



PMA[®]

Allowable Investments and Investment Accounting Methodologies

March 22, 2023

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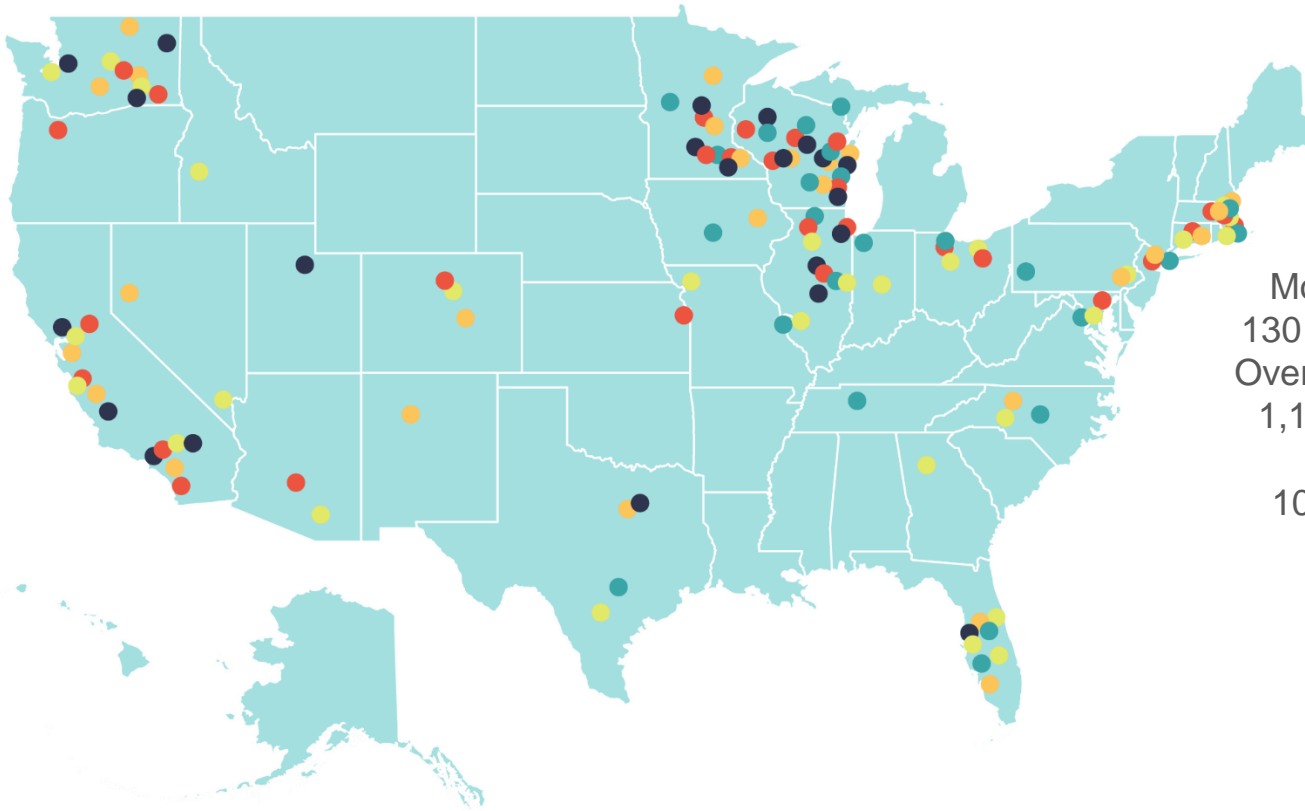
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CLA Overview



More than 8,500 professionals,
130 locations across the country.
Over 4,500 governmental entities
1,100 professional in Wisconsin
19 Wisconsin office locations
100 Wisconsin School Districts



Global

INDEPENDENT
NETWORK MEMBER

CLA (CliftonLarsonAllen LLP) is an independent network member of CLA Global. See [CLAglobal.com/disclaimer](https://www.claglobal.com/disclaimer).



PMA Overview

Serving the Public Sector for over 35 Years

- PMA Financial Network has been a leading provider of financial services to public entities since 1984

The PMA Companies (under common ownership)

- PMA Financial Network
- PMA Asset Management (SEC registered investment advisor)
- PMA Securities (Registered broker-dealer and municipal advisor member (FINRA and SIPC))

PMA Statistics

- Work almost exclusively with public funds
- The PMA companies collectively has 160 employees to meet the ongoing needs of our clients

Over \$37.7B in Assets Under Administration as of 12/31/2022*

- PMA Asset Management has over \$20.2B in investment advisory assets under management (as of 12/31/22)

*Total assets under administration include both money market pool assets for which the PMA Companies serve as fund administrator/accountant, marketer/distributor, fixed income program provider (brokerage services), and/or investment advisory, or separate institutional accounts.



