CASH AND INVESTMENT POLICY

I. OBJECTIVE

The primary objectives, in priority order, of investment activities shall be:

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.

1. Credit Risk

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

   a. Limiting investments to the safest types of securities;
   b. Pre–qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which an entity will do business; and
   c. Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

2. 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:

   a. 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
   b. 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. 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 least 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:

1. a declining credit security could be sold early to minimize loss of principal;
2. a security swap would improve the quality, yield, or target duration in the portfolio; or
3. liquidity needs of the portfolio require that the security be sold.

II. 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.

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 any personal financial/investment positions that could be related to the performance of the investment portfolio.

C. Delegation of Authority

Authority to manage the investment program is granted to the Assistant Superintendent of Finance. Responsibility for the operation of the investment program is hereby delegated to the Director of Finance, who shall carry out 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, collateral/depository agreements and banking services contracts. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Assistant Superintendent of Finance. The Director of Finance shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate staff.

D. Liquidation of Investments When Safety or Liquidity is in Question

School Board management is authorized to take all steps necessary to avoid possible loss of principal, interest or a reduction in liquidity of any investment made with public funds.

III. SAFEKEEPING AND CUSTODY

A. Internal Controls

The Director of Finance is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity 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 judgements by management.

Accordingly, the Assistant Superintendent of Finance shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

1. Control of Collusion. Collusion is a situation where two or more employees are working in conjunction to defraud their employer.

2. Separation of Transaction Authority From Accounting and Record Keeping. By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.

3. Custodial Safekeeping. Securities purchased from any bank or dealer including appropriate collateral (as defined by State Law) shall be placed with an independent third party for custodial safekeeping.

4. Avoidance of Physical Delivery Securities. Book entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential of fraud and loss increases with physically delivered securities.

5. Clear Delegation of Authority to Subordinate Staff Members. Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.

6. Written Confirmation or Telephone Transactions for Investments and Wire Transfers. Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and the safekeeping institution has a list of authorized signatures.

7. Development of a Wire Transfer Agreement With the Lead Bank or Third Party Custodian. This agreement should outline the various controls, security provisions, and delineate responsibilities of each party making and receiving wire transfers.

B. Delivery vs Payment

All trades where applicable will be executed by delivery vs. Payment (DVP). This ensures that securities are deposited in the eligible financial institution prior to the release of funds. Securities will be held by a third party custodian as evidenced by safekeeping receipts.

IV. SUITABLE AND AUTHORIZED INVESTMENTS

A. Investment Types

Investments shall not be made in derivative security investments. All investments shall only be in securities that are allowed under prevailing State law. These can include:

(a) Direct United States Treasury obligations, the principal and interest of which are fully guaranteed by the government of the United States.

(b)(i) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by federal agencies and provided such obligations are backed by the full faith and credit of the United States of America, which obligations include but are not limited to (1) U.S. Export–Import Bank; (2) Farmers Home Administration; (3) Federal Financing Bank; (4) Federal Housing Administration Debentures; (5) General Services Administration; (6) Government National Mortgage Association – guaranteed mortgage–backed bonds and guaranteed pass–through obligations; (7) U.S. Maritime Administration – guaranteed Title XI financing; and (8) U.S. Department of Housing and Urban Development.

(b)(ii) Bonds, debentures, notes, or other evidence of indebtedness issued or guaranteed by U.S. government instrumentalities, which are federally sponsored, and such obligations include but are not limited to (1) Federal Home Loan Bank System; (2) Federal Home Loan Mortgage Corporation; (3) Federal National Mortgage Association; (4) Student Loan Marketing Association; and (5) Resolution Funding Corporation.

(b)(iii) Notwithstanding the forgoing list of investments, in no instance shall the Lafayette Parish School Board invest in obligations described in (1) and (ii) of the Subsection which are (a) collateralized mortgage obligations that have been stripped into interest only or principal only obligations, (b) inverse floaters, or (c) structured notes. For the purposes of this Section "structured notes" shall mean securities of U.S. government agencies, instrumentalities, or government–sponsored enterprises which have been restructured, modified, and/or reissued by private entities.

(c) Direct security repurchase agreements of any federal book entry only securities enumerated in Subparagraphs (a) and (b). "Direct security repurchase agreement" means an agreement under which the political subdivision buys, holds for a specified time, and then sells back those securities and obligations enumerated in Subparagraphs (a) and (b).

(d) Time certificates of deposit of state banks organized under the laws of Louisiana, or national banks having their principal offices in the state of Louisiana, savings accounts or shares of savings and loan associations and savings banks, or share accounts and share certificate accounts of federally or state chartered credit unions issuing time certificates of deposit.

(e) Guaranteed investment contracts issued by a bank, financial institution, insurance company, or other entity having one of the two highest short–term rating categories of either Standard & Poor's Corporation or Moody's Investors Service, provided that no such investment may be made except in connection with a financing program for political subdivisions which financing program is approved by the State Bond Commission and offered by a public trust having the state as its beneficiary, provided further that no such investment shall be for a term longer than eighteen months, and provided further that any such guaranteed investment contract shall contain a provision providing that in the event the issuer of the guaranteed investment contract is at any time no longer rated in either of the two highest short–term rating categories of Standard & Poor's Corporation or Moody's Investors Service, the investing unit of local government may either be released from the guaranteed investment contract without penalty, or be entitled to require that the guaranteed investment provider collateralize the guaranteed investment contract with any bonds or other obligations which as to principal and interest constitute direct general obligations of, or are unconditionally guaranteed by, the United States of America, including obligations set forth in Subparagraphs (a) and (b) to the extent unconditionally guaranteed by the United States of America.

B. Collateralization

Funds invested in accordance with the provisions of R.S. 33:2955(A)(1)(d) shall not exceed at any time the amount insured by the Federal Deposit Insurance Corporation in any one banking institution, or in any one savings and loan association, or National Credit Union Administration, unless the uninsured portion is collateralized by the pledge of securities in the manner provided in R.S. 39:1221.

C. Repurchase Agreements

Any repurchase agreements should include appropriate supplemental provisions regarding delivery, substitution, margin maintenance, margin amounts, seller representative and governing law.

V. INVESTMENT PARAMETERS

A. Diversification

As much as is feasible the investments will be sufficiently diversified by security type and institution.

B. Maximum Maturities

The Lafayette Parish School Board should limit their maximum final stated maturities to one year unless specific authority is given to exceed. To the extent possible, the Lafayette Parish School Board will attempt to match its investments with anticipated cash flow requirements.

VI. REPORTING

A. Methods

The Director of Finance shall prepare an investment report at least quarterly, including a succinct management summary that provides a clear picture 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 Board to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will include the following:

1. A listing of individual securities held at the end of the reporting period.

2. Listing of investment by maturity date

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