

5-0900.00 INVESTMENTS

5-0910.00 INTRODUCTION

5-0910.10 DEFINITIONS

“**Short Term Investment Pool (STIP)**” is a pooled investment fund operated by the Montana Board of Investments. Districts may contact the Board of Investments for more information at (406) 444-0001.

“**Repurchase agreement**” is a contract that specifies the minimum and maximum amount of public money that the board of trustees will invest in securities that the financial institution will sell to the board and mutually agree to repurchase them at a later date. A repurchase agreement is not a demand account. (7-6-213(2) and(3), MCA)

5-0910.20 BASIC REQUIREMENTS

Trustees have a fiduciary responsibility to invest the school district’s money in investments with terms most advantageous to the district. (20-9-213 and 20-9-604, MCA)

Authorized Investments

The Board of Trustees may direct the county treasurer to invest public money which is not needed for immediate use:

- a. In savings or time deposits in a state or national bank, building or loan association, savings and loan association, or credit union insured by the FDIC, FSLIC, or NCUA located in the state (20-9-213, MCA);
- b. In a repurchase agreement as authorized in 7-6-213, MCA;
- c. With the state unified investment program (STIP) established in 17-6-204, MCA;
- d. With a local or county investment pool formed under 20-9-511, MCA (A.R.M. ;
- e. In an investment account established under 20-9-235, MCA;
- f. In eligible securities as authorized in 7-6-202, MCA.

The investment program of a district should:

- a. Be aggressive in order to provide the maximum interest income to the district;
- b. Be approved and directed by the board of trustees;
- c. Be made on a timely basis subject to withdrawal in amounts necessary and without penalty;
- d. Obtain the highest yield possible within the limits of the law;
- e. Ensure safety of investments; and
- f. Include a register including all investing activities.

Investments must be redeemed as necessary to cover expenditures and payments. A fund that has an investment balance should never have a deficit cash balance. If this situation appears imminent, a portion or all of the investments should be redeemed.

County Treasurer’s Responsibilities

The county treasurer should:

- a. Invest the funds within 3 (three) working days (20-9-212, MCA);
- b. Obtain sufficient security from financial institutions to ensure safety and prompt payment of the investments and interest earned on investments; and
- c. Credit principal and interest to the fund that made the investment.

5-0910.20 BASIC REQUIREMENTS (Cont'd)

Investment Register

The district's investment register should include:

- a. Date of purchase;
- b. Number of the county treasurer's warrant issued in payment;
- c. Fund(s) making investment;
- d. Description of investment;
- e. Identification number of investment;
- f. Maturity date;
- g. Face value;
- h. Premium paid or discount on purchase;
- i. Net cost (Book value);
- j. Interest received on investment;
- k. County treasurer's receipt number covering deposit of interest; and
- l. Date of sale or redemption of investment.

For STIP investments, the district's investment register should include:

1. Date of transaction;
2. Nature of transaction (purchase, sale, income distribution, etc.);
3. Number of units involved;
4. Unit fair value;
5. Total fair value;
6. Unit accrued interest purchased;
7. Total accrued interest purchased;
8. Unit selling price;
9. Total investment balance (total fair value plus total accrued interest purchased);
10. Gain or loss;
11. Interest earned; and
12. Receipt number.

Interest

All interest collected on the deposits or investments must be credited to the fund from which the money was withdrawn, except that interest earned on account of the investment of money realized for the sale of bonds must be credited to the debt service fund or the building fund, at the discretion of the board of trustees (20-9-213(4), MCA).

The placement of the investment by the county treasurer is not subject to ratable distribution laws and must be done in accordance with the directive from the board of trustees (20-9-213(4), MCA).

Investment of Federal Moneys

Federal regulations require entities which receive federal financial assistance to follow procedures to minimize the time elapsed between the transfer of funds to them and the disbursement of the funds. Generally, the time elapsed between the transfer of Federal money to the district and the disbursement should be from three (3) to five (5) days. OPI grants are advanced to districts on the 10th of the month to cover expenditures through the 10th of the following month. Districts are not allowed to keep excessive federal cash. Interest earned on Federal money in excess of \$100 must be refunded to the grantor. See Section 9 of this manual.

5-0920.00 RECORDING INVESTMENT ACTIVITY

Investment of State and Local Moneys

Interest earned on state and local money must be deposited in the fund which earned the interest and should be spent for the same purposes as the money which earned the interest. Section 20-9-235, MCA, requires interest on general fund deposits be allocated for district property tax reduction.

5-0920.10 STATE SHORT-TERM INVESTMENT POOL (STIP)

Investments may be made through the State Short-Term Investment Pool (STIP) (20-9-213 and 17-6-204, MCA).

When STIP investments are purchased at any time other than the last business day of the month, the purchaser must pay an additional amount equal to the interest that has accumulated or accrued on the units since the last income distribution. The fair value and the accrued interest purchased must be accounted for separately in order to make a proper accounting for the money invested. The accrued interest purchased is written off when the investment is redeemed or upon the first distribution date, whichever comes first.

