## **2.14 Investment Policy**

The Board of KC International Academy adopts the following policy which shall be effective on the date that the policy is adopted by the Board.

**2.14.1. Scope**

This policy applies to the investment of all operating funds of KC International Academy.

Pooling of Funds

Except for cash in certain restricted and special funds, the KC International Academy will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

External Management of Funds

Investment through external programs, facilities and professionals operating in a manner consistent with this policy will constitute compliance.

**2.14.2. General Objectives**

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

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.

The KC International Academy will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

* Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which KC International Academy will do business.
* Diversifying the portfolio so that potential losses on individual securities will be minimized.

The KC International Academy will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:

* 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.
* Investing operating funds primarily in shorter-term securities.

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).

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 secondary 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. Securities shall not be sold prior to maturity with the following exceptions:

* A security with declining credit may be sold early to minimize loss of principal.
* A security swap would improve the quality, yield, or target duration in the portfolio.
* Liquidity needs of the portfolio require that the security be sold.

**2.14.3. Standards of Care**

Prudence

All participants in the investment process shall act responsibly as custodians of the public trust. The standard of prudence to be applied is the “prudent investor” rule, which states, “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.”

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. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of the KC International Academy.

Delegation of Authority

Authority to manage the investment program is granted to the Superintendent and/or any duly authorized external professional, hereinafter referred to as investment officer, and derived from the Missouri Constitution and state statutes. Responsibility for the operation of the investment program is hereby delegated to the investment officer, who shall act in accordance with the 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, and collateral/ depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the investment officer. The investment officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

**2.14.4. Investment Transactions**

Authorized Financial Dealers and Institutions

A list will be maintained of financial institutions authorized to provide investment transactions. In addition, a list will also be maintained of approved security broker/dealers selected by creditworthiness as determined by the investment officer and approved by the governing body. These may include “primary” dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

* Audited financial statements.
* Proof of National Association of Securities Dealers (NASD) certification.
* Proof of state registration.
* Completed broker/dealer questionnaire.
* Certification of having read, understood and agreed.

An annual review of the financial condition and registration of qualified financial institutions and broker/dealers will be conducted by the investment officer.

Internal Controls

The investment officer/internal auditor/director of accounting is responsible for establishing and maintaining an internal control structure that will be reviewed annually with KC International Academy’s independent auditor. The internal control structure shall be designed to ensure that the assets of KC International Academy are protected from loss, theft, or misuse and to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits require estimates and judgments by management.

The internal controls shall address the following points:

* Control of collusion.
* Separation of transaction authority from accounting and record keeping.
* Custodial safekeeping.
* Avoidance of physical delivery securities.
* Clear delegation of authority to subordinate staff members.
* Written confirmation of transactions for investments and wire transfers.
* Development of a wire transfer agreement with the lead bank and third party custodian.

Delivery vs. Payment

All trades where applicable will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in eligible financial institutions prior to the release of funds. All securities shall be perfected in the name or for the account of the [school] and shall be held by a third-party custodian as evidenced by safekeeping receipts.

Suitable and Authorized Investments

In accordance with and subject to restrictions imposed by current statutes, the following list represents the entire range of investments that KC International Academy will consider and which shall be authorized for the investments of funds by the KC International Academy.

* Open time deposits or certificates of deposit secured under the provisions of sections 110.010 and 110.020, RSMo;
* Bonds, redeemable at maturity at par, of the state of Missouri, of the United States, or of any wholly owned corporation of the United States;
* Short term obligations of the United States; or
* Any instrument permitted by law for the investment of state moneys.

**2.14.5. Investment Parameters**

Diversification

The investments shall be diversified to minimize the risk of loss resulting from over concentration of assets in specific maturity, specific issuer, or specific class of securities. Diversification strategies shall be established and periodically reviewed. At a minimum, diversification standards by security type and issuer shall be:

* U.S. treasuries and securities having principal and/or
* interest guaranteed by the U.S. government: 100%
* Collateralized time and demand deposits: 100%
* U.S. Government agencies, and government sponsored enterprises: No more than 60%
* Collateralized repurchase agreements: 50%
* U.S. Government agency callable securities: No more than 30%

Maximum Maturities

To the extent possible, KC International Academy shall attempt to match its investments with anticipated cash flow requirements. Investments shall mature and become payable not more than five (5) years from the date of purchase. The [school] shall adopt weighted average maturity limitations that should not exceed three (3) years and are consistent with the investment objectives Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as in bank deposits or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

**2.14.6 Reporting**

Methods

The investment officer shall prepare an investment report at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner that will allow the [school] to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the governing body of KC International Academy. The report will include the following:

* Listing of individual securities held at the end of the reporting period.
* Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration (in accordance with Government Accounting Standards Board (GASB) 31 requirements). [Note, this is only required annually]
* Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.
* Listing of investment by maturity date.
* Percentage of the total portfolio which each type of investment represents.

Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks may be established against which portfolio performance shall be compared on a regular basis.

Marking to Market

The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least annually to the governing body of KC International Academy. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed.

**2.14.7. Policy Considerations Exemption**

Any investment currently held that does not meet the guidelines of this policy shall be exempt from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

This policy shall be adopted by resolution of KC International Academy’s governing body. The policy shall be reviewed annually by the investment officer and recommended changes will be presented to the governing body for consideration.