

## BUSINESS

## INVESTMENTS

### Policy

It is the policy of the Rochester Community Schools to invest public funds in a manner that will provide the highest investment return with minimal asset risk. Investments will be made accordingly to ensure that the daily cash flow demands of the district are met and will conform to all State of Michigan and local statutes governing the investment of public funds. Appendix B contains an excerpt of *The Revised School Code* that addresses school district investments.

### Scope

This investment policy applies to all financial assets of the district. These funds are accounted for in the district's annual Report on Financial Statements and include:

- General Fund
- Capital Projects Funds
- Special Revenue Funds
- Trust and Agency Funds
- Debt Retirement Funds.

The district has a defined benefit pension plan covering substantially all employees. The plan is operated by the State of Michigan's Public School Employees Retirement System, which is a cost sharing public employee retirement system and is not under district control.

### Prudence

The investments of district funds shall be made with judgement and care. The standard of prudence to be used by investment officials shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and, exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes. Deviations from expectations shall be reported on a timely basis and appropriate action shall be taken to control adverse developments.

### Objectives

The district's investment activity objectives, in priority order, are for the safety, liquidity, and return on its investments. The safety of principal is the primary objective of the investment program. Investments of the Rochester Community Schools shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the district will diversify its investments by investing funds among a variety of financial institutions and securities offering returns at market levels.

The investment program will also be designed to ensure that the district's investment portfolio remains sufficiently liquid to enable the district to meet all of its operating requirements that might be reasonably anticipated. Additionally, the investment portfolio will be designed within the investment risk constraints and cash flow requirements to attain a benchmark rate of return throughout budgetary and economic cycles.

#### Delegation of Authority

The Superintendent or his designee shall serve as the agent of the Board Treasurer and shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials and their procedures in the absence of the Superintendent or his designee. The Superintendent or his designee shall establish written investment policy procedures for the operation of the investment program consistent with this policy. The procedures shall include reference to safekeeping, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Superintendent or his designee.

#### Ethics and Conflicts of Interest

Members of the Rochester Community Schools organization play an important role in the District's financial operations and have responsibility for the accurate and reliable preparation and maintenance of the District's financial records and for adhering to established internal control procedures designed to safeguard District assets including cash. Members of the organization fulfill this responsibility by observing lawful, honest, and ethical practices in the conduct of the District's business and financial affairs.

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Board any material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal financial or investment positions that could be related to the performance of the district.

#### Authorized Financial Dealers and Institutions

The Superintendent or his designee will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment services in the State of Michigan. These may include primary or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by state laws. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the district with the following:

- Audited financial statements
- Proof of National Association of Security Dealers certification
- Trading resolution

- Proof of registration with the State of Michigan
- Certification of having read the district's investment policy and depository contracts.

An annual review of the financial condition and registrations of qualified bidders will be conducted by the district. A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the district invests.

### Authorized and Suitable Investments

The district is empowered by statute to invest in the following types of securities:

- Bonds, bills, or notes of the United States, obligations, the principal and interest of which are fully guaranteed by the United States, or obligations of the state. In a primary or fourth class school district, the bonds, bills, or notes shall be payable, at the option of the holder, upon not more than 90 day's notice, or if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- Certification of deposit issued by any state or national bank or savings accounts of any state or federal savings and loan organized and authorized to do business in the state of Michigan. The savings and loan must have total assets in excess of \$500 million to be considered.
- Commercial paper rated in the D-1 category of Duff & Phelps Credit Rating Company and/or in the F-1 category of Fitch Investor's Service, Inc., and/or in the P-1 category of Moody's Investors Service, Inc., and/or in the A-1 category of Standard & Poor's Corporation with maturity dates not more than 270 days after the date of purchase.
- Surplus investment pools as authorized under Public Act 367, 1982 composed of investment vehicles that are legal for direct investment by school districts.
- Securities issued or guaranteed by agencies or instrumentalities of the United States government.
- Banker's acceptances issued by a bank that is a member of the federal deposit insurance corporation
- Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.

