

**Policy DFA-2: REVENUES FROM INVESTMENTS/USE OF SURPLUS FUNDS**

Status: DRAFT

Original Adopted Date: 12/16/1999 | Last Revised Date: 07/17/2014 | Last Reviewed Date: 07/17/2014

**EXPLANATION**

This policy was modified in consultation with attorneys who have expertise in public entity investment. This policy should be adopted only if the district uses a registered investment advisor (RIA) to manage some or all of its investments. While all the investments permitted in this policy are consistent with law, some require a level of expertise your current investor may not have. For example, the local bank may not employ an RIA.

This does not mean the district cannot invest with a local bank. It means the district should use version one of this policy. The district should ask if it is unsure whether the entity managing its investments is an RIA.

Because this policy assumes the district is working with a third party, both the district and the third party have an appointed person to represent them. In this policy, the "finance officer" is the district's representative. The finance officer is usually the superintendent, someone in the business office, the chief financial officer or the board treasurer. The third party is referred to as the "investment officer."

***(District Utilizes a Third Party to Manage Some or All of Its Investments)***

The Platte County R-III School District board of education authorizes and appoints the superintendent [for business officer or treasurer] or designee to serve as the investment finance officer of the school district ("district") to invest surplus school district moneys that are determined as not being immediately needed within a reasonable period of time for the operation of the district. The superintendent finance officer shall follow procedures adopted by the board in making investments and obtaining the best interest rates possible reasonably attainable. Collateralized investments will comply with the requirements of the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) of 1989.

**I. Scope**

Except as otherwise provided, 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**

The primary objectives, in priority order, of investment activities 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 credit provider, 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 certificates of 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.
- Replacing a given security with another would improve the quality, yield or target duration of 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.

All participants in the investment process shall act responsibly as custodians of the public trust. The standard of prudence to be used by the finance officer shall be the "prudent investor" rule, which reads: "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. Officers, Employees and the investment officials officer 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. Officers and Employees and officials of the district 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 to manage the investment program is granted to the superintendent or designee and/or an external professional organization, including Missouri Securities Investment Program (MOSIP) finance officer and/or another duly authorized external professional organization (to be collectively known as the "investment officer"), including the Missouri Securities Investment Program. Responsibility for the operation of the investment program is hereby delegated to the investment officer, who shall act in accordance with the established written procedures and internal controls for the operation of the investment program consistent with this investment policy. 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. The investment officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of authorized subordinate officials.

## 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 as determined by the finance officer and approved by the Board. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15(c)3-1 (uniform net capital rule).

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

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

The finance officer will conduct 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 finance 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~~ Prevention 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/Political Subdivisions – The district may invest in obligations of the Missouri government and its political subdivisions for which the full faith and credit of the ~~State of Missouri are~~ issuer is 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~~ is 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 U. ~~nited States~~ Government as described in section V (2) of this policy.
- d. Securities Issued by Instrumentalities/Government-Sponsored Enterprises of the United States – The district may invest in obligations of instrumentalities or government-sponsored enterprises of the United States, including supranational organizations created by an act of Congress or treaty to which the United States is a party. Debt obligations of supranational organizations must have received the highest rating issued by one or more nationally recognized statistical rating organizations, and no more than five percent of the total market value of the portfolio may be invested in the obligations of any supranational organization.
- e. 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~~ or government agency securities while simultaneously agreeing to resell the securities at predetermined dates and prices. Such securities shall have a market value of 102 percent of the value of the repurchase agreement, and the term of such agreement must not exceed 90 days.
- f. Collateralized Public Deposits (Certificates of Deposit) – The district may invest in instruments issued by financial institutions that state that specified sums have been deposited for specified periods of time and at specified rates of interest. ~~Except to the extent insured by the Federal Deposit Insurance Corporation (FDIC), the~~ certificates of deposit are required to be backed by acceptable collateral securities as described in ~~§§ 110.010 – .020~~ 30.270, RSMo., or insured (in

whole or in part) by the FDIC.

