

ST. MARYS AREA SCHOOL DISTRICT

SECTION: FINANCES

TITLE: INVESTMENT OF
DISTRICT FUNDS

ADOPTED: November 8, 2010

REVISED: December 6, 2016

609. INVESTMENT OF DISTRICT FUNDS	
<p>1. Purpose</p>	<p>It shall be the policy of the Board to optimize its return through investment of its unencumbered cash balances in such a way as to minimize non-invested balances and maximize return on investments in a manner consistent with Pennsylvania law.</p> <p>The primary objectives of investment activities, in priority order, shall be:</p> <p>Legality - All investments shall be made in accordance with applicable laws of Pennsylvania.</p> <p>Safety - Safety of principal shall be of highest priority. Preservation of capital in the portfolio of investments shall be ensured through the mitigation of credit risk and interest rate risk.</p> <p>Liquidity - Investments shall remain sufficiently liquid to meet all operating requirements that are reasonably anticipated. A fiscal year operations anticipated cash flow shall be developed so that investments can be made as early as possible, with maturities concurrent with anticipated cash demands.</p> <p>Yield - Investments shall be made with the objective of attaining a market-average rate of return throughout the budgetary and economic cycles, taking into account investment risk constraints and liquidity needs.</p>
<p>2. Authority SC 440.1, 621, 622, 623 53 P.S. Sec. 5406, 5410.1</p>	<p>All investments of the District made by an officer and/or employee of the District shall be made in accordance with this policy and a Board-approved investment program.</p> <p>The Board authorizes the Treasurer to make investments in accordance with Section 440.1 of the Public School Code of 1949 as amended and supplemented by Act 10 of 2016. After securing the best possible interest rate, the Treasurer shall authorize the bank, in writing, to invest for District General Fund and to issue a "safe keeping receipt" for the amount of the investment. Perpetual investment records shall be maintained on all investments and include the cost and certificate number.</p>
<p>3. Definitions SC 440.1 53 P.S. Sec. 5406, 5410.1</p>	<p>Permissible Investments – Any investment permitted under Section 440.1 of the Public School Code of 1949, Act of March 10, 1949, (P.L. 30, No. 14) as last amended by the Act of June 30, 1995, (P.L. 220, No. 26), as supplemented by Act 10 of March 25, 2016, (53 P.S. Sec. 5406, 5410.1)</p>

Bankers' acceptances – Bankers' acceptances are short-term, non-interest-bearing notes sold at a discount and redeemed by the accepting banks at maturity for face value. Bankers' acceptances generally are created based on a letter of credit issued in a foreign trade transaction. The maximum maturity for bankers' acceptances is generally 180 days.

Collateral – Security pledged by a financial institution to a governmental entity for its deposit.

Commercial paper – An unsecured promissory note issued primarily by corporations for a specific amount and maturing on a specific day. The maximum maturity for commercial paper is 270 days, but most is sold with maturities of up to thirty (30) days. Almost all commercial paper is rated as to credit risk by rating services.

Concentration of Credit Risk – the risk associated with the consolidation of investments in a single pool, institution, or instrument.

Counterparty – Another party to a transaction. In the case of deposits and investments made by governmental entities, a counterparty could be the issuer of a security, a financial institution holding a deposit, a broker-dealer selling securities, or a third party holding securities or collateral.

Credit Risk – the risk of loss of principal due to the failure of the security issuer or backer of the issue.

Custodial Credit Risk – the risk of loss associated with consolidation of investments with a single institution where the District may rely on the institution to hold investments on behalf of the District or through collateral action when the instruments are not in the District name.

Foreign Currency Risk – the risk associated with investment in foreign currency that is subject to market fluctuation and associated currency conversion.

Interest Rate Risk – the risk that the market value of securities will fall due to changes in general interest rates.

Issuer – The entity that has the authority to distribute a security or other investment. A bond issuer is the entity that is legally obligated to make principal and interest payments to bond holders. In the case of mutual funds, external investment pools, and other pooled investments, issuer refers to the entity invested in, not the investment company-manager or pool sponsor.

Investment Program – the specifically enumerated and Board-approved investment strategy.

SC 521
53 Pa. C.S.A
Sec. 2301 et seq

Local Government Investment Pool (LGIP) – An investment trust or pool organized by groups of political subdivisions or municipal authorities pursuant to Section 521 of the Public School Code of 1949, or pursuant to the Intergovernmental Cooperation Law, 53 Pa. C.S.A. Sec. 2301 et seq., for the purpose of investing funds of such political subdivisions or municipal authorities for their exclusive benefit and in accordance with the laws governing their permissible investments. LGIPs include, but are not limited to, the Pennsylvania School District Liquid Asset Fund (PSDLAF), the Pennsylvania Local Government Investment Trust (PLGIT), and the PA INVEST program operated by the Pennsylvania Treasury Department.

