market value of the replacement securities is equal to or greater than the market value of securities being replaced.

#### J. SAFEKEEPING

1. Third party safekeeping is required for all securities and commercial paper. To accomplish this, the securities must be held only at the following locations:
  - a. At a Federal Reserve Bank or its branch office;
  - b. At another custodial facility, which shall be a trust or safekeeping department through book-entry at the Federal Reserve, unless physical securities are involved; or
  - c. In an insured account at a primary reporting dealer
2. Safekeeping will be documented by an approved written agreement between the Board of Education and the holder of the securities. This may be in the form of a safekeeping agreement, trust agreement, escrow agreement or custody agreement.
3. Original certificates of deposits will be held by the originating bank. A safekeeping receipt will be acceptable documentation.

#### K. REPORTING REQUIREMENTS

1. The investment officer shall generate daily and monthly transaction reports for management purposes. In addition, the school board shall be provided a monthly report that shall include data on investment instruments being held as well as any narrative necessary for clarification.
2. The investment officer shall prepare and submit to the school board a semi-annual 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 semi-annual 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.

3. Within ninety (90) days after the end of each fiscal year of the school district, the investment officer 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 semi-annual comparisons of return and shall suggest revisions and improvements that might be made in the investment program.
4. If necessary, the investment officer 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.
5. Pursuant to investments made under MN Statute section 118A.03, the trust administrator shall provide semi-annual reports to the school board on all trust fund activity, as well as market updates, economic developments, strategic planning, and changes in investment instruments and asset allocation strategy approved by the Executive Director of Business Services, trust administrator, and the Executive Committee.

#### L. QUALIFIED FINANCIAL INSTITUTIONS AND INTERMEDIARIES

1. Depositories – Demand Deposits
  - a. Any financial institution selected by the District shall provide normal banking services, including, but not limited to: checking accounts, wire transfers and safekeeping services.
  - b. The District will not maintain funds in any financial institution that is not a member of the FDIC system. In addition, the District will not maintain funds in any institution that does not first agree to post required collateral for funds or purchase private insurance in excess of FDIC insurable limits and in amounts acceptable to the District.
  - c. To qualify as a depository, a financial institution must furnish the Treasurer with copies of the latest two statements of condition which it is required to furnish to the Comptroller Currency as the case may be. While acting as a depository, a financial institution must continue to furnish such statements to the Treasurer within 45 days of the end of each quarter.
  - d. Fees for banking services shall be mutually agreed to by an authorized representative of the depository bank and the Treasurer on an annual basis. Fees for services shall be substantiated by a monthly account analysis.
  - e. All financial institutions acting as a depository as a depository for the District must enter into a “Depository Agreement.”
2. Banks and Savings and Loans – Certificates of Deposit  
Any financial institution selected to be eligible for the District’s competitive certificate of deposit purchase program must:
  - a. provide wire transfer and certificate of deposit safekeeping services;
  - b. be a member of FDIC system and be willing and capable of posting required

collateral or private insurance for funds in excess of FDIC insurable limits and in amounts required by the District; and

- c. meet at all times the financial criteria as established in the investment procedures of the District.

### 3. Intermediaries

Any financial intermediary selected to be eligible for the District's competitive investment program must:

- a. provide wire transfer, investment, and deposit safekeeping services;
- b. be a member of a recognized U.S. Securities and Exchange Commission Self Regulatory Organization such as the New York Stock Exchange, National Association of Securities Dealers, Municipal Securities Rule Making Board, etc;
- c. Provide an annual audit upon request;
- d. Maintain an office within the State of Minnesota and be licensed to conduct business in this State; and
- e. Be familiar with the Board of Education's policy and accept financial responsibility for any investment not appropriate according to the policy.

## M. ELECTRONIC FUNDS TRANSFER OF FUNDS FOR INVESTMENT

The school district may make electronic fund transfers for investments of excess funds upon compliance with Minnesota Statute section 471.38 (see Board Policy 702.1).

**Legal References:** MN Stat. § 118A.01 (Definitions Public Funds; Depositories and Investments)  
MN Stat. § 118A.02 (Depositories; Investing; Sales, Proceeds, Immunity Authorization for Deposit and Investment)  
MN Stat. § 118A.03 (When and What Collateral Required Depositories and Collateral)  
MN Stat. § 118A.04 (Investments)  
MN Stat. § 118A.05 (Contracts and Agreements)  
MN Stat. § 118A.06 (Delivery and Safekeeping; Acknowledgements)  
MN Stat. § 356A.06, Subd. 7 (Investments; Additional Duties Authorized Investment Securities)  
MN Stat. § 471.38 (Claims)  
MN Stat. § 471.6175 (Trust for Postemployment Benefits)

**Cross References:** [Policy 703 \(Annual Audit\)](#)  
Minnesota Legal Compliance Audit Guide for School Districts Prepared by the Office of the State Auditor

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An Equal Opportunity School District