

# MINNETONKA PUBLIC SCHOOLS

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## POLICY #705: INVESTMENT OF DISTRICT FUNDS

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### I. PURPOSE

The purpose of this policy is to establish guidelines for the investment of school District funds that are being held temporarily for District uses or in reserve for unappropriated uses.

### II. GENERAL STATEMENT OF POLICY

The School Board believes that an effective investment program is important to the financial stability of the District, therefore a key component to attaining its Vision, Mission and Beliefs. Effective investment of District cash assets will enhance opportunities for leadership and staff to focus on building trusting relationships, personalizing services and continuous improvement of District operations.

It is the policy of the School Board that the District's investment portfolio be managed in a manner designed to attain a market rate of return throughout budgetary and economic cycles while preserving and protecting capital in the overall portfolio. Investments shall be made based on statutory constraints. The Board's primary investment criteria are listed in priority sequence.

- Safety
- Liquidity
- Yield

### III. REQUIREMENT

A. Scope of Policy: The financial assets of all District funds as listed below.

- General Fund
- Special Revenue Funds (Food Service and Community Education)
- Building Construction Funds
- Debt Service Fund
- Trust Fund
- Student Activity Fund
- Internal Service Fund

B. Investment Officer: The Executive Director of Finance & Operations is designated as the Investment Officer of the School District and is responsible for investment decisions and activities. The Controller shall assist the Executive Director of Finance & Operations in the implementation of this policy.

- C. The Prudent Investor Rule: 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.”
- D. Category I Securities: Investments that are insured or registered for which the securities are held by the District or its agent in the District’s name.
- E. Category II Securities: Uninsured and unregistered investments for which the securities are held by the counter party’s trust department or agent in the District’s name.
- F. Category III Securities: Uninsured and unregistered investments for which the securities are held by the counter party, or by its trust department or agent, but not in the District’s name.
- G. Collateral: Security pledged by the financial institution to guarantee assets equal to the value of the investment have been restricted and assigned to the District’s account.
- H. Collateralize: The securing of investments by the financial institution with collateral.
- I. Investments: The District’s investments will be limited to investments authorized under Minnesota Statutes 118A.04 and 118A.05, including the following:
  - 1. U.S. Treasury Obligations
  - 2. U.S. Government Agency Securities and Instrumentalities of Government Sponsored Corporations.
  - 3. Bankers’ Acceptance (BAs)
  - 4. Commercial Paper - Prime Double Rated (CP)
  - 5. Repurchase Agreements (Repos)
  - 6. Certificates of Deposit (CDs) Commercial Banks (Government Collateral above \$250,000 F.D.I.C. insurance level)
  - 7. Certificates of Deposit (CDs) Savings and Loans (Government Collateral above \$250,000 F.S.L.I.C. insurance level)
  - 8. Local Government Investment Pool
  - 9. Money Market Funds
  - 10. Minnetonka ISD 276 Bonds purchased in the secondary bond market
  - 11. Guaranteed Investment Contracts
- J. Diversification: To the extent possible, the District will diversify its investment portfolio in order to limit its risks. The District will make every effort to reduce risk by maximizing investments in category I securities.
- K. Prudent Investments: The standard of prudence to be applied by the Investment Officer shall be the “prudent investor” defined above.

L. Limited Liability of Investment Officer: The District Investment Officer will not be held specifically responsible for a specific security's credit risk or market price changes.

M. Collateralization of Deposits: The District may not deposit funds which are at any time uninsured or under collateralized.

1. Deposits in excess of federal insurance limits will be collateralized as provided for in Minnesota Statute 118, as amended, with one exception. That exception is the first mortgage, which must be collateralized in an amount that is at least 140% of the excess of the deposit over insurance limits.
2. The collateral depository must furnish safekeeping of receipts to the District within three business days of receipt of collateral.
3. Substitutions of collateral will be permitted as long as the substitution does not lessen the collateralization requirements.
4. Releases of collateral may be made only with the approval of the District Investment Officer.
5. Those institutions with which the District makes repurchase agreements must be required to sign the Public Securities Association Master Repurchase Agreement prior to placement of funds. A Federal Reserve Collateral Account must be established for the safekeeping of securities pledged for repurchase agreements.
6. The District must attempt, as far as possible, to secure investments which are insured or registered or for which the securities are held by the District or its agent in the District's name.
7. At no time shall more than 25% of the District's total portfolio be invested in repurchase agreements.

