

SECTION V
BUSINESS AFFAIRS

5.02 GENERAL POLICIES

F. Investment Policy

I. SCOPE

This investment policy applies to all excess funds held by the School Board of Clay County which are accounted for in the Board's Annual Financial Report and reported in the following funds:

- General Fund
- Debt Service
- Capital Projects
- Special Revenue
- Internal Service

Certain surplus funds available for investment represent capital project funds generated through the issuance of long-term bonded indebtedness or certificates of participation, or represent debt service funds created for the repayment of outstanding principal and interest on such bonded indebtedness. Frequently, the ordinances and/or resolutions adopted by the District which authorize the issuance of such bonded indebtedness contain specific provisions relative to the investment of funds. In that regard, the investment of such funds shall comply with the provisions of the applicable bond ordinance and/or resolution, the requirements contained in this policy, and applicable statutory or administrative law.

II. OBJECTIVES

The School Board of Clay County shall manage and invest its cash with four objectives, listed in order of priority: Safety, Liquidity, Yield, and Public Trust. The safety of the principal invested always remains the primary objective. All investments shall be designed and managed in a manner responsive to the public trust and consistent with State and Local law. Investments will also be managed to meet liquidity requirements and maximum yield on short-term investment of pooled idle cash.

a) 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.

i) Credit Risk

Credit Risk is the risk of loss due to the failure of the security issuer or credit support. Credit risk may be mitigated by:

- 1) Limiting investments to the safest types of securities.

- 2) Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the School Board will do business, and
 - 3) Diversifying the investment portfolio so that potential losses on individual securities will be minimized.
- ii) Interest Rate Risk
- Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. Interest rate risk may be mitigated by:
- 1) 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, and
 - 2) By investing operating funds primarily in shorter-term securities.
- b) 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).
- c) Return on Investment
- Return on investment is of least importance compared to the safety and liquidity objectives described above. The investment portfolio shall be designed with the objective of attaining a market rate of return that exceeds that which can be earned from the Florida PRIME State Board of Administration Local Government Surplus Funds Trust Fund. The core 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:
- i) A declining credit security could be sold early to minimize loss of principal
 - ii) A security swap would improve the quality, yield, or target duration in the portfolio; or
 - iii) Liquidity needs of the portfolio require that the security be sold.

III. Performance Measurement and Reporting

In order to assist in the evaluation of the portfolio's performance, the District will use performance benchmarks for short-term and long-term portfolios. The use of benchmarks will allow the District to measure its returns against other investors in the same markets.

- a) The Florida PRIME State Board of Administration's Local Government Surplus Funds Trust Fund (SBA Pool) will be used as a benchmark as compared to the portfolios' net book value rate of return for current operating funds.
- b) Investment performance of funds designated as core funds and other non-operating funds that have a longer-term investment horizon will be compared to an index comprised of U.S. Treasury or Government securities. The appropriate index will have a duration and asset mix that approximates the portfolios and will be utilized as a benchmark to be compared to the portfolio's total rate of return.
- c) Investment advisors will report performance on both book value and total rate of return basis and compare results to the above-stated benchmarks.

The Assistant Superintendent for Business Affairs or their investment advisor shall prepare and submit to the Board a quarterly investment report on any investments other than the SBA and Florida Education Investment Trust Fund. The report shall include a listing of the securities in the portfolio by class or type, book value, market value, income earned, and rate of return as of the report date and year to date.

IV. Standards of Care

a) 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 from the investment. While the standard of prudence to be used by investment officials who are officers or employees of the district is the “Prudent Person” rule, any person or firm hired or retained to invest, monitor, or advise concerning these assets shall be held to the higher standard of “Prudent Expert”. The standard shall be that in investing and reinvesting monies and in acquiring, retaining, managing and disposing of investments of these funds, the contractor shall exercise “the judgment, care, skill, prudence, and diligence under the circumstances then prevailing which persons of prudence, discretion, and intelligence acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims, by diversifying the investment of the funds so as to minimize the risk of material losses, unless under the circumstances it is clearly prudent not to do so, and not in regard to speculation but in regard to the permanent disposition of similar funds, considering the probable income as well as the probable safety of their capital.”

b) 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 to the Assistant Superintendent for Business Affairs, any personal financial/Investment positions that could be related to the performance of the investment portfolio. Employees and investment officials shall subordinate their personal

investment transactions to those of the Board, particularly with regard to the timing of purchases and sales.

