

## INVESTMENTS REGULATION

The following regulation is organized into separate sections for each investment alternative available to Bethlehem Central School District, followed by criteria for the use of an agent bank, general investment criteria and a glossary.

### *Authorized Investments*

#### *U.S. Treasury Obligations*

1. Purchase can be made from any broker/dealer or bank principally located in New York State.
2. Funds for investment will be taken from Bethlehem Central School District account and wired or otherwise transferred to Bethlehem Central School District's agent bank. Agent bank releases funds to broker/dealer or bank only after securities are received through book entry by the agent bank via the Federal Reserve Bank of New York.

#### *Certificates of Deposit (CD)*

Purchase may be made from any bank principally located in New York State which meets the following conditions:

1. Bank currently holds a rating within the "A" category or better with Moody's or Standard & Poor's, a rating of "C" or better with Keefe, Bruyette & Woods or a comparable rating from a recognized reputable rating service.
2. Bank agrees to collateralize the deposit with allowable securities which, at the inception of the investment, must be in an amount of the deposit. Thereafter, during the term of the investment, the securities shall generally be equal in value to the amount of the deposit. FDIC insurance can be utilized to offset the collateral. When consistent with general market practice, the Bethlehem Central School District shall ensure that the value of the collateral also includes the amount of interest to be earned on the deposit.
3. Bank agrees to deliver the collateral, whether through book entry or physical delivery, to a trust account in the name of the Bethlehem Central School District, the Bethlehem Central School District's agent bank or a joint custody account within five days of receiving the deposit.
4. The Bethlehem Central School District shall enter into an agreement with each holder of collateral which, among other items, specifies that the holder is taking possession of the securities exclusively as collateral for the Bethlehem Central School District, that the securities are free of any holder's claims against the financial institution; and that written confirmation of delivery shall be provided to the Bethlehem Central School District.
5. For each particular certificate of deposit investment, the bank shall provide adequate written confirmation of the terms of the transaction.

#### *Repurchase Agreements*

1. Purchase can be made from a bank principally located in New York State currently holding a rating within the "A" category or better with Moody's or Standard & Poor's, a rating of "C" or better with Keefe, Bruyette & Woods or a comparable rating from a recognized reputable rating service.

2. Purchase can also be made from any broker/dealer principally located in New York State that is on the most recent Federal Reserve Bank listing of primary government securities dealers.
3. The Bethlehem Central School District shall enter into a master repurchase agreement with each financial institution with which it undertakes such investments. The agreement shall set forth the responsibilities and liabilities of both the buyer and the seller of the securities such as those specified in this section of the regulation.
4. The securities underlying repurchase agreements shall be limited to U.S. Treasury obligations.
5. The funds for repurchase agreement investments will be taken from Bethlehem Central School District's account and wired or otherwise transferred to Bethlehem Central School District's agent bank. Agent releases funds to the broker/dealer or bank only when securities are received through book entry by the agent bank via the Federal Reserve Bank of New York.
6. The financial institution involved as seller in the repurchase agreement shall confirm the investment in writing to the Bethlehem Central School District, specifying the terms of the transaction.
7. Securities transferred to Bethlehem Central School District's agent bank must, at the inception of the agreement, be at least equal in market value to the amount of the repurchase agreement. Thereafter, during the term of the agreement, the district shall ensure that the securities held by the agent bank shall generally be equal in value to the amount of the agreement. When consistent with general market practice, the Bethlehem Central School District shall ensure that the value of the securities also includes the amount of interest to be earned from the repurchase agreement. Bank or broker/dealer must agree to add securities within 24 hours upon being notified by the district that additional securities are required.
8. Substitution of securities by the broker/dealer or bank during the term of the repurchase agreement is prohibited.
9. If purchase is made from agent bank, the securities underlying the repurchase agreement must be transferred to another agent bank of Bethlehem Central School District.
10. In addition to the above, participation in cooperative investment programs as authorized by the opinion of the Comptroller 88-46 and Article 5-G, Section 119-O of the General Municipal Law and the instrument made pursuant to such programs shall be deemed to meet all requirements of this regulation.

#### *Interest Bearing Accounts*

1. Bank must be principally based in New York State.
2. Every year, Bethlehem Central School District shall consider whether to solicit bids for such accounts, considering interest rate offered, quality of service, cost and other factors deemed appropriate.
3. Bank shall collateralize or insure deposits in each account with allowable securities in an amount equal in value to the approximate average daily balance of the previous 12 months. The determination of this amount shall be made every six months.

4. Bank shall add collateral within 72 hours, as determined by the Bethlehem Central School District, to insure that the value of the collateral equals the amount agreed upon.
5. Bank agrees to maintain the collateral, whether through book entry or physical delivery, in a trust department in an account of Bethlehem Central School District, Bethlehem Central School District's agent or in a joint custody account. The requirement for the Bethlehem Central School District entering into an agreement with any holders of collateral shall be the same as specified under the section titled *Certificates of Deposit* above.
6. The Bethlehem Central School District shall enter into an agreement with each bank stating the bank's applicable rules and regulations for maintaining an interest bearing account on its behalf.

