

SOUTHERN LEHIGH SCHOOL DISTRICT

SECTION: FINANCES

TITLE: INVESTMENT OF DISTRICT FUNDS

ADOPTED: August 12, 2002

REVISED: March 10, 2004; June 9, 2015;
October 10, 2016

609. INVESTMENT OF DISTRICT FUNDS	
1. Purpose	<p>It shall be the policy of the Board to optimize its return through investment of cash balances in such a way as to minimize non-invested balances and to maximize return on investments.</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 the investment risk constraints and liquidity needs.</p>
2. Authority SC 440.1, 621, 622, 623	<p>All investments of the school 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>
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)</p>

as last amended by the Act of June 30, 1995, (P.L. 220, No. 26).

Short-term - any period twelve (12) months or less.

Long-term - any period exceeding forty-eight (48) months' duration.

Mid-range - any period between short-term and long-term.

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.

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 of loss attributed to the magnitude of a government's investment in a single issuer, 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 issue or backer of the issue.

Custodial credit risk – The custodial credit risk for *deposits* 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 *investments* 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.

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>4. Delegation of Responsibility SC 440.1</p> <p>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 shall delegate to a designated individual the responsibility to manage the district's investment program, in accordance with written, Board-approved procedures for operation of the investment program.</p> <p>An annual review of the investment program shall be prepared by the designated individual, based upon the anticipated cash flow of all district funds, i.e. general, capital reserve, bond, etc.</p> <p>The designated individual responsible for investments shall report monthly to the Board 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. Current market value of the funds invested. 6. Other information required by the Board. <p>The Board directs the Superintendent to have developed written procedures that will ensure compliance with this policy. Such procedures shall include a disclosure form for designated individuals involved in the investment process and/or required written statements for advisors and bidders.</p>
<p>5. Guidelines SC 440.1</p>	<p>The following are permitted investments in accordance with this policy. Investments must be collateralized in accordance with applicable laws.</p> <p>A. Pennsylvania School Code §440.1</p> <ol style="list-style-type: none"> 1. U.S. Treasury Bills. 2. Short-Term Obligations of the U.S. Government, its agencies or instrumentalities. 3. Deposits in savings accounts or time deposits or shared accounts of

	<p>institutions insured by the Federal Deposit Insurance Corporation. With respect to deposit accounts that are collateralized on a pooled basis, such investments must comply with the minimum criteria set forth in the guidelines.</p> <ol style="list-style-type: none"> 4. Obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the U.S. Government, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities or any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision. 5. Money Market Mutual Funds, rated in the highest category (currently “AAA”) by a nationally recognized rating agency, that invest exclusively in the securities listed above. Such mutual funds must be registered under the Investment Company Act of 1940 and the shares of the fund must be registered under the Securities Act of 1933. 6. Any other investments specifically permitted as per an amendment to School Code Section 440.1. <p>B. Repurchase agreements fully collateralized by any of the investments listed above.</p> <p>C. Investment pools that have been organized in accordance with the provisions of Section 3 of the Pennsylvania Intergovernmental Cooperation Act No. 180 of the 1972 General Assembly and Section 521 of Article V of the Act No. 14 of the 1949 Session of the General Assembly of the Commonwealth of Pennsylvania, as amended (the “School Code”).</p> <p><u>Act 10 Permissible Investments</u></p> <ol style="list-style-type: none"> 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.
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	<p>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:</p> <p>a. The investments of the company are the authorized investments under 53 P.S. §5410.1, subsection (a) (Act 10, Section 1.1(a)).</p> <p>b. The investment company is managed in accordance with 17 CFR Sec. 270.2a- 7 (relating to money market funds).</p> <p>c. The investment company is rated in the highest category by a nationally recognized rating agency.</p> <p>All securities shall be purchased in the name of the school district, and custody of the securities shall be specified within the district's investment program.</p>
<p>SC 440.1</p>	<p>All investment advisors or bidders shall verify in writing that they have received a copy of this policy. Such written statement shall indicate that they have read and understand this policy and all applicable statutes related to school district investments, along with their intent to comply fully with these requirements.</p>
<p>65 P.S. 401 et al</p>	<p><u>Disclosure</u></p> <p>Designated officers and employees involved in the district's investment process shall disclose any personal business activity that could conflict with the proper execution and management of the investment program or could impair their ability to make impartial decisions.</p>
	<p><u>Audit</u></p> <p>The Board directs that all investment records be subject to annual audit by the district's independent auditors.</p> <p>The audit shall include but not be limited to independent verification of amounts and records of all transactions, as deemed necessary by the independent auditors.</p> <p>It shall be the responsibility of the investment advisor and/or bidder to maintain necessary documents to permit independent audit of the district's investments.</p>
<p>53 Pa CSA</p>	<p><u>Bond Proceeds</u></p> <p>Bond proceeds shall be invested in accordance with the Local Government Unit</p>

<p>Sec. 8001 et seq Sec. 8224</p> <p>SC 440.1 72 P.S. Sec. 3836-1 et seq</p>	<p>Debt Act and applicable federal and State laws, subject to approval by the solicitor and/or bond counsel and the School Board.</p> <p>Protection of Savings Accounts, Time Deposits, Share Accounts or Other Depository Balances in Excess of FDIC Insurance Limits</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>
<p>72 P.S. Sec. 3836-1 et seq</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 of 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 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 monthly.</p> <p>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 evaluation review and any additional collateral shall be included in the periodic reports to the Board regarding the investment program.</p> <p><u>Further Risk Mitigation for Act 10 Permissible Investments</u></p> <p>Recognizing that Act 10 of 2016 expanded the range of permissible investments to include investments with the potential to expose the school district to elevated levels of credit risk and other investment risks, the Board directs that any investment plan or investment recommendations proposed by the Investment officer take into account, implement and highlight the following factors and precautions with respect to Act 10 Permissible Investments:</p>

1. It cannot be assumed that negotiable certificates of deposit are collateralized.
2. A significantly more thorough level of due diligence is required.
3. In addition to verification of rating by a nationally recognized statistical rating organization and other due diligence requirements, the investigation of act 0 Permissible Investments shall include ensuring that there is an independent credit review (a qualified financial services organization with an active and recognized credit analysis team is also monitoring the issuer, in addition to the nationally recognized statistical rating organizations(s)).
4. Act 10 Permissible Investments shall be limited to no more than ten percent (10%) of district funds available for investment, excluding bond proceeds and refunding escrow balances.

References:

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

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, 8224, 2301 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, 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 Sec. 270.2a-7