Today's Topics

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Investment Vehicles and each's Accounting Considerations

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Accounting at Time of Purchase

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Marking to Market at FYE

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Bond Proceeds and Debt Issuance Accounting

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Other Accounting Considerations (OPEB, Cash Flow Borrowing, etc)

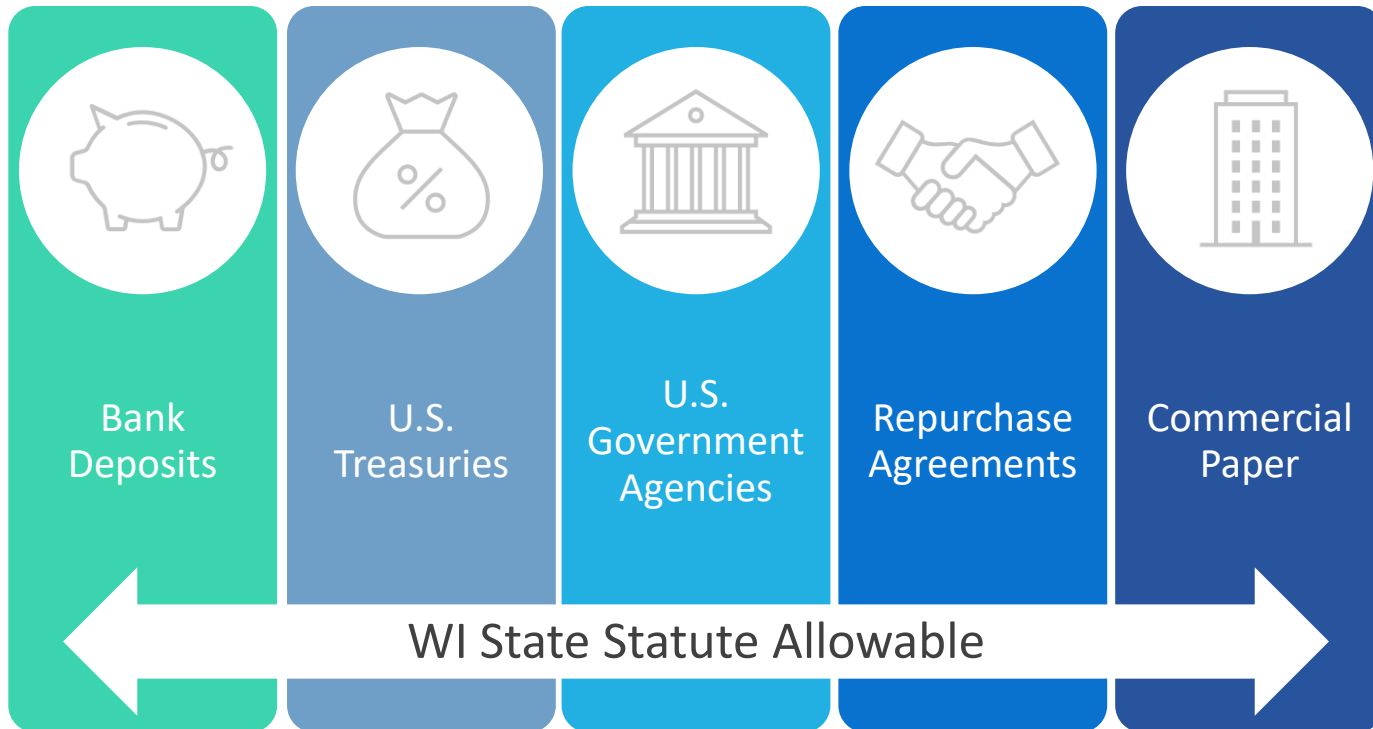
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Current Market Conditions