Market risk – The risk that the market value of an investment, collateral protecting a deposit, or securities underlying a repurchase agreement will decline. Market risk is affected by the length to maturity of a security, the need to liquidate a security before maturity, the extent that collateral exceeds the amount invested, and the frequency at which the amount of collateral is adjusted for changing market values.

Nationally Recognized Statistical-Rating Organization (NRSRO) - is a credit rating agency that issues credit ratings that the U.S. Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes

Negotiable Certificates of Deposit – A security instrument issued by a nationally or state-chartered bank, a federal or state savings and loan association, or a state-licensed branch of a foreign bank. Pays face value and interest at maturity. These securities are traded in the secondary markets, usually in lots of \$1 million or more. The maximum maturity for negotiable certificates of deposits per PA code is three years. For maturities less than one year, investments must have a top short-term rating by at least two NRSROs. Investments with maturities greater than one year must be rated “A” or better by at least two NRSROs. The creditworthiness of such obligations relates only to the credit of the issuing company. Since Negotiable Certificates of Deposit are negotiable instruments and not bank deposits or bank accounts, policies regarding deposit insurance and collateral requirements do not apply.

Repurchase agreement –An agreement in which a governmental entity (buyer-lender) transfers cash to a broker-dealer or financial institution (seller-borrower); the broker-dealer or financial institution transfers securities to the entity and promises to repay the cash plus interest in exchange for the same securities.

- a. A generic term for an agreement in which a governmental entity (buyer-lender) transfers cash to a broker-dealer or financial institution (seller-borrower); the broker-dealer or financial institution transfers securities to the entity and promises to repay the cash plus interest in exchange for the same securities (as in definition (a) above) or for different securities.

<p>53 P.S. Sec. 5403,5410.1</p>	<p>Weighted average maturity – A weighted average maturity measure expresses investment time horizons—the time when investments become due and payable—in years or months, weighted to reflect the dollar size of individual investments within an investment type.</p>
<p>4. Delegation of Responsibility SC 440.1 SC 440.1 72 P.S. Sec. 3836-1 et seq</p>	<p>The Board shall delegate to the Board Treasurer or designee the responsibility to manage the District's investment program in accordance with written, Board-approved rules and procedures for operation of the investment program.</p> <p>A disclosure of the District's investments will be incorporated into the monthly Treasurer's Report as follows:</p> <ol style="list-style-type: none"> 1. Amount of funds invested. 2. Interest earned and received to date. 3. Types and amounts of each investment. 4. Names of institutions where investments are placed.
<p>5. Permitted Investments SC 440.1 53 P.S. Sec. 5406, 5410.1</p>	<ol style="list-style-type: none"> 1. Obligations issued by the U.S. Government and its agencies which carry the full faith and credit guarantee of the United States; 2. Obligations, participations or other instruments of any Federal agency, instrumentality or United States government sponsored enterprise, including those issued or fully guaranteed as the principal and interest by Federal agencies, instrumentalities or United States government-sponsored enterprises, if the debt obligations are rated at least "A" or its equivalent by at least two nationally recognized statistical ratings organizations. 3. Deposits in savings accounts or non-negotiable bank instruments or share accounts of institutions insured by the Federal Deposit Insurance Corporation (FDIC) or the Federal Savings and Loan Insurance Corporation (FSLIC) or the National Credit Union Share Insurance Fund (NCUSIF) to the extent that such accounts are so insured, and, for any amounts above the insured maximum, provided that approved collateral as provided by law therefore shall be pledged by the depository. 4. Obligations of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities are backed by the full faith and credit of the Commonwealth, or of any political subdivision of the Commonwealth of Pennsylvania or any of the agencies or instrumentalities backed by the full faith and credit of the political subdivision: 5. Commercial Paper issued by corporations or other business entities organized in accordance with Federal or State law, with a maturity not to exceed 270 days if the issuing corporation or business entity is rated in the top short term category by at least two nationally recognized statistical ratings organizations. 6. Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances, if the bankers' acceptances do not exceed 180 days' maturity and the accepting bank is rated in the top short-term category by at least two nationally recognized statistical ratings organizations.

