

Procedures for the Investment of District Funds

AP 3130

The investment portfolio shall be diversified within the parameters defined below:

Allowable Investment Instruments:

- Santa Clara County Commingled Fund — under the direction of the Santa Clara County Finance Agency and Treasury Department.
- Local Agency Investment Fund — under the direction of the State of California.
- Time certificates of deposit (CD's) not exceeding \$100,000 with a commercial institution that is also an active member of a Federal deposit insurance program.
- Secured (collateralized as defined under §53638 and 53652) time deposits exceeding \$100,000 shall be permitted when all of the following requirements have been met:
 - (i) *Pooled collateralization* — the commercial institution should be in good standing with the California State Collateral Pool which requires the commercial institution reserve a pool of funds securing the investment balance (typically 110% of the agencies investments).
 - (ii) *Profitability* — the commercial institution must have been profitable for the two most recently completed quarters.
 - (iii) *Rating* — the commercial institution shall be included in the top three ratings' categories by one of the nationally recognized rating services such as Moody's or Standard & Poor's (e.g., "A" or better).
- Unsecured (negotiable) time deposits shall be permitted with commercial institutions meeting the criteria as defined in the "secured deposits" section above and having assets in excess of one billion dollars (\$1,000,000,000). Furthermore, such institution shall provide the District annual financial statements as well as Federal Home Loan Bank "FHLB" reports (Form 107 or its equivalent).

Prior to purchasing negotiable time deposit investments, the Director shall certify in writing that the financial institution is in good standing and that the requirements above have been satisfied. Conversely, the Director shall have the ability to liquidate negotiable time deposit investments and/or remove an institution's eligibility that fails to meet the above guidelines.

Purchases of negotiable certificates of deposit may not exceed thirty percent (30%) of the District's invested funds.

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- Securities issued by, or an agency of, the United States Government guaranteed by the full-faith and credit of the United States Government.
- Commercial paper or notes of “prime” quality issued by corporations organized and operating within the United States, containing assets in excess of five hundred million dollars (\$500,000,000) and having a rating of “A” or higher on the issuer’s debt by Moody’s or Standard and Poor’s rating services.

Commercial paper shall be further limited to maturities not exceeding 180 days or more than ten percent (10%) of the outstanding paper from the issuing corporation. Additionally, such investments shall not exceed fifteen percent (15%) of the District’s invested funds; however, this limitation can be increased by fifteen percent (15%) if the dollar weighted average of such instruments does not exceed 30 days.

- Bills of exchange or time drafts drawn on and accepted by a commercial institution, otherwise known as Banker’s Acceptances, which are eligible for purchase by the Federal Reserve System. Investment in such securities requires current credit ratings of “A” or higher by Moody’s or Standard and Poor’s rating services. Additionally, these securities shall be guaranteed by the commercial institution. Moreover, the District should assess the financial stability of the institution prior to placing the investment. In ascertaining such stability, the District shall follow similar guidelines as previously defined in evaluating negotiable certificates of deposit.

Banker’s acceptances shall not exceed 270 days maturity or forty percent (40%) of the District’s invested funds. Furthermore, investments of this nature shall not exceed thirty percent (30%) of the District’s invested funds with any one commercial institution.

- Medium-term notes issued by corporations organized and operating within the United States, containing assets in excess of five hundred million dollars (\$500,000,000) and having a rating of “A” or higher on the issuer’s debt by Moody’s or Standard and Poor’s rating services.

Maturity of medium-term notes may not exceed two (2) years or ten percent (10%) of the District’s invested funds.

- Obligations which are legal investments of District monies under the laws of the State of California provided that if such investments are not fully insured or adequately collateralized that such investments will be issued by entities that are rated in the highest short-term or one of the two highest long-term rating categories by Moody’s or Standard and Poor’s rating services.
- Repurchase agreements exclusively consisting of United States Government obligations or an agency of the United States for a term not to exceed six (6)

months. Furthermore, the seller will provide a “book entry” or physically deliver the instrument to the District or its acting agent. The counterparty bank’s trust department is also considered sufficient delivery for the purposes of these transactions.

- Reverse repurchase agreements shall not be permitted as a means of enhancing yield or arbitrage but shall be allowed only as a short-term borrowing technique to supplement anticipated cash requirements.

Additional Requirements

Invested funds shall be maintained to ensure the following liquidity levels are available to meet current cash flow requirements:

- Short-term funds, available within five (5) business days or less, shall constitute a minimum of five percent (5%) of the portfolio; and
- The weighted average maturity of the portfolio shall not exceed 360 days.

Liquidity levels shall be calculated as of the purchase (trade) date.

Restrictions

Highly speculative investments, such as the futures or options markets.

Investments departing from the requirements specifically defined throughout this policy.

Activity contrary to §53600 of the Government Code of California.

Internal Controls

The District shall incorporate effective internal controls designed to prevent the loss or misappropriation of funds arising from fraud, employee error or imprudent action(s) or misrepresentation by a third party.

The District shall account for all investment transactions in accordance with Generally Accepted Accounting Principles (GAAP) and ensure all investments are properly recorded in the corresponding fund accounts to which they relate. Annually, the District shall have the internal and/or external auditor examine and evaluate the internal controls as they relate to the District’s investment practices and if deemed necessary, make recommendations to improve operating procedures and/or enhance internal controls.

Reporting

The legislature enacted SB 564 which requires local agencies such as the District to comply with the following conditions:

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- Local agencies, including school districts, are required to render an investment policy to the legislative body of the local agency for consideration at a public meeting.
- Schools are required to report any outside investments on a quarterly basis, no later than thirty days after the close of each fiscal quarter.

In accordance with the provisions above, the District shall prepare an investment report on a quarterly basis that provides the current status of District investments and a summary of investments within the District's portfolio. If applicable, the report will also highlight significant changes in market trends, adverse market conditions, legal modifications and recommended actions. At a minimum, the report will include the following information:

- Current yield on the portfolio and its performance against other common investments (e.g., Local Agency Investment Fund, Treasury Notes, etc.).
- List of individual securities by investment type and maturity date.
- Weighted average maturity of the portfolio.

The report will be prepared by the Controller and made available to the Chancellor, Director of Business Services and Internal Auditor and will be presented to the District's Audit and Finance Committee and Board of Trustees as an information item during a regularly scheduled public session.

See Board Policy 3130, "Investment of District Funds"

Reviewed 9/9/96; 8/16/99