

USE OF SURPLUS FUNDS

FILE: DFAA

TITLE: Investment of School Board Funds

POLICY:

- (1) Purpose of Investment Policy.

The purpose of this policy is to set forth the investment objectives and parameters of managing public funds for The School Board of Orange County, Florida ("Board"). This policy is designed to ensure prudent investment management and to provide liquidity as needed with competitive pricing and a market return on investment.

- (2) Scope of Investment Policy.

This policy applies to all funds held for the Board in excess of those required to meet current expenses. This investment policy shall not apply to pension funds or funds related to the issuance of debt where there are other existing policies or indentures in effect for such funds.

- (3) Goal.

The goal of the investment program, to the extent feasible, shall be to ensure that all of the public funds in possession of the Board are invested one hundred percent (100%) of the time in either interest-bearing accounts or in interest-bearing securities.

- (4) Investment Objectives.

The primary objectives for all investment activities for the Board shall be safety of principal, liquidity, and return of investment, in that order.

- (a) Safety of Principal. Safety is the foremost objective of this policy. Investment transactions shall seek to keep capital losses at a minimum, whether they are from securities defaults or erosion of market value. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
- (b) Maintenance of Liquidity. The portfolios shall be managed in such a manner that funds are available to meet reasonable anticipated cash flow requirements in an orderly manner. Periodical cash flow analyses will be completed in order to ensure that the portfolios are positioned to provide sufficient liquidity.
- (c) Return on Investment. Investment portfolios 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 least importance compared to the safety and liquidity objectives described above. The core of

investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

(5) Delegation of Authority.

In accordance with Board policy, the responsibility of the oversight and direction of the overall investment program resides with the Board's Chief Financial Officer. The Chief Financial Officer shall establish written procedures for the management of the investment program and a system of internal controls to regulate the cash management and investment activities. Responsibility to manage the Board's investment program is delegated to the Office of Management and Budget, specifically to the Director of Treasury Services as the Investment Officer. The Investment Officer shall act in accordance with the established written procedures and internal controls and shall maintain and update such procedures and internal controls as needed and approved.

(6) Standards of 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 the overall investment program. The 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 expectation are reported to the Chief Financial Officer in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy. The "prudent person" standard provides:

"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."

(7) Ethics and Conflicts of Interest.

Employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair their ability to make impartial investment decisions. Also, employees involved in the investment process shall disclose to the Superintendent or designee any material financial interests in financial institutions that conduct business with the Board, and they shall further disclose any material personal financial/investment positions that could be related to the performance of the Board's investment program.

(8) Internal Controls and Operational Procedures.

The Chief Financial Officer shall establish a system of internal controls and operational procedures that are designed to safeguard the Board's funds and ensure protection from loss, theft, or misuse. No person can engage in an investment transaction, except as provided under the terms of this policy and within established procedures. The Investment Officer shall be responsible for

investment transactions undertaken and shall monitor the internal controls to regulate the activities of subordinate individuals and to ensure compliance with the internal controls and operational procedures.

Internal controls for investments are subject to review by independent auditors as part of the annual financial audit.

(9) Continuing Education.

The Investment Officer directly responsible for daily investment activity and other appropriate staff, as designated by the Chief Financial Officer, shall annually complete a minimum of eight (8) hours of continuing education in subjects or courses related to investment practices and products.

(10) Authorized Investment Institutions and Dealers.

Any broker or dealer desiring to conduct securities transactions with the Board shall be required to submit a written response to the Board's broker/dealer questionnaire. The Investment Officer shall be responsible for reviewing such requests and determining whether the requesting firm is qualified to conduct securities transactions with the Board. In addition to the broker/dealer questionnaire, the Investment Officer may also use other publicly available information necessary to evaluate the qualifications of each broker or dealer.

(11) Maturity and Liquidity Requirements.

The maturity and liquidity characteristics of the investments in the Board's investment portfolio shall be structured to provide sufficient liquidity to meet obligations of the Board in a timely manner. The weighted average life of the investment portfolio shall not exceed five (5) years. The maturity and liquidity characteristics of the investment portfolio as a whole and of each individual security shall be in accordance with Investment Objectives and Standards of Prudence mentioned above.

(12) Competitive Selection of Investment Instruments.

After the Investment Officer has determined the approximate maturity date based on cash flow needs and market conditions and has analyzed and selected one or more optimal types of investments, a minimum of three (3) qualified banks and/or approved broker/dealers must be contacted and asked to provide bids/offers on securities in question. Bids will be held in confidence until the bid deemed to best meet the investment objectives is determined and selected.

Under certain conditions, competitive bidding may not be feasible or appropriate. Those conditions may include, but are not limited to, the following:

- (a) Investments in Money Market Funds and Local Government Investment Pools;
- (b) New issue Direct Obligations, Sponsored Agencies, or Federal Instrumentalities when all broker/dealers are at par;

- (c) When time constraints due to unusual circumstances preclude the use of the competitive bidding process;
- (d) When no active market exists for the issue being traded due to the age or depth of the issue; and/or
- (e) When a security is unique to a single dealer, for example, a private placement or when an instrument is written specifically for the Board.