N. Competitive Selection of Investment Instruments:

The District must conduct a competitive quote/bid process before it can invest any surplus funds. It must accept the bid which provides the highest rate of return net of fees while complying with all of the provisions of this policy. Domestic commercial paper will be given preference. The District will consider the aggregate rate of return on multiple investments bid simultaneously.

O. Maturity Dates:

Investment maturities for all funds will be scheduled to coincide with projected cash flow needs, taking into account large routine expenditures (payroll, bond payments) as well as considering sizable blocks of anticipated revenue (property tax and state aid payments).

P. Financial Institution Designations:

1. Any financial institution authorized to do business in Minnesota or any other state, and which can legally provide for investment in any instrument so permitted by Minnesota Statute 118.04, may be designated a depository of District funds.
    - a. There are two different processes through which the Board can designate financial institutions to be depositories of District funds.
      - i) Taking action at one of its regular meetings.
      - ii) Accepting as depositories those legally authorized institutions that may, from time to time, be utilized by a board-approved investment placement service such as the Minnesota School District Liquid Asset Fund PLUS (MSDLAF) or MNTrust Fund. The District does have the right to request the removal of any depository from the approved list.
    - b. Depositories must furnish confirmation documents to the District within seven business days of investment; including copies of any CD, safekeeping receipts, and/or wire transfer confirmations.
    - c. Depositories must provide the District with financial reports, as the District deems necessary and appropriate.
    - d. Prior to being designated as a depository of District funds, a financial institution must agree to all the terms and conditions outlined in this policy.
  2. The District may not invest in any institution that, at the time of investment, is in a negative net worth position.
  3. The District may not invest in securities with a capital asset ratio of less than 3%.
- Q. Electronic Fund Transfer: The District will make use of electronic funds transfers and depository transfer check plans to the greatest extent possible in order to derive the following benefits.
- maximize interest revenue
  - minimize excess cash balances
  - minimize accounting and asset management costs

The District shall comply with the provisions of Minnesota Statute 471.38, Subdivision 3 with respect to electronic fund transfers.

#### **IV. IMPLEMENTATION**

- A. In order to optimize return on its investment, the District will allocate resources to operate an effective cash management program.

- B. The District Investment Officer will routinely monitor the contents of the District's investment portfolio, the available markets and the relative values of competing instruments.
- C. The District's Investment Officer will establish a system of internal controls to be reviewed annually by an independent auditor. The controls will be designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes or imprudent actions.
- D. Competitive Selection of Investment Instruments:
  - 1. When seeking bids for the investment of surplus funds, the District will specifically request instruments which meet fund maturity and/or cash flow guidelines.
  - 2. If no specific maturity is required, a market trend analysis will normally be used as a method to determine which maturities would be most advantageous.
  - 3. Generally, all bids will be on the basis of 360-day base yield.
- E. Reports: The District Investment Officer will generate a monthly report to the Board listing all investments as of the last day of the previous month.

**Legal References:** Minn. Stat. § 118A.01 (Public Funds; Depositories and Investments)  
Minn. Stat. § 118A.02 (Authorization for Deposit and Investment)  
Minn. Stat. § 118A.03 (Depositories and Collateral)  
Minn. Stat. § 118A.04 (Investments)  
Minn. Stat. § 118A.05 (Contracts and Agreements)  
Minn. Stat. § 118A.06 (Delivery and Safekeeping)

**Cross References:** MSBA Service Manual, Chapter 9, Public School Finance,  
Minnesota Legal Compliance Audit Guide Prepared by the Office of the  
State Auditor

**Adopted: September 16, 2004**

**Revised and Adopted: December 7, 2017**

**Revised and Adopted: March 7, 2019**

**Reviewed: April 21, 2022**

**Adopted: May 5, 2022**