Example: On July 12, 20XX, 100 STIP units were purchased with the Transportation Fund:

	Per Unit	Total
Fair Value (Principal)	\$100.00 X 100 Units	\$10,000.00
Accrued Interest Purchased	3.27 X 100 Units	32.70
Total	103.27 X 100 Units	\$10,032.70

To record the purchase of STIP units:

Transportation Fund (10)

Debit: 111 Investments \$10,000.00

Debit: 115 Accrued Interest Purchased \$32.70

Credit: 620 or 101 Warrants Payable or Cash \$10,032.70

(To record the purchase of STIP units.) On the date of the next income distribution, the last business day of each month, July 31, 20XX, the accrued interest purchased would be returned together with interest earned from the date of purchase.

To record the receipt of interest income on STIP investments: For example, assume the interest received was \$68.90.

Transportation Fund (10)

Debit: 101 Cash \$68.90

Credit: 115 Accrued Interest Purchased \$32.70

Credit: 402 Revenue \$36.20

Revenue Subsidiary Ledger

X10-1510 Interest Income \$36.20

(To record the receipt of income on investments. This entry reduces the accrued interest purchased account to zero.)

5-0920.10 STATE SHORT-TERM INVESTMENT POOL (STIP) (Cont'd)

At fiscal year-end, to record the interest earned but not received by June 30: For example, assume the interest distribution on the last business day of the month of June was June 28. The district's interest income on the STIP units of the Transportation Fund for the last two days of June was \$165. (NOTE: If the accrued interest for a fund is less than \$100, do not accrue the amount as shown in this entry. This entry will be rare since several days of interest income on a fund's investment will be immaterial for most districts.)

Transportation Fund (10)	
Debit: 114 Interest Receivable	\$165
Credit: 402 Revenue	\$165
Revenue Subsidiary Ledger	
X10-1510 Interest Income	\$165
(To record interest earned but not received in cash by June 30.)	

In the next year, to record the receipt of the July interest payment: For example, assume the July interest distribution to the Transportation Fund, which includes \$165 earned on June 29 and 30, totals \$2500.

Transportation Fund (10)	
Debit: 101 Cash	\$2500
Credit: 114 Interest Receivable	\$165
Credit: 402 Revenue	\$2335
Revenue Subsidiary Ledger	
X10-1510 Interest Income	\$2335
(To record receipt of interest on STIP investments. This entry reduces the receivable to zero and records the revenue earned in the current fiscal year.)	

5-0920.20 REPURCHASE AGREEMENTS

Districts may direct the county treasurer to invest the public money of the district in repurchase agreements. When the county invests in repurchase agreements, the county maintains, in the same financial institution contracting for the repurchase agreement, a demand account into which daily deposits are made in amounts equal to the day's disbursements. The deposit is the proceeds of the redemption by the financial institution of securities previously purchased by the county under the provisions of the contract. The balance in the demand account is zero at the end of each business day (7-6-213(4), MCA).

The district will not record the investments purchased by the county repurchase agreement. The district will record the interest distributed to each fund used to purchase the investment.

To record interest earned on repurchase agreements:

Debit: 101 Cash	\$100
Credit: 402 Revenue	\$100
Revenue Subsidiary Ledger	
XXX-1510 Interest Income	\$100

5-0920.30 COUNTY INVESTMENT PROGRAM

A school district may participate in a unified county investment program. The district must enter into an interlocal agreement or notify the county treasurer in writing that the board of trustees, by resolution, directs the treasurer to include the district in the program. Interest distribution is based on the percentage of school district monies within the total amount invested. In lieu of an average daily cash balance method to distribute interest earnings, the average monthly balance is encouraged: beginning cash balance of a fund + the ending cash balance of a fund / 2 = average monthly cash balance.

The county may charge a fee to cover the cost of maintaining the investment program. Record the receipt of interest income as shown above for repurchase agreements. Charge any administration fee paid to the county treasurer's office to function 2513 Receiving and Disbursing Fund Services and expenditure object 860 Agent Fees as follows:

Debit: 101	Cash	\$1,000
Debit: 802	Expenditure Control	\$ 10
Credit: 402	Revenue Control	\$1,010
Revenue Subsidiary Ledger		
XXX-1510	Interest Income	\$1,010
Expenditure Subsidiary Ledger		
XXX-1XX-25XX-860		\$ 10

The county investment program may be the most secure and efficient way to maximize investment earnings.

5-0920.40 INVESTMENT ACCOUNTS

Section 20-9-235, MCA, allows school districts to establish investment accounts outside the county treasurer's control with companies complying with the provisions of Title 30, Chapter 10. These accounts may be spending accounts using checks or electronic payments. See Appendix F for the Administrative Rules concerning investment accounts. Due to the additional time, effort, and risk, school districts should expect additional audit expense when using investment accounts. Investment accounts, particularly spending accounts, require monthly reconciliation along with the usual reconciliation with the county treasurer. A formal written agreement with the county treasurer is required to establish an investment account. Investment accounts shift the responsibility for assuring that public deposits are adequately protected from the county treasurer to the school district.