Overnight sweep repurchase agreements will not be bid, but may be placed with the Board's depository bank relating to the demand account for which the repurchase agreement was purchased.

(13) Authorized Investments.

The investment portfolio shall be diversified to avoid over concentration in a specific maturity, issuer, instrument, dealer, financial institution, etc. Percentages listed are maximum percentages that should be invested in the overall portfolio at any time during the year. The Chief Financial Officer and the Investment Officer shall have the option to further restrict investment percentages from time to time based on market conditions, risk, and diversification investment strategies. Investments not listed in this policy are prohibited.

The following lists investments which are authorized by the Board:

- (a) Direct Obligations of the United States Treasury;
- (b) United States Government Sponsored Agencies or Federal Instrumentalities (no explicit government guarantee);
 - i. Government Sponsored Agencies
 - a. Federal Home Loan Mortgage Corporation (FHLMC);
 - b. Federal National Mortgage Association (FNMA);
 - c. Small Business Administration (SBA); and
 - d. Governmental National Mortgage Association (GNMA).
 - ii. Instrumentalities
 - a. Federal Farm Credit Bank (FFCB);
 - b. Federal Home Loan Bank (FHLB);
 - c. Investment in the Florida Prime Fund;
 - d. Investment in the Florida Special Purpose Investment Account as authorized by Section 17.61(1), Florida Statutes;

- e. Investment in the Florida Public Assets for Liquidity Management (FL PALM) Fund;
- f. Investment in the Florida Surplus Asset Fund Trust (FLSAFE);
- g. Investment in the Florida Cooperative Liquid Assets Securities System (FLCLASS) Fund;
- h. Certificates of Deposit or Savings Accounts. The Investment Officer may invest in non-negotiable interest-bearing time certificates of deposit or savings accounts in banks organized under the laws of this state and/or in national banks organized under the laws of the United States and doing business and situated in the state of Florida, provided that any such deposits are secured by the Florida Security for Public Deposits Act, Chapter 280, Florida Statutes.
- i. Repurchase Agreements. Secured repurchase agreements can be entered into only with qualified Florida public depositories or qualified principal dealers in U. S. Government Securities. Repurchase Agreements must be fully collateralized by direct obligations of the United States Treasury, United States Federal Agencies or United States Government Sponsored Agencies and Federal Instrumentalities with maturities under five (5) years and must have a market value for the principal and accrued interest of at least 102%.
- j. State and/or Local Government Taxable and/or Tax-Exempt Debt. The Investment Officer may invest in state and/or local government taxable and/or tax-exempt debt, general obligation and/or revenue bonds, with an unenhanced long-term rating in the "A" category by Moody's, S&P, Fitch, EJRB or DBRS. Each security must be rated by one of the five rating agencies and have a stable or positive outlook at the time of purchase or rated at least "MIG-1" by Moody's, "SP-1" by Standard & Poor's or F-1 by Fitch for short-term debt.
- k. Corporate Notes. The Investment Officer may invest in corporate notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States that have a minimum long term debt rating in the "A" category by Moody's, S&P, Fitch, EJRB or DBRS. Each security must be rated by one of the five rating agencies and have a stable or positive outlook at the time of purchase.
- l. Commercial Paper. The Investment Officer may invest in commercial paper of any United States company that is

rated, at the time of purchase, "P-1" by Moody's and "A-1" by Standard & Poor's (prime commercial paper).

- m. Money Market Funds and other Local Government Investment Pools. The Investment Officer may invest in shares in open-end, no-load funds provided such funds are registered under the Federal Investment Company Act of 1940 and operate in accordance with Title 17 Code of Federal Regulations, section 270.2a-7 or "2a-7 like" for the LGIP(s) which stipulates that money market funds must have an average weighted maturity of sixty (60) days or less and be AAA rated. The prospectus of the funds will indicate that the share value shall not fluctuate.

(14) Portfolio Composition, Investment Parameters Sector Allocation.

(a)	Direct Obligations of the U. S Treasury	100%
(b)	U. S. Government Sponsored Agencies (Federal Instrumentalities)	80%
(c)	Florida Prime Fund	100%
(d)	Florida Special Purpose Investment Account	100%
(e)	Florida Public Assets for Liquidity Management Fund	100%
(f)	Florida Surplus Assets Fund Trust	100%
(g)	Florida Cooperative Liquid Assets Securities System Fund	100%
(h)	Certificates of Deposit and Savings Accounts	100%
(i)	Repurchase Agreement, fully collateralized by Direct Obligations of U.S. Government Securities	30%
	• Maximum Maturity: 5 years	
(j)	State and/or Local Govt. Taxable or Tax-Exempt Debt	20%
(k)	Corporate Notes	20%
(l)	Commercial Paper	30%
	• Maximum Maturity: 270 days	
(m)	Money Market Funds and other Local Government Investment Pools	100%

(15) Derivatives and Reverse Repurchase Agreements.

