

BOARD POLICY

DFL

**FISCAL MANAGEMENT
INVESTMENTS**

JUNE 20, 2005

The purpose of this policy is to establish the objectives, standards, and parameters for investing public funds of the district. The district's investment objectives, in priority order, are to safeguard public funds and preserve principal, to maintain sufficient liquidity to meet operational and capital needs, and to achieve a reasonable rate of return given market conditions.

The Board shall appoint a Treasurer/Investment Officer to oversee the day-to-day management of District's investments. The Treasurer/Investment Officer shall be responsible for the transferring of appropriate funds to affect investment transactions, for the investment of operating funds, operating reserves funds, and bond proceeds, consistent with this policy and action of the Board. Unless otherwise authorized by the Board of Education, District funds shall be invested through the Michigan Liquid Asset Fund Plus (MILAF+).

This investment policy applies to all cash and investments held or controlled by 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 are not subject to the provisions of this policy.

Investments and Depositories are restricted to those in compliance with MCL 380.622, 380.1221, 380.1223, and 141.2705

Section 1. PURPOSE.

~~The purpose of this Policy is to set forth the investment objectives and parameters for the management of public funds of Livonia Public Schools School District "the 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.~~

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 Livonia Public Schools Board of Education "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. In order to comply with statutory and standards requirements, Credit Risk, Concentration Credit Risk, and Interest Rate Risk shall be disclosed in the District's financial statement, in accordance with statutory and standards requirements, when necessary.

i. Credit Risk (Custodial Credit Risk and Concentration Credit

Risk)

Credit risk exists when there is a possibility the issuer or other counter-party to an investment may be unable to fulfill its obligations. With the exception of credit quality ratings for debt securities guaranteed by the United States government, the District's investments shall include only those with credit quality ratings as set by nationally recognized statistical rating organizations for any investments in debt securities, external investment pools, money market funds, bond mutual funds, and other pooled investments of fixed-income securities.

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 advisers with which the District will do business in accordance with Section 7 of this Investment Policy.

Since an increased risk of loss occurs as more investments are acquired from one issuer due to lack of diversification, 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 the potential losses from any one type of security or issuer will be minimized.

ii. Investment Rate Risk

Interest Rate Risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. The District will minimize Interest Rate Risk 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.

iii. 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 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 establish an Investment Officer to oversee the day-to-day management of District's investments. The Investment Officer shall be responsible for the transferring of appropriate funds to affect investment transactions, for the investment of operating funds, operating reserves funds, and bond proceeds, consistent with this policy and action 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.~~

~~In order to qualify for the position, at the time of appointment, The Investment Officer shall currently have no personal business activity that conflicts and shall, after appointment, 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.~~

~~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.~~
 - ~~i. Primary and regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule);~~
 - ~~ii. Capital of no less than \$10,000,000;~~
 - ~~iii. Registered as a 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~~

- ~~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:~~

- ~~A. United States Government Securities.~~
- ~~B. United States Government Agencies.~~
- ~~C. Federal Instrumentalities (United States Government Sponsored Enterprises).~~
- ~~D. Certificates of Deposit.~~
- ~~E. Repurchase Agreements.~~
- ~~F. Commercial Paper.~~
- ~~G. Bankers' Acceptances.~~
- ~~H. Registered Investment Companies (Money Market Mutual Funds).~~
- ~~I. 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 an intermediate school district.~~

~~Section 10. 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 be 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 Board must adopt any changes to this policy.~~

CERTIFICATION OF AUTHORIZED INSTITUTION

~~The Livonia Public Schools Board of Education acknowledges it has read, understands and agrees to comply with the Investment Policy of the Livonia Public Schools School District.~~

By: Kevin Whitehead

Title: President, Livonia Public Schools Board of Education

Date: May 31, 2005