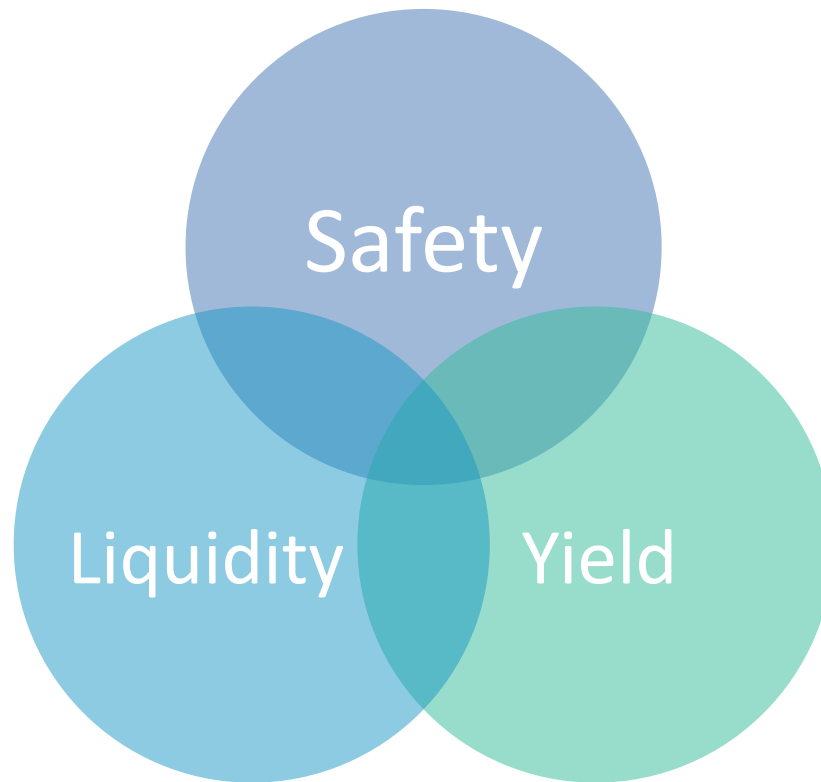
Allowable Investments and Investment Policy

Wisconsin State Statute § 66.0603





What does your Investment Policy state?





Money Markets

Price: Target \$1.00 share price

Security: Rated, Pledged Securities, or LOC

Settle: Trade Date

Interest: Accrued (Daily or Monthly), Variable or Fixed

Liquidity: Daily

Special Considerations:



Money Markets Accounting and Auditing Considerations

Fair Value Reporting:

N/A – Amortized Cost

Custodial Credit Risk:

Applicable if not registered in the entity's name or Held by the Trust department in the entity's name

Credit Risk:

Disclose rating or if unrated

Interest rate risk:

Weighted average maturity



Certificates of Deposit

Price: Par

Security: FDIC, Pledged Securities, or LOC

Settle: Trade Date

Interest: Paid at maturity

Liquidity: At maturity, broken with penalty



Certificates of Deposit – DTC eligible

Price: Par, Discount, or Premium

Security: FDIC

Settle: Generally, Trade + 1

Interest: Semi-annual coupon, Fixed

Liquidity: At maturity, sold at prevailing market value



Certificates of Deposit – Accounting and Auditing Considerations

Fair Value: Negotiable – Report at fair value and disclose Level I, II, or III
Non-negotiable – not subject

Custodial Credit Risk: Exposure beyond FDIC or collateral coverage

Interest rate risk: Negotiable – report maturity dates
Non-negotiable – not subject



US Treasury/Agency Securities

Price: Par, Discount, or Premium

Security: UST - Backed by full faith and credit of US Government
AGY – Implied backing of US Government

Settle: Generally Trade + 1

Interest: Generally semi-annual coupon, Fixed

Liquidity: At maturity, sold at prevailing market value



US Treasury/Agency Securities Accounting and Auditing Considerations

Fair Value: Report at Fair Value and Disclose Level I, II, or III

Custodial Credit Risk: Applicable if not registered in the entity's name or Held by the Trust department in the entity's name

Credit Risk: U.S. Treasuries – Exempt
U.S. Agencies – Disclose rating

Concentration of Credit Risk: U.S. Treasuries - Exempt
U.S. Agencies – Disclose holdings > 5% of portfolio with a single issuer

Interest Rate Risk: Disclose aggregated maturity information

Special Considerations: Communicating change in fair value on investments held to maturity



SMA and other Variable NAV Portfolios

Price: Defined by each underlying security

Security: Defined by each underlying security

Settle: Opportunity Driven

Interest: Income and Price control Market Values

Liquidity: Generally liquid, subject to Market Values

Special Considerations: Advisor usually given discretion over trading



Trading / Investment Placement & Accounting



+ Face Value	2,082,000.00
- Discount	(\$47,332.97)
= Investment Cost ("Price")	\$2,034,667.03
+ Accrued Interest ("Trade Interest")	\$884.27
= Total Cost ("Net Proceeds")	\$2,035,551.30