V. Authorized Investments

Authorized Investments Include:

- a) The Florida PRIME Local Government Surplus Funds Trust Fund (SBA), Florida Education Investment Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in s. 163.01.
- b) Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
- c) Savings accounts in, or certificates of deposit of, any bank, savings bank, or savings and loan association that is incorporated under the laws of this state or organized under the laws of the United States, and that is doing business in and is situated in this state, and whose accounts are insured by the Federal Government or an agency thereof, provided that such savings accounts and certificates of deposit are secured in the manner prescribed in chapter 280.
- d) Direct obligations of the United States Treasury
- e) Federal agencies and instrumentalities.
- f) Securities of, or other interests in, any open-end or closed-end management-type investment company or investment trust registered under the Investment Company Act of 1940, 15 U.S. C. ss. 80a-1 et seq., as amended from time to time provided that the portfolio of such investment company or investment trust is limited to obligations of the United States Government or any agency or instrumentality thereof and to repurchase agreements fully collateralized by such United States Government obligations, and provided that such investment company or investment trust takes delivery of such collateral either directly or through an authorized custodial.
- g) Commercial paper of any United States company with is rated, at the time of purchase, Prime-1 by Moody's Investor Service and A-01 by Standard & Poor's Corporation (prime commercial paper). If backed by a letter of credit (LOC), the long-term debt of the LOC provider must be rated at least "A" by at least two nationally recognized rating agencies. The LOC provider must be ranked in the top fifty (50) United States banks in terms of total assets by the American Banker's yearly report.
- h) Bankers' Acceptances which are inventory based and issued by a domestic bank which has at the time of purchase, an unsecured and nonguaranteed obligation rating of at least "Prime-1" and "A" by Moody's Investor Service and "A-1" and "A" by Standard & Poor's Corporation and ranked in the top fifty (50) United States banks in terms of total assets by the American Banker's yearly report.

Without specific approval, the Board will not invest any funds in derivative investment products. This includes but is not limited to collateralized mortgage obligations, interest-only and principal-only, forwards, futures, currency and interest rate swaps, options, floaters/inverse floaters, and caps/floors/collars.

VI. Maturity, Risk Diversification, and Composition

The investment portfolio will be structured in such a manner as to provide sufficient liquidity to pay obligations as they come due. Therefore, an attempt to match investment maturities with known cash needs and anticipated cash-flow requirements will be a priority. Investments will be diversified to the extent practicable to control the risk of loss resulting from over-concentration of assets in a specific maturity, issuer, instrument, dealer, or bank through which financial instruments are bought and sold. Diversification strategies within the established guidelines shall be reviewed and revised periodically, as deemed necessary by the appropriate management staff.

VII. Authorized Investment Institutions and Dealers

The Board is authorized to purchase securities from the Florida PRIME State Board of Administration Local Government Surplus Funds Trust Fund, Florida Education Investment Trust Fund, and First American Money Market Funds. The Board may invest with other securities dealers, issuers, and banks if specific approval is granted by the School Board of Clay County.

VIII. Master Repurchase Agreement

In order to protect public funds invested through repurchase agreements, the Board shall require all approved institutions and dealers transacting repurchase agreements to execute and perform as stated in the Master Repurchase Agreement. This agreement establishes the legal responsibilities of both parties in each transaction and provides contractual rights for the Board in the event that the other party defaults.

IX. Third-Party Custodial Agreements

All securities purchased by and all collateral obtained by the Board will be properly designated as an asset of the Board and will be held by a third party custodial institution. No withdrawal of securities, in whole or in part, shall be made from safekeeping, except by an authorized staff member of the Board. Securities transactions between a broker-dealer and the custodian involving purchase or sale of securities by transfer of money or securities must be made on a "delivery vs. payment" basis, if applicable, to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction.

X. Bid Requirement

The Assistant Superintendent for Business Affairs shall determine the approximate maturity date based on the cash-flow needs and market conditions, analyze and select one or more optimal types of investments a minimum of three (3) reputable, qualified, and financially sound bands and/or dealers must be contracted and asked to provide bids/offers on securities in question. Bids/offers will be held in confidence until the highest quote is determined and awarded.

However, on an exception basis, securities may be purchased utilizing the comparison to current market price method. Acceptable current market price providers include, but are not limited to:

- a) Telerate Information System
- b) Bloomberg Information Systems,
- c) The Wall Street Journal or a comparable nationally recognized financial publication providing daily market pricing
- d) Daily market pricing provided by the District' custodian or their correspondent institutions.

The Investment Advisor, the Assistant Superintendent for Business Affairs or the Director of Finance shall utilize the competitive bid process to select the securities to be purchased or sold. Selection by comparison to a current market price, as indicated above, shall only be utilized when, in judgment of the Investment Advisor and the Assistant Superintendent for Business Affairs or the Director of Finance, competitive bidding would inhibit the selection process.

Examples of when this method may be used include:

- a) When time constraints due to unusual circumstances preclude the use of the competitive bidding process,
- b) When no active market exists for the issue being traded due to the age or depth of the issue.
- c) When a security is unique to a single dealer, for example, a private placement.
- d) When the transaction involves new issues or issues in the "when Issued" market.

XI. Internal Controls

The Assistant Superintendent for Business Affairs shall establish a system of internal controls which shall be in writing and made a part of the Board's operational procedures and subject to review during the Board's annual audit. The internal controls will be designated to prevent losses of funds which might arise from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of the Board.

XII. Continuing Education

The Assistant Superintendent for Business Affairs or/and the Director of Finance annually must complete 8 hours of continuing education in subjects or courses of study related to investment practices or products.