7. Negotiable Certificates of Deposit or other evidences of deposit, with a remaining maturity of three years or less, issued by a nationally or State-chartered bank, a Federal or State savings and loan association or a State-licensed branch of a foreign bank. For obligations with a maturity one year or less, the debt obligations of the issuing institution or its parent must be rated in the top short-term rating category by at least two nationally recognized statistical ratings organization. For obligations with a maturity in excess of one year, the senior debt obligation of the issuing institution or its parent must be rated at least "A" or its equivalent by at least two nationally recognized statistical ratings organizations. A maximum length of maturity for an investment in any negotiable certificate of deposit is three (3) years from the date of purchase. Since Negotiable Certificates of Deposit are negotiable instruments and not bank deposits or bank accounts, policies regarding deposit insurance and collateral requirements do not apply.
8. Repurchase agreements with respect to United States Treasury bills or obligations, participations or other instruments of or guaranteed by the United States or any Federal agency, instrumentality or United States government-sponsored enterprise.
9. Local government investment pools, either state-administered or developed through intergovernmental agreement legislation, provided the local government investment pool restricts investments to those listed under this subsection.
10. Savings or demand deposits placed through bank platforms in accordance with the following conditions:
 - (i) The money is initially deposited and invested through a federally insured institution having a place of business in the Commonwealth, which is selected by the school district.
 - (ii) The selected institution arranges for the redeposit of the money in savings or demand deposits in one or more financial institutions insured by the Federal Deposit Insurance Corporation, for the account of the school district.
 - (iii) The full amount of principal and any accrued interest of each such deposit by the Federal Deposit Insurance Corporation.
 - (iv) On the same date that the money is redeposited pursuant to paragraph (ii), the selected institution receives an amount of deposits from customers of other financial institutions equal to or greater than the amount of money initially invested through the selected institution by the school district.

Management of Investments and Collateral

All securities or other investments in which the District invests or that collateralize District investments shall be managed as provided in this policy.

Foreign Currency and Related Risk

District funds shall not be invested in foreign currency. To the extent other permissible investments are exposed to related foreign currency risk, they shall be disclosed as required by GASB Statement 40.

SC 440.1

<p>53 Pa. C.S.A Sec. 8001 et seq</p>	<p><u>Bond Proceeds</u></p> <p>Bond proceeds shall be invested in accordance with the Local Government Unit Debt Act and applicable federal and state laws, subject to approval by the solicitor and/or bond counsel and the Board of School Directors.</p> <p>Investment transactions arising from bond proceeds shall be reported monthly to the Board, in accordance with policy.</p>
<p>SC 440.1 72 P.S. Sec. 3836-1 et seq</p>	<p><u>Protection of Savings Accounts, Non-Negotiable Bank Certificates of Deposits or Time Deposits, Share Accounts or Other Depository Balances in Excess of FDIC Insurance Limits</u></p> <p>When District cash is deposited in any savings account, non-negotiable bank certificates of deposit or time deposit, share account, or other authorized depository account, if the cash balance exceeds FDIC insurance limits, District funds shall be collateralized in one or more of the following ways:</p> <ol style="list-style-type: none"> 1. An Irrevocable Letter of Credit (LOC) issued by a Federal Home Loan Bank (FHLB). 2. Tri-Party Collateral in the name of the school district consisting of the following underlying securities only: <ol style="list-style-type: none"> a. U.S. Treasury Securities. b. Obligations, participations, or other instruments of any federal agency, instrumentality or U.S. government-sponsored enterprise if the debt obligations are rated at least "A" or its equivalent by at least two (2) nationally recognized statistical ratings organizations. 3. Assets pledged as collateral in accordance with the act of August 6, 1971, (P.L. 281, No.72), 72 P.S. Sec. 3836-1 et seq. (relating to pledges of assets to secure deposits of public funds, whether or not pooled). <p>It shall be the responsibility of the Treasurer, or designee, to verify with the depository the value of the collateral instrument(s) based on the instrument being "marked to market." This valuation shall occur at least monthly.</p> <p>Following a review of valuation, the Treasurer may request an additional review by the District's investment advisors or financial consultant, and shall require additional collateral if the existing collateral has declined in value and exposes the district to potential loss of principal. The status of the valuation review and any additional collateral shall be included in the periodic reports to the Board regarding the investment program.</p>
	<p><u>Reporting Requirement for Local Government Investment Pools (LGIPs)</u></p> <p>Local Government Investment Pools (LGIPs) pool the resources of participating government entities and invest in various securities as permitted under state law, so that participating governments can benefit from economies of scale, professional fund management and other advantages.</p>

Compliance With Generally Acceptable Accounting Procedures (GAAP)

The following is intended to guide District investments as limited by law:

1. District funds shall not be invested in foreign currency. To the extent other permissible investments are exposed to related foreign currency risk, they shall be disclosed as required by GASB Statement 40.
2. District investments shall limit the exposure to loss of principal due to market changes in interest rates. To accomplish this, investments of this nature shall be limited to not more than fifty percent (50%) of District funds available for investment on any single maturity date.
3. The Investment Plan shall require that securities purchased as investments be purchased in the name of the District and held in custody for the benefit of the District as provided in the investment plan and authorized custodian agreements. The plan may make exceptions to such requirements for investments in LGIPs as defined in this policy, or for the purchase of shares of an investment company.
4. The foregoing rating change related requirements do not apply to investments in LGIPs as defined in this policy.
5. For purposes of interest rate disclosure in the annual financial report, the method of determining interest rate risk shall be based on weighted average maturity.