

Section 3000 – Fiscal Management

3300 Investment of Funds

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Section 1. PURPOSE.

The purpose of this policy is to set forth the investment objectives and parameters for the management of public funds of the Grand Rapids Public Schools. 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.

Section 2. 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.

Section 3. 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.

Credit Risk (Custodial Credit Risk and Concentration Credit Risk)

The District will minimize Custodial 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 Section 9 of this Investment Policy; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which

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the District will do business in accordance with Section 7 of this Investment Policy. All securities purchased by the District shall be properly designated an asset of Grand Rapids Public Schools and held in safekeeping by an independent third-party custodian bank in the District's name.

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. The District will minimize the risk in placing a large portion of the portfolio with a single security issuer by limiting the exposure to 5% of the total portfolio at the time of purchase. This requirement does not apply to investments issued by the U.S. government or its agencies or instrumentalities, investments in mutual funds, and highly rated investment pools.

The percentage of the overall portfolio to be invested in certificates of deposit, commercial paper, repurchase agreements, bankers' acceptances, or municipal bonds shall be limited to a maximum of 50% for each security type.

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 by 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. All investments must mature or be redeemable within 5 years of the date of purchase. This requirement applies to all investments except for Federal Agency mortgage-backed securities. Federal Agency mortgage-backed securities will be limited to a weighted average life ("WAL") of five years.

Foreign Currency Risk

The District is not authorized to invest in investments which have this type of risk.

B. Maintenance of Liquidity.

The funds shall be managed such that they are available to meet
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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.

Section 4. MANAGEMENT OF INVESTMENTS.

The Board shall designate the Chief Financial Officer of the District as the Investment Officer to oversee the day-to-day management of District investments. The Investment Officer shall be responsible for the transferring of appropriate funds to effect investment transactions, for the investment of operating funds, operating reserves funds, and bond proceeds, consistent with this policy and actions of the Board. Should the Board elect to select an outside investment advisor, such advisor or firm must be registered under the Investment Advisor's Act of 1940.

Section 5. 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."

Section 6. 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. In addition, 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

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personal financial/investment positions that could be related to the performance of the District's investment program.

Section 7. 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.
- Primary and regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule);
 - Capital of no less than \$10,000,000;
 - Registered as a dealer under the Securities Exchange Act of 1934;
 - A member of the Financial Industry Regulatory Authority (FINRA);
 - Registered to sell securities in Michigan; and
 - 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.
- B. Public Depositories qualified in accordance with MCL 380.1221, The Revised School Code of Michigan.

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.

Section 8. 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.

Section 9. AUTHORIZED INVESTMENTS AND PORTFOLIO COMPOSITION.

Investments and Depositories are restricted to those complying with MCL 380.622, 380.1221 and 380.1223. These include:

- United States Government Securities.

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- United States Government Agencies.
- Federal Instrumentalities (United States Government-Sponsored Enterprises).
- Certificates of Deposit.
- Repurchase Agreements in which the underlying U.S. Treasury and/or Federal Agency securities that make up the repurchase agreement collateral must have a market value of at least 102% of the amount of the initial purchase.
- Commercial Paper rated at the time of purchase in the two highest classifications by a nationally recognized credit rating agency.
- Bankers' Acceptances rated at the time of purchase in the two highest classifications by a nationally recognized credit rating agency.
- Registered Investment Companies (Money Market Mutual Funds).
- Investment pools, as authorized by the surplus funds investment pool act, 1982PA 367, MCL 129.111 to 129.118, composed entirely of instruments that are legal for direct investment by a school District.
- Obligations of the State of Michigan
- CDARS: certificates of deposit and/or cash sweep through Certificate of Deposit Account Registry Services (CDARS).

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 be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

Reporting

The Investment Officer shall submit a quarterly investment report that provides a clear picture of the status of the current investment portfolio. Schedules in the quarterly report should include the following: (i) a listing of individual securities held at the end of the reporting period by authorized investment category; (ii) average life and final maturity of all investments listed; (iii) coupon, discount, or earnings rate; (iv) par value and market value; (v) percentage of portfolio represented by each investment category.

Amendments

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

Approved: June 29, 2009

Revised: March, 14, 2016

LEGAL REF: MCL 380.622; 380.1221; 380.1223; GASB Bulletin 40