	Interest Income		
	Debit	Credit	
05/18/22	\$884.27		Accrued Interest
07/15/22		\$1,301.25	Coupon Payment
07/15/22		\$6,490.10	Amortized Discount
01/15/23		\$1,301.25	Coupon Payment
01/15/23		\$20,589.28	Amortized Discount
07/15/23		\$1,301.25	Coupon Payment
07/15/23		\$20,253.59	Amortized Discount
		\$50,352.45	Net Interest Income

	Discount	\$47,332.97	
	Day Count	423	
	Daily	<u>\$111.898276</u>	
Settle	05/18/22		
AD 1	07/15/22	58	\$6,490.10
AD 2	01/15/23	184	\$20,589.28
AD 3	07/15/23	181	\$20,253.59
Discount	Total	423	\$47,332.97

Investments – FY End / Marking-to-Market

Type	Settle Date	Maturity	M2M Date	Instrument	Cost	Par-Val/Mat. Val	Lower of Cost/Par	BVAL	Principal	Acc INT	MV Total - 9/1/22
CMS	9/1/22		09/01/22	CMS Balance	\$ 33.41	\$ 33.41					\$ 33.41
IS	9/1/22		09/01/22	IS Balance	\$ 1,403,858.41	\$ 1,403,858.41					\$ 1,403,858.41
SEC	6/2/22	9/15/22	09/01/22	US TREASURY N/B	\$ 229,250.07	\$ 229,000.00	1.112	99.984	\$ 228,964.22	\$ 1,586.82	\$ 230,551.04
SEC	6/2/22	10/13/22	09/01/22	TREASURY BILL	\$ 249,919.69	\$ 251,000.00	1.186	99.737	\$ 250,340.12	\$ 738.98	\$ 250,340.12
SEC	6/2/22	11/15/22	09/01/22	US TREASURY N/B	\$ 399,454.99	\$ 399,000.00	1.37	99.777	\$ 398,111.60	\$ 1,920.46	\$ 400,032.06
CD	6/1/22	12/15/22	09/01/22	FDIC BANK #1	\$ 234,000.00	\$ 235,821.82	1.442		\$ 234,000.00	\$ 849.17	\$ 234,849.17
CD	6/1/22	12/15/22	09/01/22	FDIC BANK #2	\$ 201,000.00	\$ 202,518.80	1.4		\$ 201,000.00	\$ 707.68	\$ 201,707.68
SEC	6/2/22	12/15/22	09/01/22	US TREASURY N/B	\$ 396,479.53	\$ 396,000.00	1.397	99.656	\$ 394,638.75	\$ 1,371.39	\$ 396,010.14
SEC	6/2/22	1/15/23	09/01/22	US TREASURY N/B	\$ 197,872.25	\$ 198,000.00	1.604	99.451	\$ 196,913.32	\$ 387.39	\$ 197,300.71
SEC	6/2/22	2/15/23	09/01/22	US TREASURY N/B	\$ 198,459.63	\$ 199,000.00	1.764	99.180	\$ 197,367.58	\$ 126.40	\$ 197,493.98
SEC	6/2/22	3/15/23	09/01/22	US TREASURY N/B	\$ 398,834.06	\$ 403,000.00	1.831	98.547	\$ 397,143.91	\$ 930.84	\$ 398,074.75
SEC	6/2/22	4/15/23	09/01/22	US TREASURY N/B	\$ 399,026.64	\$ 405,000.00	1.97	98.150	\$ 397,509.08	\$ 384.53	\$ 397,893.61
SEC	6/2/22	5/15/23	09/01/22	US TREASURY N/B	\$ 1,299,434.06	\$ 1,323,000.00	2.025	97.783	\$ 1,293,671.78	\$ 489.83	\$ 1,294,161.61
CD	6/1/22	6/1/23	09/01/22	FDIC BANK #3	\$ 244,900.00	\$ 249,990.14	2.079		\$ 244,900.00	\$ 1,279.81	\$ 246,179.81
					\$ 5,852,522.74	\$ 5,895,222.58				\$ 27,553.66	\$ 5,848,486.49

Why and when is Marking to Market important?

