

**INVESTMENT OF SCHOOL DISTRICT FUNDS****I. 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 School 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.

**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 School 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 School District will do business.

Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

**b. Interest Rate Risk**

The School 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 which 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 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 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.

## III. STANDARDS OF CARE

### 1. Prudence

The standard of prudence 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 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 School District.

### 3. Delegation of Authority

Authority to manage the investment program is granted to the School District Treasurer (Investment Officer) and derived from the following: RSA 197:23-a. Responsibility for the operation of the investment program is hereby delegated to the investment officer, 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 officer. The investment officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

#### **IV. 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 years of operation). 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 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 officer.

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 officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the School 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 officer 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.

## V. SUITABLE AND AUTHORIZED INVESTMENTS

### 1. Investment Types

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;

Participation units in a public deposit investment pool established under RSA 383:22;

Deposits including money market accounts, certificates of deposit or repurchase agreements and all other types of interest bearing accounts of federally insured banks authorized to accept deposits under RSA 6:8, I and I-a and in obligations fully guaranteed as principal and interest by the United States Government. The obligations may be held directly or in the form of securities of or other interests in any open-end or closed-end management-type investment company or investment trust registered under 15 U.S.C. § 80a-1 et seq., if the portfolio of the investment company or investment trust is limited to such obligations and repurchase agreements fully collateralized by such obligations;

Public funds in interest-bearing deposits which meet all of the following conditions:

- (a) The funds are initially invested through a federally insured bank authorized to accept deposits in New Hampshire under RSA 197:23, I and I-a, selected by the treasurer.
- (b) The selected bank arranges for the redeposit of funds which exceed the federal deposit insurance limitation of the selected bank in deposits in one or more federally insured financial institutions located in the United States, for the account of the treasurer.
- (c) The full amount of principal and any accrued interest of each such deposit is covered by federal deposit insurance.
- (d) The selected bank acts as custodian with respect to each such deposit for the account of the treasurer.
- (e) On the same date that the funds are redeposited by the selected bank, the selected bank receives an amount of deposits from customers of other federally insured financial institutions equal to or greater than the amount of the funds initially invested through the

selected bank by the treasurer.

## **VI. 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 School District shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the School 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 School 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 are 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.

## **VII. REPORTING**

### **1. Methods**

The investment officer 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 which will allow the School District to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the investment officer, 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.

Listing of investment by maturity date.

Percentage of the total portfolio which 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.

## VIII. 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 officer and the School Board, as well as the individual(s) charged with maintaining internal controls.

*See Policy DFA*

## 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.

**Legal References:**

*RSA 197:23-a, Treasurer's Duties*

*RSA 383:22, Public Deposit Investment Pool*

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