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.

g. Bankers' Acceptances – The district may invest in bills of exchange or 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 a nationally recognized statistical rating organization. Purchases of bankers' acceptances may not exceed 180 days to maturity. No more than 75 percent of the portfolio may be invested in a combination of bankers' acceptances and commercial paper.

h. 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 a nationally recognized statistical rating organization. Eligible paper is further limited to issuing corporations that have a total commercial paper program size in excess of \$250,000,000. No more than 75 percent of the total market value of the portfolio may be invested in the combination of commercial paper and bankers' acceptances. Commercial paper issues must be subject to periodic credit reviews and daily monitoring of news research and analysis, and a monitoring program must be established to promulgate best practices credit monitoring.

## 2. United States Agency 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. Government Agency Coupon and Zero Coupon Securities – Bullet coupon bonds with no embedded options with maturities of five years or less.
- b. U.S. Govt. Government Agency Discount Notes – Purchased at a discount with maximum maturities of one year.
- c. U.S. Govt. Government Agency Callable Securities – Restricted to securities callable at par only with final maturities of five years.
- d. U.S. Govt. Government 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 or less.
- e. U.S. Govt. Government 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. Government Mortgage-Backed Securities – Restricted to securities with final maturities of five years or less.

## 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., variable rate demand notes, floaters, 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 the 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 or commercial paper 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 plus demand deposits with the depository, 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.

The district will have a FIRREA-compliant depository contract and pledge agreement with each depository. This will ensure that the district's security interest in collateral pledged to secure deposits is enforceable against the depository.

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 United States Treasury and United States Government Agency securities that are eligible to be delivered via the Federal Reserve's Fedwire book entry system. Securities will be delivered to the district's designated custodial agent. Funds and securities will be transferred on a delivery vs. payment basis. In addition to the collateral requirements above, a public entity the district 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, instrumentalities and government-sponsored enterprises – No more than ~~60-70~~ percent
  - d. Collateralized repurchased agreements – No more than ~~50-75~~ percent
  - e. U.S. government agency callable securities – No more than ~~30-50~~ percent
  - f. Commercial paper and bankers' acceptances – No more than 75 percent combined.
2. Maximum Maturities

To the extent possible, the district shall attempt to match its investments with anticipated cash flow requirements. Investments in repurchase agreements shall mature and become payable not more than 90 days from the date of purchase. 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 investments 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.

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**Policy Reference Disclaimer:** These references are not intended to be part of the policy itself, nor do they indicate the basis or authority for the board to enact this policy. Instead, they are provided as additional resources for those interested in the subject matter of the policy.

#### State References

§ 30.260, RSMo.

#### Description

State Statute -  
<https://simbli.eboardsolutions.com/SU/slshVClyWU73Tdpv4JZYxrPDw==>

§ 30.950, RSMo

State Statute -  
<https://simbli.eboardsolutions.com/SU/slshVClyWU73Tdpv4JZYxrPDw==>

§§ 110.010-.020, RSMo.

State Statute -  
<https://simbli.eboardsolutions.com/SU/slshVClyWU73Tdpv4JZYxrPDw==>

§165.051, RSMo

State Statute -  
<https://simbli.eboardsolutions.com/SU/slshVClyWU73Tdpv4JZYxrPDw==>

§165.091, RSMo

State Statute -  
<https://simbli.eboardsolutions.com/SU/slshVClyWU73Tdpv4JZYxrPDw==>

Mo. Const. art.IV § 15

State Constitution -  
<https://simbli.eboardsolutions.com/SU/slshVClyWU73Tdpv4JZYxrPDw==>

#### Cross References

#### Description

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APPOINTED BOARD OFFICIALS -  
<https://simbli.eboardsolutions.com/SU/GmsQCCpOWbdJddfVDvXVJw==>