Tax-Exempt Debt Issuance - Arbitrage 101



Earning above your bond yield? An arbitrage rebate payment is due to the IRS unless you qualify for a spending exception. Common examples below:

Small-issuer Exception

- For schools, \$15mm tax-exempt per calendar year*

*At least \$10mm must be for public school construction

2-year Spending Exception

2-year exception

- 75% of proceeds for construction of a project to be owned by a governmental unit or 501(c)(3) organization

Spending-period Schedule

- 10% - 6 months
- 45% - 12 months
- 75% - 18 months
- 100% - 24 months



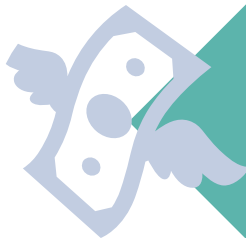
Bond Proceeds / Debt Issuance Accounting Considerations



Bond Proceeds –WUFAR source
870s



Bond Premium – WUFAR source
968 (Capital) or 879
(Refinancing)



Debt Principal Repayment –
WUFAR function 280000s,
WUFAR objects 670s (Principal)
680s (Interest), 690s (Other)



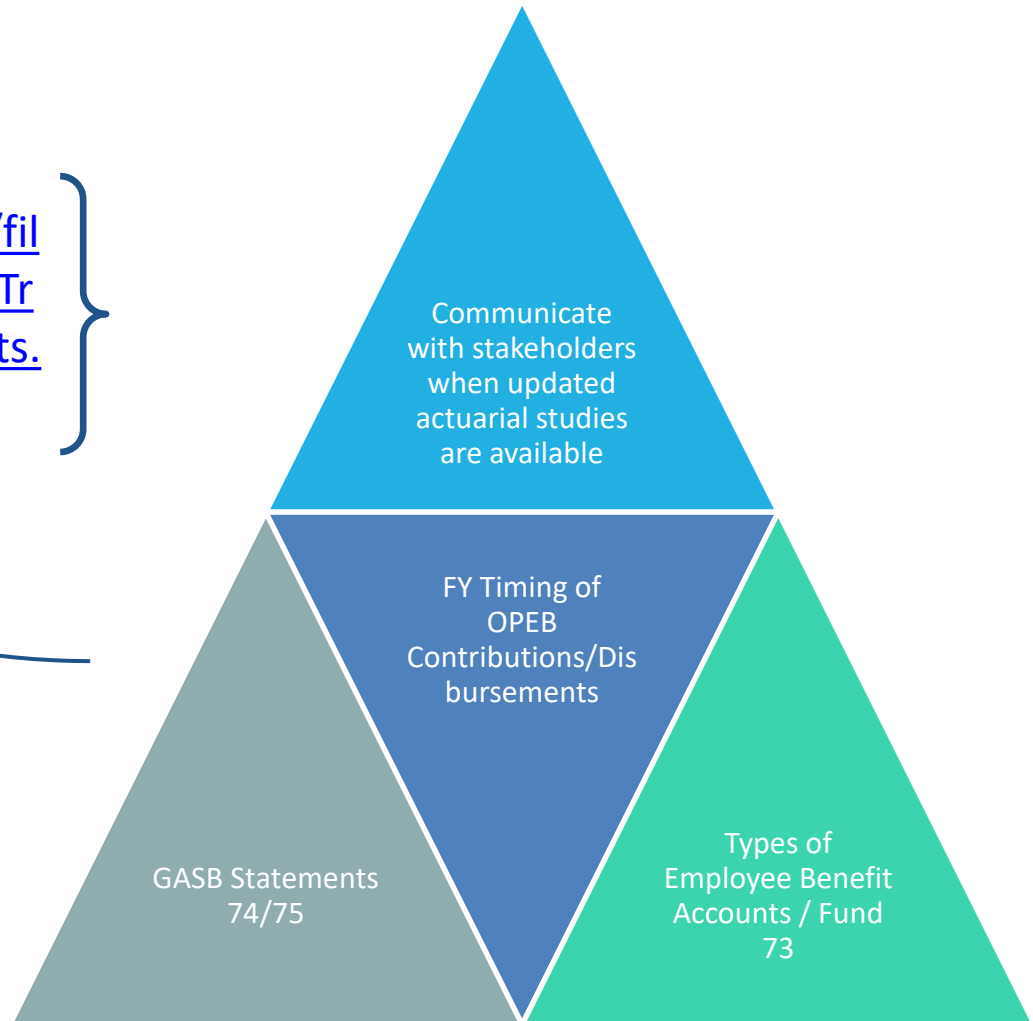
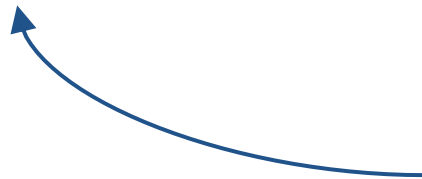
Additional disclosures for refinancing

- Current, Advanced or Crossover refinancing
- Economic Gain
- Deferred amounts on refunding.



