

SHALER AREA SCHOOL DISTRICT

No: 609

SECTION: FINANCES

TITLE: INVESTMENT OF DISTRICT FUNDS

ADOPTED: JUNE 18, 1998

REVISED: REVISED JULY 19, 2006; DECEMBER 9, 2009; JUNE 16, 2010; JUNE 21, 2017

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1. Purpose	<p>It shall be the policy of the Board to optimize its return on funds available for investment through investment of cash balances in such a way as to minimize non-invested balances and to maximize return on investments consistent with the following principles:</p> <p>Legality - All investments shall be made in accordance with applicable laws of Pennsylvania.</p> <p>Safety – Preservation of principal shall be of highest priority. Preservation of principal in the portfolio of investments shall be ensured by diversification and other means of minimizing credit risk, including avoidance of concentration of credit risk, market risk and interest rate risk, and by thoroughly investigating and reviewing the performance of all investment providers and professionals.</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 consistent 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>
2. Authority SC 440.1, 621, 622, 623 53 P.S. Sec. 5406,5410.1	<p>The Investment Officer designated by the Board shall implement the school district's investment program in accordance with this policy, applicable laws and the annual investment plan approved by the Board.</p>
3. Definitions SC 440.1 53 P.S. Sec. 5406,5410.1	<p>Act 10 Permissible Investments – Any type of investment permitted under Act 10 of March 25, 2016, (53 P.S. Sec. 5406, 5410.1) that is not among the types of investments 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).</p>
SC 440.1	<p>School Code 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).</p> <p>Short-term - Any period thirteen (13) months or less.</p>

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	<p>Long-term - Any period exceeding forty-eight (48) months' duration.</p> <p>Mid-range - Any period between short-term and long-term.</p> <p>Bankers' acceptances – Bankers' acceptances generally are created based on a letter of credit issued in a foreign trade transaction. Bankers' acceptances are short-term, non-interest-bearing notes sold at a discount and redeemed by the accepting banks at maturity for face value.</p> <p>Collateral – Security pledged by a financial institution to a governmental entity for its deposit.</p> <p>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.</p> <p>Concentration of credit risk – The risk of loss attributed to the magnitude of a government's investment in a single issuer, pool, institution, or instrument.</p> <p>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.</p> <p>Credit risk – The risk that a counterparty to an investment transaction will not fulfill its obligations. Overall credit risk can be associated with the issuer of a security, with a financial institution holding deposits, or with a party holding securities or collateral. Credit risk exposure can be affected by a concentration of deposits or investments in any one (1) investment type or with any one (1) counterparty.</p> <p>Custodial credit risk – The custodial credit risk for <i>deposits</i> is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for <i>investments</i> is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.</p> <p>Foreign currency risk – The risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Investments depending on substantial overseas activities or markets may present related foreign currency risk.</p>
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<p>80a-1 et seq.</p> <p>4. Delegation of Responsibility SC 440.1</p>	<p>are registered under the Securities Act of 1933 (48 Stat. 74, 15 U.S.C. Sec. 77a et seq.) and which satisfies the further conditions set forth in Section 440.1 of the School Code, subsection (b), clause (v).</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>The Board designates the Business Manager as the Investment Officer who shall implement the school district’s investment program in accordance with this policy, related procedures, applicable laws and the annual investment plan approved by the board.</p> <p>The Investment Officer shall prepare, for approval of the Board, an annual investment plan for all general and segregated/designated funds of the district (i.e., general, capital reserve, bond, etc.), including bond proceeds, taking into account the anticipated liquidity needs of each fund.</p>
<p>SC 511 Pol. 618</p>	<p>The plan may provide for moneys from more than one (1) fund under school district control for the purchase of any single investment, provided that each of the funds combined for the purpose shall be accounted for separately in all respects and that the earnings from the investment are separately and individually computed and recorded, and credited to the accounts from which the investment was purchased.</p> <p>The plan shall not encompass the investment of any student activity or class-related funds separately managed pursuant to School Code Section 511.</p> <p>The annual investment plan shall be submitted to the Board for review and approval no later than sixty (60) days after adoption of the annual budget.</p> <p>The Investment Officer shall report quarterly to the Board on the following:</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 and the interest rate on each. 4. Names of the institutions where investments are placed. 5. The means by which any deposits exceeding insurance limits are collateralized.
<p>SC 624 Pol. 608</p>	<p>This report may, but is not required to, include the information regarding depository balances, earnings and transactions required by the School Code to be reported to the Board monthly as set forth in Policy 608.</p> <p>The Board directs the Superintendent and Investment Officer to develop, for approval by the Board as an appendix to this policy, specific due diligence and risk mitigation measures for:</p>

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- b. The investment company is managed so as to maintain its shares at a constant net asset value in accordance with 17 CFR Sec. 270 2a-7 (relating to money market funds).
- c. The investment company is rated in the highest category by a nationally recognized statistical rating organization.

