INVESTMENT OF SURPLUS FUNDS

PURPOSE
The purpose of this Policy is to set forth the investment objectives and parameters for the management of public funds of the Adrian Public School District. This investment policy is designed to safeguard funds on behalf of the District, to assure the availability of operating and capital funds when needed, and provide an investment return competitive with comparable funds and financial market indices.

Frequently there will be a cash balance in various school district funds, which though allocated for a specific use, is temporarily not needed.

SCOPE
In accordance with The Revised School Code of Michigan, Act 451 380.622, 380.1221, and 380.1223, this investment policy applies to all cash and investments held or controlled by the Board on behalf of the District. This policy does not apply to funds related to the issuance of debt where there are other indentures in effect for such funds. Additionally, any future revenues, which have statutory investment requirements conflicting with this Investment Policy and funds held or controlled by Federal or State agencies (e.g., Department of Revenue), are not subject to the provisions of this policy.

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

A. Safety of Principal. The foremost objective of this investment program is the safety of the principal of funds. Investment transactions shall be undertaken in a manner to ensure the preservation of capital in the overall portfolio. The objective will be to minimize credit risk and interest rate risk.

1. Credit Risk. (Custodial Credit Risk and Concentration Credit Risk) The District will minimize Concentration of Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in this Investment Policy; and prequalifying the financial institutions, broker/dealers, intermediaries, and advisors with which the District will do business in accordance with this Investment Policy.
The District will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

2. **Investment Rate Risk.** The District will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market 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 in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

3. **Foreign Currency Risk.** The District is not authorized to invest in investments that have this type of risk.

B. **Maintenance of Liquidity.** The funds shall be managed such that they are available to meet reasonably anticipated cash flow requirements.

C. **Yield/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. It is understood that return on investment is of secondary importance when compared to the safety and liquidity objectives described above.

**MANAGEMENT OF INVESTMENTS**
The Board of Education shall annually pass a resolution authorizing the superintendent and/or his designee to invest district surplus funds. The superintendent and/or designee shall be responsible to maximize the interest earnings for the school district, and thereby be known as the “Investment Officer”.

**STANDARDS OF PRUDENCE**
The standard of prudence to be used by the Investment Officer shall be the “Prudent Person” standard and shall be applied in the context of managing the overall investment program. The Prudent Person standard 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 from the investment.”
ETHICS AND CONFLICTS OF INTEREST

The Investment Officer shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair one’s ability to make impartial investment decisions. Also, the Investment Officer shall disclose to the Board any material financial interests in Qualified Institutions that conduct business with the Board or the District, and they shall further disclose any material personal financial/investment positions that could be related to the performance of the District’s investment program.

AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS

Only firms meeting one of the following requirements shall be eligible to serve as Authorized Institutions:

A. The firm must comply with all of the following requirements:
   i. Primary and regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule);
   ii. Capital no less than $10,000,000;
   iii. Registered as dealer under the Securities Exchange Act of 1934;
   iv. A member of the National Association of Securities Dealers (NASD);
   v. Registered to sell securities in Michigan; and
   vi. The firm and assigned broker have been engaged in the business of effecting transactions in U.S. government and agency obligations for at least five (5) consecutive years; or,


All brokers, dealers and other financial institutions deemed to be Authorized Institutions shall be provided with current copies of this investment policy and shall provide in return to the Board, certification of having read, understood and agreement to comply with this investment policy.

COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS

The Investment Officer shall obtain bids from at least two (2) brokers or financial institutions on all purchases of investment instruments on the secondary market. Overnight sweep investment instruments shall not be subject to this section.
AUTHORIZED INVESTMENTS AND PORTFOLIO COMPOSITION
Investment and Depositories are restricted to those complying with MCL 380.622, 380.1221, and 380.1223. These include:

A. Bonds, bills, or notes (other than Treasury Notes) of the United States or obligations the principal and interest of which are fully guaranteed by the United States Government, or obligations of the state.
B. Certificates of Deposit issues by any state or national bank savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in Michigan.
C. Commercial paper rated prime at the time of purchase and maturing not more than 270 days from the date of purchase.
D. Securities issued or guaranteed by agencies or instrumentalities of the United States Government.
E. Bankers’ Acceptance Notes issued by a bank that is a member of the federal deposit insurance corporation.
F. Mutual funds composed entirely of investment vehicles that are legal for direct investment by school districts.
G. Investment pools as authorized by the Surplus Investment Pool Act No 367 of Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, provided such pools are composed entirely of instruments that are legal for direct investment by a school district.

Note that although state law permits investments in commercial paper as noted in item (C) above, such investments are prohibited under this policy.

The board also authorizes the superintendent or his/her designee to open passbook savings accounts for general fund monies to earn interest while not being used for operating purposes or invested otherwise. Such account shall be used for operating purposes or invested otherwise. Such account shall be used when the cash flow pattern does not permit the purchases of longer-term investments or when the rate of return is comparable or greater than is available from other investments.

Funds shall not be commingled for the purpose of investment unless authorized by a specific resolution of the Board as permitted by law.

Interest from investments shall accrue to the fund from which the investment was made as determined by the board and permitted by law and provided in the board policy.

The superintendent or his/her designee shall assume the responsibility of developing cash flow patterns for all funds in order to determine the availability of funds for investment.
POLICY CONSIDERATIONS

A. Any investment held at the time of the implementation of this policy that meets the requirements of MCL 380.622, 380.1221, and 380.1223 but does not meet the guidelines of this policy, shall by exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

B. Amendments. This policy shall be reviewed from time to time. The District Board of Education must adopt any changes to this policy.


Policy Adopted: March 15, 1982
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August 2, 2004
February 6, 2006