5-0920.50 GAINS/LOSSES ON INVESTMENTS

Schools and cooperatives currently report their investments at cost. Effective June 30, 1998, GASB 31 requires certain investments to be reported at fair value rather than at cost. Investments which may still be reported **at cost** include: savings accounts, non-negotiable certificate of deposits, and shares with the Short Term Investment Pool (STIP). Investments which must be reported **at fair value** include: Fannie MAE's, Freddie MAC's, open end money market mutual funds, and repurchase agreements collateralized with long term investments subject to the fair value provisions of GASB 31. Most schools are not involved in these types of investments.

[See Appendix E for a comprehensive list of investments which should be reported at cost or fair value.]

The county treasurer, broker, or bank holding district investments will provide a report of the fair value of investments as of June 30. The difference between the fair value of investments at the beginning of the year and at the end of the year is an "unrealized" (i.e., paper) gain or loss. If the investment is subject to GASB 31, report the net unrealized gain or loss and report the investment at its current fair value.

5-0920.50 GAINS/LOSSES ON INVESTMENTS (cont'd)

Report the sum of [cash plus investments at fair value] on Line 1 "Cash & Investments Less Warrants Payable 620" of the Trustees' Financial Summary balance sheet. Use revenue source 1530 to report net "unrealized" gains or losses due to changes in fair value.

- Revenue account 1530 Net Increase (Decrease) in the Fair Value of Investments was previously called "Gain/Loss on Sale of Investments."
- School districts and cooperatives should avoid using revenue source 1510 Investment Earnings to report unrealized gains or losses because of possible adverse budget impacts. Revenue source 1510 Investment Earnings should be used for realized revenue from investments. That is, use it to report net profit or loss when the investment is sold.

GASB 31 requires a comparison of current fair value to the fair value LAST year end. In the year of implementation, restate investments at the beginning of the year to fair value on that date. For example, investments reported at cost on 6/30/X0 must be restated to fair value at that date. Compare that value to fair value at 6/30/X1. The Local Government Services Division recommends schools and cooperatives report gains and losses from the restatement of the beginning investment balance using revenue source 6100 Prior Period Revenue Adjustments. [See example on next page.]

Schools and cooperatives should use asset account 111 Investments to report investments purchased at cost and asset account 112 Increases and Decreases in the Fair Value of Investments to report temporary net gains and losses in fair value. The sum of accounts 111 and 112 represents the fair value of investments. School districts and cooperatives may establish these accounts at year-end on their records.

County Treasurers

County treasurers should issue June 30th reports as soon as possible after the close of the fiscal year and not later than July 10. If there are any delays in determining the fair value of investments or in determining each school district's or cooperative's share of an external investment pool, county treasurers should issue reports showing investments at cost so school districts can complete the budget process as prescribed by law. County treasurers should then issue revised reports of investments at fair value at a later date in order for school districts and cooperatives to adjust financial statements for audit purposes.

Material Gains or Losses

Please call OPI to discuss questions or potential impacts on the general fund budget if your school district experiences a material gain or loss (5% of total fund assets),

5-0920.50 GAINS\LOSSES ON INVESTMENTS (Cont'd)

IMPLEMENTING GASB 31

Example	Purchase	6/30/X0 Reporting	6/30/X1 Reporting
Investments at Cost	\$100,000	\$100,000	\$100,000
Investments at Fair Value	\$102,000	\$106,000	\$107,000

6/30/X0 Reporting:

Accounting Entry (any appropriate fund)

Debit: 111 Investments (6/30/X0 fair value - cost)	\$6,000
Credit: 402 Revenue	\$6,000

Revenue Subsidiary Ledger

XXX-1530 Net Increase(Decrease) in Fair Value of Invstmnts (6/30/X0 fair value - beginning fair value)	\$4,000
XXX-6100 Prior Period Rev Adjustment (only for 1st yr of GASB31, purch. fair value - purch. cost)	\$2,000

6/30/X0 Reporting on Trustees' Financial Summary

On Balance Sheet:

"Line 1 Cash and Investments Less Warrants Payable 620"	\$106,000 (mkt)
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On Schedule of Revenues, Expenditures and Changes in Fund Balance:

XXX-1530 Net Increase(Decrease) in Fair Value of Investments	\$4,000
XXX-6100 Prior Period Revenue Adjustment (only for implementation of GASB31)	\$2,000
Prior Year Fair Value	\$ 102,000
1st Year Fair Value	\$ 106,000
Net Increase in Fair Value	\$4,000

6/30/X1 Reporting:

Accounting Entry (any appropriate fund)

Debit: 111 Investments	\$1,000
Credit: 402 Revenue	\$1,000

Revenue Subsidiary Ledger

XXX-1530 Net Increase(Decrease) in Fair Value of Investments	\$1,000
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Reporting on Trustees' Financial Summary

Balance Sheet:

"Line 1 Cash and Investments Less Warrants Payable 620"	\$107,000
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On Schedule of Revenues, Expenditures and Changes in Fund Balance:

1st Year Fair Value	\$ 106,000
2nd Year Fair Value	\$ 107,000
Net Increase in Fair Value	\$1,000

Effect:

Increase in value of investments on Balance Sheet is \$7,000, which matches total unrealized gain shown on Schedule of Revenues, Expenditures, and Changes in Fund Balance.