6. Local Government Investment Pools (LGIPs) as defined in this policy.

7. Repurchase agreements with respect to U.S. Treasury bills or obligations, participations or other instruments of or guaranteed by the U.S. or any federal agency, instrumentality or U.S. government-sponsored enterprise.

Act 10 Permissible Investments

- 1. 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.
- 2. 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 (2) nationally recognized statistical ratings organizations.
- 3. 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 (2) nationally recognized statistical ratings organizations.
- 4. Shares of an investment company registered under the Investment Company Act of 1940 (54 Stat. 789, 15 U.S.C. Sec. 80a-1et seq.) whose shares are registered under the Securities Act of 1933 (48 Stat. 74, 15 U.S.C. Sec. 77a et seq.), if all of the following conditions are met:
 - a. The investments of the company are the authorized investments under 53 P.S. §5410.1, subsection (a) (Act 10, Section 1.1(a)).
 - b. The investment company is managed in accordance with 17 CFR Sec. 270.2a-7 (relating to money market funds).
 - c. The investment company is rated in the highest category by a nationally recognized rating agency.

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SC 440.1	<p><u>Management of Investments and Collateral</u></p> <p>All securities or other investments in which the school district invests or that collateralize school district investments shall be managed as provided in this policy and in the school district’s investment plan annually approved by the Board.</p> <p>The plan shall require that securities purchased as investments be purchased in the name of the school district and held in custody for the benefit of the school 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 as defined in this policy.</p> <p>If, after purchase, the rating of any instrument is reduced and no longer in compliance with Board policy, the individual responsible for district investments shall advise the Board at the earliest opportunity of such action and make recommendations for altering the investments.</p> <p>The foregoing rating change related requirement(s) do(es) not apply to investments in LGIPs as defined in this policy. 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.</p>
53 Pa. C.S.A. Sec. 8001 et seq	<p><u>Foreign Currency and Related Risk</u></p> <p>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.</p> <p><u>Bond Proceeds</u></p> <p>Investment of bond proceeds shall be managed and reported to the Board in accordance with the Local Government Unit Debt Act, this policy, and applicable federal and state laws.</p>
SC 440.1 72 P.S. Sec.3836-1 et seq	<p><u>Protection of Savings Accounts, 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, time deposit, share account or other authorized depository account other than a Local Government Investment Pool (LGIP), 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).

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72 P.S.
Sec.3836-1 et seq

2. Tri-Party Collateral in the name of the school district consisting of the following underlying securities only:
 - 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).

It shall be the responsibility of the Investment Officer 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 annually.

Following a review of valuation, the Investment Officer 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 an annual report to the Board regarding the investment program.

Reporting Requirement for Local Government Investment Pools (LGIPs)

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.

Recognizing that LGIPs invest directly in permissible securities on behalf of the participating government entities, which in turn have proportional ownership rights in those securities, district investments in a LGIP shall not be subject to the collateral requirements of this policy, provided that the LGIP:

1. Makes available to participants daily and monthly statements, and other information from which the status of the investments can be verified; and
2. Provides an audited annual financial report to each participating government entity.

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other depository institution, broker, dealer, investment advisor, or other investment provider or professional which does business with the district.

All investment advisors shall verify in writing that they have received and reviewed a copy of this Board policy and agree to comply with this policy and all applicable laws related to school district investments.

References:

School Code – 24 P.S. Sec. 218, 440.1, 511, 521, 621, 622, 623, 624

Intergovernmental Cooperation Law – 53 Pa. C.S.A. Sec. 2301 et seq

Local Government Unit Debt Act – 53 Pa. C.S.A. Sec. 8001 et seq

Public Officials and Employee Ethics Act – 65 Pa. C.S.A. Sec. 1101 et seq

Security of Public Deposits – 72 P.S. Sec. 3836-1 et seq (Act 72 of 1971)

Act 10 of 2016 – Investment of Public Corporation or Authority Funds –
Act of Mar. 25, 2016, P.L. 72, No. 10, 53 P.S. Sec. 5406, 5410.1

Securities and Trust Indentures – 15 U.S.C. Sec. 77a et seq

Investment Companies – 15 U.S.C. Sec. 80a-1 et seq

Investment Companies, Title 17, Code of Federal Regulations – 17 CFR Part 270

Governmental Accounting Standards Board, Statement No. 3, as amended by
Statement 40

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Board Policy – 608, 618, 619