*Use of an Agent Bank*

1. The Bethlehem Central School District shall select a bank or trust company to serve as its agent bank based upon competitive process taking into account the extent and quality of experience in performing agent functions, particularly of the type required by the Bethlehem Central School District, price and other factors deemed relevant.
2. Bethlehem Central School District shall enter into an agreement with the agent bank specifying such matters as:
  - a. The bank's responsibilities to receive and safeguard securities purchased by the Bethlehem Central School District or delivered as collateral.
  - b. The bank's understanding that it is taking possession of the securities exclusively for the Bethlehem Central School District; that the securities are free of any claims against the financial institution from which the Bethlehem Central School District purchased them; and that any of the bank's future claims against such financial institution are subordinate to the Bethlehem Central School District's claims.
  - c. The bank's commitment to confirm its receipt of all securities within 24 hours, maintain specified records, and report transactions as they occur.
  - d. The bank agrees to "mark to market" the securities underlying the repurchase agreements. Such "marking to market" shall be performed at least monthly or more frequently if requested by the Bethlehem Central School District.
  - e. The terms of compensation of the agent bank.

*General Provisions*

1. For outright U.S. Treasury purchases, certificates of deposits and repurchase agreements, there shall be competitive bids for rate quotations.
2. No more than 30% of the Bethlehem Central School District's total invested funds at the time of investment may be invested in repurchase agreements

3. The Bethlehem Central School District Assistant Superintendent for Business shall supply the Board on a semi-annual basis with an investment report identifying by type of investment, interest rate and terms, all current investment holdings by institution invested with, and any other information the Board may require. The last monthly report shall include a summary of the investment program for the entire year.
4. The Bethlehem Central School District Board shall periodically review this investment policy and make changes as it deems appropriate.
5. Review of compliance with this policy shall be a part of the annual audit process by the Bethlehem Central School District's independent auditor.

### *Glossary*

Agent Bank: A commercial bank or trust company under contract with the Bethlehem Central School District to receive, pay for, safeguard and account for investment securities purchased by the Bethlehem Central School District. Other responsibilities will be defined in agent bank agreement.

Banks: As defined in Article III of the State Banking Law.

Broker/Dealer: A financial firm, other than a commercial bank, engaged in the sale of U.S. Treasury obligations.

Certificate of Deposit: A negotiable receipt from a commercial bank or trust company for deposit of funds for a specified period of time at a specified rate of interest. A certificate of deposit ranges from 14 days to one year, and the minimum amount is generally \$100,000.

Collateral: Securities pledged to secure repayment of certificates of deposit and money market accounts.

Joint Custody Accounts: Account for the handling of securities purchased or held as collateral maintained in the names of both the district and the financial institution with whom they are dealing. The account is maintained by a third party (trust department is acceptable) which would provide written confirmation of securities held to the school district. Written joint custody agreements are required, specifying such points as failure of the financial institution to return funds to the school district at maturity and authorizing the custodian to release securities directly to the school district.

Mark to Market: The act of determining the current value of the securities.

Primary Dealer: The largest and soundest broker/dealers as designated by the Federal Reserve Bank.

Repurchase Agreement: Consists of a broker/dealer or bank selling U.S. Treasury securities for cash to the Bethlehem Central School District and, at the same time, agreeing to buy them back on an established date and at an agreed upon price including interest. These short-term investments usually range from overnight to six months in term. Repurchase agreements start at \$100,000. Payment is made against the delivery of the securities. Delivery is required.

Treasury Obligations: Consist of U.S. Government Treasury Bills, Bonds and Notes.

Treasury Bills: Short-term, direct obligations of the U.S. Government that are usually issued with maturities of three months, six months, or one year. Bills are offered in bearer form and are issued in amounts of \$10,000 and up, in multiples of \$5,000. Bills do not bear a stated interest rate; the interest is calculated by taking the difference between the discount price paid at purchase and the face amount (par) collected at maturity.

Treasury Bonds and Notes Direct obligations of the U.S. Government to pay a specified rate of interest for a specified period of time on the face value (par) of the instrument. Interest is paid semiannually, and the life of the notes is usually limited to ten years or under; bonds generally have maturities of 10-30 years. Treasury notes with a maturity through three years can usually be purchased in \$5,000 denominations and require a \$5,000 minimum purchase. Treasury notes with a term longer than three years, and Treasury Bonds, can usually be purchased in \$1,000 denominations and require a \$1,000 minimum purchase.

Ref: Education Law §§1604-a; 1723-a; 3651; 3652  
Local Finance Law §165.00  
General Municipal Law §§6-c-6-e; 6-j-6-n; 10; 11; 39

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