### Investment Pools

A thorough investigation of surplus investment pools is required prior to investing, and on a continual basis. There shall be a document developed which will address the following general topics:

- A description of eligible investment securities, and a written statement of investment policy and objectives.
- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
- A description of who may invest in the program, how often, what size deposit and withdrawal that are allowed.
- A schedule for receiving statements and portfolio listings.
- Does the pool utilize reserves, retained earnings, etc.?
- A fee schedule, and when and how it is assessed.
- Is the pool eligible for bond proceeds and/or will it accept such proceeds?

### Collateralization

Collateralization of school district funds is not required. This is consistent with Michigan statute.

### Safekeeping and Custody

All security transactions entered into by the district shall be conducted on a delivery-versus-payment basis. Securities will be held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts.

### Diversification

The district will diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the district's total investment portfolio will be invested in a single security type or with a single financial institution. The total amount invested in any single commercial paper issuer will not exceed \$1.5 million.

### Maximum Maturities

To the extent possible, the district will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the district will not directly invest in securities maturing more than 270 days after the purchase date. Reserve funds may be invested in securities not to exceed five years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

### Internal Control

The Superintendent or his designee shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

## Performance Standards

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and cash flow needs. The district's investment strategy is passive. Given this strategy, the basis used by the district to benchmark portfolio yields shall be the U.S. Treasury rate with similar maturity characteristics.

## Reporting

The Superintendent or his designee shall provide the Board of Education quarterly investment reports in order to provide a clear picture of the status of the current investment portfolio. The management report will include comments on the fixed income markets and economic conditions, discussions regarding restrictions on percentage of investment by categories, possible changes in the portfolio structure going forward and thoughts on investment strategies. Schedules in the annual report may include:

- A listing of individual securities held at the end of the reporting period by authorized investment category
- Average life and final maturity of all investments listed
- Coupon, Discount or earnings rate
- Par value, Amortized Book Value and Market Value
- Percentage of the Portfolio represented by each investment category
- Comparison of actual earnings to benchmarks

## Investment Policy Adoption

The district's investment policy shall be adopted by resolution of the Board of Education. The policy shall be reviewed periodically by the Board of Education. The Board must approve any modifications made thereto.

## Glossary

A glossary of related terminology is attached as Appendix B and is part of this policy.

Appendix A  
**THE REVISED SCHOOL CODE**  
**Act 451 of 1976**  
**(Excerpt)**

**380.1223 Investment of funds; authorization; restrictions; deposit of obligations; commingling prohibited; exceptions; earnings; deposit of funds accumulated under deferred compensation program; security; limitation on deposit or investment of additional funds; “deposit” and “financial institution” defined.**

Sec. 1223. (1) If authorized by resolution of the board of a school district, the treasurer may invest debt retirement funds, building and site funds, building and site sinking funds, or general funds of the district. The investment shall be made subject to subsection (7) and shall be restricted to the following:

- a. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the state. In a primary or fourth class school district, the bonds, bills, or notes shall be payable, at the option of the holder, upon not more than 90 days' notice, or if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- b. Certificates of deposit issued by a financial institution or share certificates of a state or federal credit union that is a financial institution.
- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
- e. United States government or federal agency obligation repurchase agreements.
- f. Bankers' acceptances issued by a bank that is a member of the federal deposit insurance corporation.
- g. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- h. Investment pools, as authorized by the surplus funds investment pool act, 1982 PA 367, MCL 129.111 to 129.118, composed entirely of instruments that are legal for direct investment by a school district.
- i. Certificates of deposit issued in accordance with the following conditions:
  - i. The funds are initially invested through a financial institution that is not ineligible to be a depository of surplus funds belonging to this state under section 6 of 1855 PA 105, MCL 21.146.
  - ii. The financial institution arranges for the investment of the funds in certificates of deposit in 1 or more insured depository institutions, as defined in 12 USC 1813, or 1 or more insured credit unions, as defined in 12 USC 1752, for the account of the school district.
  - iii. The full amount of the principal and any accrued interest of each certificate of deposit is insured by an agency of the United States.

