WACONIA SCHOOL DISTRICT INVESTMENT POLICY 705

A. Scope

This investment procedure applies to all funds of the District. These funds are accounted for in the District's annual financial report and include all current funds, and any other funds that may be created from time to time. All transactions involving the funds and related activity of any funds shall be administered in accordance with the provisions of this procedure and the canons of the "prudent person rule."

B. Objectives

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.

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 School Treasurer.

C. 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 $250,000 or as provided by the Federal Deposit Insurance Corporation coverage limit;

4. Collateralized repurchase agreements that conform to the requirements stated in 118A.05 sub. 2 of the 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 50% of the total investment fund can be invested in commercial paper at any time.

   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. With respect to assets of an OPEB (Other Postemployment Benefits) trust, investments provided in (1) through (7) hereof and investments described in Minnesota Statutes Section 356A.06, subdivision 7.

D. Diversification

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. The diversification shall be as follows:

   a) Up to 100% of C.1., but not less than 10%

b) Up to 90% of C.2. and C.3.

c) Up to 50% of C.4. and C.5.

E. 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 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 Treasurer, and only if the market value of the replacement securities is equal to or greater than the market value of the securities being replaced.

F. Safekeeping of Securities

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.

G. 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 of 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 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 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.

H. Management of Program

1. The following individuals are authorized to purchase and sell investments, authorize wire transfers, authorize the release of pledged collateral, and to execute any documents required under this procedure:

a) Treasurer (Business Official)

b) Assistant Treasurers (Business Official/District Accountant)

These documents include:

1) Wire Transfer Agreement

2) Depository Agreement

3) Safekeeping Agreement

4) Custody Agreement

2. Management responsibility for the investment program is hereby delegated to the Treasurer and Assistant Treasurer, who shall establish a system of internal controls and written operational procedures designed to prevent losses of funds that might arise from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of the entity. Such procedures shall include explicit delegation of authority to persons responsible for the execution under the direction of the Treasurer of specific financial transactions, including: investment transactions; check signing, check reconcilement, deposits, bond payments, report preparation and wire transfers. No person may engage in any investment transaction except as provided for under the terms of this policy. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinates.

3. The wording of agreements necessary to fulfill the investment responsibilities is the responsibility of the Treasurer who shall periodically review them for their consistency with District policy and State law and who shall be assisted in this function by the Assistant Treasurer, District legal counsel and auditors. These agreements include but not limited to:

   a) Wire Transfer Agreement

   b) Depository Agreement

   c) Safekeeping Agreement

   d) Custody Agreement

4. The Treasurer may use financial intermediaries, brokers, and/or financial institutions to solicit bids for securities and certificates of deposit. These intermediaries shall be approved by the Board of Education.

5. All wire transfers made by the Treasurer shall require a secondary authorization by the Assistant Treasurers or Treasury Clerk/Bookkeeper/Accountant.

I. Performance

The Treasurer will seek to earn a rate of return appropriate for the type of investments being managed given the portfolio objectives defined in Section B of this document for all funds. In general, the Treasurer will strive to earn an average rate of return equal to or greater than the U.S. Treasury Bill rate for a given period of time for the average weighted maturity of the District's investments.

J. 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.

K. 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

L. Reporting

The Treasurer shall submit to the Board of Education and the Superintendent 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.

M. Amendment

This procedure shall be reviewed from time to time by the Treasurer with regards to the procedure's effectiveness in meeting the District's needs for safety, liquidity, rate of return, diversification, and general performance. Any substantive changes will be reported to the Board of Education.

Policy Adopted: September 2004 / November 2006 / Amended September 22, 2008 / Amended April 2009

Independent School District No. 110
Waconia, MN 55387