Investment in any derivative products or the use of reverse repurchase agreements requires specific Board approval prior to their use. If the Board approves the use of derivative products, the Investment Officer shall develop

sufficient understanding of the derivative products and have the expertise to manage them. A "derivative" is defined as a financial instrument the value of which depends on, or is derived from, the value of one or more underlying assets or indices or asset values. If the Board approves the use of reverse repurchase agreements or other forms of leverage, the investment shall be limited to transactions in which the proceeds are intended to provide liquidity and for which the Investment Officer has sufficient resources and expertise to manage them.

(16) Safekeeping and Third Party Custody of Investments.

- (a) All securities, with the exception of certificates of deposits, Local Government Investment Pools (LGIP's) and Money Market accounts shall be held with a third party custodian; and all securities purchased by, and all collateral obtained by the district shall be properly designated as an asset of the district. The securities must be held in an account separate and apart from the assets of the financial institution. The custodian shall accept transaction instructions only from those persons who have been duly authorized by the Superintendent or designee in writing. No withdrawal of securities, in whole or in part, shall be made from safekeeping, or shall be permitted unless by such a duly authorized person.
- (b) The Superintendent or designee shall execute all third party custodial agreement(s). Such agreements may include letters of authority from the Board, details as to the responsibilities of each party, method of notification of security purchases, sales and delivery, procedures related to repurchase agreements and wire transfers, safekeeping and transaction costs, procedures in case of wire failure or other unforeseen mishaps and describing the liability of each party.
- (c) The custodian shall provide the Board with safekeeping receipts that provide detail information on the securities held by the custodian. Security transactions between a broker/dealer and the custodian involving the 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. Securities held as collateral shall be held free.

(17) Electronic Transfer of Funds.

Board funds may be moved into, out of, and between any Board account by electronic means, including wire, ACH, or any other method as may be developed and put into practice by financial institutions for the purposes of transferring money between accounts or between financial institutions. All electronic transfers of funds no matter which method is used, should use dual control measures.

The Investment Officer or designee will execute electronic transfers of funds through qualified financial institutions as evidenced by the Qualified Public Depository designation from the State of Florida. The Investment Officer shall properly account for such transactions in the Board's general ledger system.

- (a) Wires.
 - i. Wires between Board accounts can be initiated and approved by the Investment Officer or designee.
 - ii. Repetitive templates of wire instructions to non-Board accounts shall be established by the Investment Officer, using software provided by the Board's financial institution. The Investment Officer or designee can approve such wires. The Chief Financial Officer shall approve all repetitive and non-repetitive wire templates.
- (b) ACH Transactions.
 - i. Authorized Board vendors will be paid only via ACH Credit transactions. An ACH Credit transaction is where money is sent from a Board account to the Board vendors' appropriate bank account.
 - ii. ACH Credit transactions shall have a template approved by the Chief Financial Officer for the Investment Officer or designee to process the transaction from.
 - iii. ACH Debit transactions are authorized. An ACH Debit transaction is where money is retrieved from a Board account by the vendor's financial institution. The vendors associated with ACH debits are approved by the Chief Financial Officer and kept on file with the Investment Officer.
 - iv. Authorized Board vendors to be paid via ACH will be set up to receive such payments in the Board's general ledger system by accounts payable personnel.
 - v. Payment of employees' wages via direct deposit will comply with procedures established by the payroll department.
- (c) Other Electronic Funds Transfer Transaction Types.
 - i. Other electronic funds transfer transactions, through either an established method or any method that may be developed in the future are permitted, so long as such transactions are structured so that dual control approval measures can be adhered to and that the Chief Financial Officer approves a template for the transaction to take place.
 - ii. Emergency procedures, if they arise, should still follow the dual control approval measures; however, if the Chief Financial Officer is not available to approve the template(s), the Senior Director of Finance, the Senior Director, Office of Management & Budget, or designee can approve them.
- (d) Electronic Signatures.

In accordance with Section 668.003, Florida Statutes, “electronic signature” means “any letters, characters, or symbols, manifested by electronic or similar means, executed or adopted by a party with an intent to authenticate a writing. A writing is electronically signed if an electronic signature is logically associated with such writing.” This general criterion will be addressed in the internal controls for cash management.

(18) Reporting.

- (a) The Investment Officer shall provide the Finance Department timely transaction data as necessary to record and document investment activity.
- (b) On a quarterly basis, the Investment Officer shall prepare and submit to the Board a written report on all invested funds. The quarterly report shall provide, but shall not be limited to, the following: a complete list of all invested funds, name or type of security in which the funds are invested, the amount invested, maturity date, the book value, the market value, and the yield on each investment.
- (c) The Board will use “benchmarking” as a means of evaluating the portfolio performance on a quarterly basis. Benchmarking is the method of setting a standard average rate of return for comparable investments with similar credit, market, and liquidity risks.

SPECIFIC AUTHORITY: Sections 218.415; 668.003; 1001.41; 1001.42, Florida Statutes

Rule 6A-1.0012, Florida Administrative Code

ADOPTED: 1/12/10

REVISED: 5/27/14; 3/14/17; 6/14/2022, 9/26/2023