- iv. The financial institution acts as custodian for the school district with respect to each certificate of deposit.
  - v. At the same time that the funds of the school district are deposited and the certificate or certificates of deposit are issued, the financial institution receives an amount of deposits from customers of other insured depository institutions or insured credit unions equal to or greater than the amount of the funds initially invested by the school district through the financial institution.
- j. Deposit accounts that meet all of the following conditions:
- i. The funds are initially deposited in a financial institution that is not ineligible to be a depository of surplus funds belonging to this state under section 6 of 1855 PA 105, MCL 21.146.
  - ii. The financial institution arranges for the deposit of the funds in deposit accounts in 1 or more insured depository institutions, as defined in 12 USC 1813, or 1 or more insured credit unions, as defined in 12 USC 1752, for the account of the school district.
  - iii. The full amount of the principal and any accrued interest of each deposit account is insured by an agency of the United States.
  - iv. The financial institution acts as custodian for the school district with respect to each deposit account.
  - v. On the same date that the funds of the school district are deposited under subparagraph (ii), the financial institution receives an amount of deposits from customers of other insured depository institutions or insured credit unions equal to or greater than the amount of the funds initially deposited by the school district in the financial institution.

(2) An obligation purchased under this section, when received by the treasurer, shall be deposited with the Treasurer on Thursday, March 22, 2018 Page 158 Michigan Compiled Laws Complete Through PA 75 of 2018 Ó Legislative Council, State of Michigan Courtesy of [www.legislature.mi.gov](http://www.legislature.mi.gov) financial institution having the deposit of the money of the particular fund from which the obligation was purchased.

(3) Money in the several funds of a school district shall not be commingled for the purpose of making an investment authorized by this section except as follows:

- a. The board of a school district may establish and maintain 1 common debt retirement fund for issues of bonds of similar character.
- b. The board of a school district, by resolution, may authorize the treasurer to combine money from more than 1 fund for the purpose of making an investment authorized by subsection (1)(h).

(4) Earnings of an investment shall become a part of the fund for which the investment was made. When money of more than 1 fund of a single district or money of more than 1 district are combined for an investment pool authorized by subsection (1)(h), the money shall be accounted for separately, and the earnings from the investment shall be separately and individually computed, recorded, and credited to the fund or district, as the case may be, for which the investment was acquired.

(5) The treasurer of a school district, if authorized by resolution of the board, may deposit upon approval of the employee, funds accumulated under a deferred compensation program in a federally insured financial institution authorized by law to do business in this state. If authorized by a resolution of the board, the treasurer of a school

district, with the prior consent of the employee, may use funds accumulated under a deferred compensation plan to purchase from a life insurance company authorized to do business in this state an annuity contract or life insurance policy in the manner and for the purposes described in section 457 of the internal revenue code.

(6) Security in the form of collateral, surety bond, or another form may be taken for the deposits or investments of a school district in a financial institution. However, an investment under subsection (1)(e) or in an investment pool that includes instruments eligible for investments under subsection (1)(e) shall be secured by the transfer of title and custody of the obligations to which the repurchase agreements relate and an undivided interest in those obligations must be pledged to the school district for these agreements.

(7) Notwithstanding subsection (1), additional funds of a school district shall not be deposited or invested in a financial institution that is not eligible to be a depository of surplus funds belonging to this state under section 6 of 1855 PA 105, MCL 21.146.

(8) As used in this section, "deposit" includes purchase of or investment in shares of a credit union.

(9) As used in this section, "financial institution" means a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this state under the laws of this state or the United States.

**History:** 1976, Act 451, Imd. Eff. Jan. 13, 1977;<sup>3</sup>/<sub>4</sub>Am. 1977, Act 281, Imd. Eff. Dec. 23, 1977;<sup>3</sup>/<sub>4</sub>Am. 1979, Act 87, Imd. Eff. Aug. 1, 1979;<sup>3</sup>/<sub>4</sub>Am. 1980, Act 273, Imd. Eff. Oct. 8, 1980;<sup>3</sup>/<sub>4</sub>Am. 1981, Act 85, Imd. Eff. July 2, 1981;<sup>3</sup>/<sub>4</sub>Am. 1986, Act 132, Imd. Eff. June 16, 1986;<sup>3</sup>/<sub>4</sub>Am. 1997, Act 47, Imd. Eff. June 30, 1997;<sup>3</sup>/<sub>4</sub>Am. 2008, Act 307, Imd. Eff. Dec. 18, 2008;<sup>3</sup>/<sub>4</sub>Am. 2009, Act 22, Imd. Eff. May 5, 2009;<sup>3</sup>/<sub>4</sub>Am. 2012, Act 232, Imd. Eff. June 29, 2012.