OPEB Considerations

[https://dpi.wi.gov/sites/default/files/imce/sfs/Employee Benefit Trust Accounts and Requirements.pdf](https://dpi.wi.gov/sites/default/files/imce/sfs/Employee_Benefit_Trust_Accounts_and_Requirements.pdf)



Cash Flow Borrowing, Accounting for LOCs/TRANs



State Statutes

- Borrowing Amounts
- LOC over FYE



Proceeds and Principal –
WUFAR Balance Sheet
811100 Temporary Notes
Payable



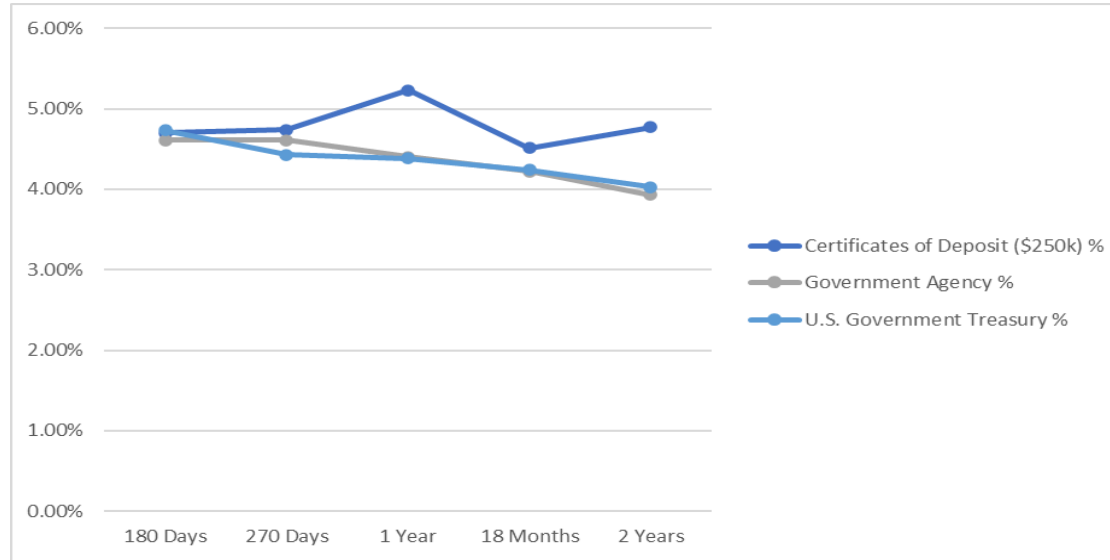
Interest expense – WUFAR
object 682



Accrued interest payable–
WUFAR object WUFAR
balance sheet 811700



Market Conditions



	180 Days	270 Days	1 Year	18 Months	2 Years
Certificates of Deposit (\$250k) %	4.70%	4.74%	5.23%	4.51%	4.77%
Government Agency %	4.61%	4.61%	4.40%	4.22%	3.93%
U.S. Government Treasury %	4.73%	4.43%	4.38%	4.24%	4.03%

	WISC-IS	ICS	ICS
Liquid Yields	4.65%	4.53%	4.53%
Collateral/Insurance/Rating	S&P AAAm	FDIC Insured	FDIC Insured

****Rates as of 03/16/2023. Rates presented net of all fees. "WISC-IS" (WISC Investment Series). "ICS" (Insured Cash Sweep)**

A decorative graphic element consisting of a triangle with three segments in shades of green and blue.

GFOA Best Practices

Develop and comply with an investment policy

Coordinate debt management and investment of bond proceeds activities

Understand the SEC Municipal Advisor rule as it relates to investments

Specify an investment officer to manage and monitor drawdown, investments, custody, tax law, reporting

Review legal requirements established by trusts, resolutions, fiscal agents, rating agencies, etc. for compliance

Understand fees and fee sharing agreements when working with brokers to eliminate conflicts of interest

Seek competitive bids and maintain records



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