## Appendix B

### Glossary of Common Treasury Terminology

Agencies	Federal agency securities and/or Government-sponsored activities.
Asked	The price at which securities are offered.
Banker's Acceptance (BA)	A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.
Benchmark	A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.
Bid	The price offered by a buyer of securities.
Broker	A broker brings buyers and sellers together for a commission.
Certificate of Deposit (CD)	A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.
Collateral	Securities, evidence of deposit or other property that a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.
Coupon	<ul style="list-style-type: none"> <li>a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value</li> <li>b) (b) A certificate attached to a bond evidencing interest due on a payment date.</li> </ul>
Debenture	A bond secured only by the general credit of the issuer.
Delivery vs. Payment	There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment of delivery is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.
Derivatives	<ul style="list-style-type: none"> <li>(1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or</li> <li>(2) Financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).</li> </ul>
Discount	The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.
Discount Securities	Non-interest bearing money market instruments that are issued a discount and redeemed at maturity for full face value, e.g., U.S. Treasury Bills.
Diversification	Dividing investment funds among a variety of securities offering independent returns.
Federal Credit Agencies	Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., Savings & Loan's, small business firms, students, farmers, farm cooperatives and students.
Federal Deposit Insurance Corporation (FDIC)	A federal agency that insures bank deposits, currently up to \$100,000 per deposit.

Federal Funds Rate	The rate of interest at which federal funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.
Federal Home Loan Banks	Government sponsored wholesale banks that lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLB is to liquefy the housing related assets of its members who must purchase stock in their district Bank.
Federal National Mortgage Association (FHLB)	A federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. Its securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.
Federal Open Market Committee (FOMC)	Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.
Federal Reserve System	The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.
Government National Mortgage Association (GNMA or Ginnie Mae)	Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FMHA mortgages.
Liquidity	A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.
Local Government Investment Pool (LGIP)	The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.
Market Value	The price at which a security is trading and could presumably be purchased or sold.
Master Repurchase Agreement	A written contract covering all future transactions between the parties to repurchase- reverse repurchase agreements that establish each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.
Maturity	The date upon which the principal or stated value of an investment becomes due and payable.
Money Market	The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.
Offer	The price asked by a seller of securities.

Open Market Operations	Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank and directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.
Portfolio	A collection of securities held by an investor.
Primary Dealer	A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks and a few unregulated firms.
Prudent Person Rule	An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state – the so-called legal list. In other states the trustee may invest in a security if it is one that would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.
Qualified Public Depositories	A financial institution which does not claim exemption from the payment of any sales or compensation use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.
Rate of Return	The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.
Report on Financial Statements	The official annual report for the Rochester Community Schools. It includes statements for each individual fund in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions.
Repurchase Agreement (RP or REPO)	A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money, i.e. increasing bank reserves.
Safekeeping	A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vault for protection.
Secondary Market	A market made for the purchase and sale of outstanding issues following the initial distribution.
Securities & Exchange Commission	Agency created by Congress to protect investors in securities transactions by administering securities legislation.

Structured Notes	Notes issues by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations that have imbedded options (e.g., call features, step-up coupons, floating rate coupons, and derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.
Treasury Bills	A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature is three months, six months, or one year.
Treasury Bonds	Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.
Treasury Notes	Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of 2 to 10 years.
Uniform Net Capital Rule	Securities and Exchange Commission requirement that member firms as well as nonmember broker-deals in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.
Yield	The rate of annual income return on an investment, expressed as a percentage. (a) Income Yield is obtained by dividing the current dollar income by the current market price for the security. (b) Net Yield or Net Yield to Maturity is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.