

Request for Approval: Transfer and Subsequent Investment of \$500,000
Academy of Integrated Arts Board of Directors Meeting
December 8, 2023

Request: Transfer \$500,000 cash from Security Bank to Morgan Stanley to be invested in US Treasury of 3-month duration. This allows AFIA to take advantage of higher interest rates offered by safe investments while still complying with regulations governing the safekeeping of public funds and maintaining reasonable liquidity. Prior to maturity, Finance Committee will recommend whether or not to reinvest some or all of this amount in another US Treasury based on existing forecast data and prevailing interest rates.

US Treasury Risk: US Treasuries are considered very safe. But no investment is completely risk free.

- Government shut down – in this case, interest payment may be delayed.
- Fed interest rate increase –market value of our Treasury could go down. That is, if we had to sell the Treasury to raise cash before it matured, we could lose some of our original investment.

Mitigating these risks are: short (3 month) duration; highly unlikely these funds will be needed for operations in the next 3 months.

Background: AFIA began pandemic in a strong financial position and remains so today due to:

- unprecedented Federal funding (Covid)
- state funding increases
- significant multi-year grants
- prudent expense management
- the measured implementation of the team-teaching model

Current Analysis:

- November 2023 cash approximately \$1.8M
- monthly cash balance forecast to be quite steady
- forecast cash on June 30, 2024 = \$1.9M or 140 “days cash”
- expect the strong financial position to last through most of SY25

More information follows:

- Safekeeping of funds
- Detailed cash and cash equivalent balances
- Detailed explanation of “Days Cash”

Safekeeping of Funds

Obviously, banks are regulated as to what they can do with your funds. But the fact of the matter is this: the money in your bank account is essentially a loan you have made to that bank. Like any lender, you want assurances you will be repaid. In other words, you want to be sure your money will be there when you need it. Because AFIA receives public funds, state law governs how we must protect those funds.

Strong Financial Institutions AFIA's funds are held at:

- Security Bank of Kansas City – Established in 2017 by the consolidation of several smaller banks. April 2022 Kansas City Business Journal named Security Bank first in their “KC’s Five Strongest Large Banks of 2021” article.
- Community First Bank – Oldest bank in Kansas City, Kansas. Loaned AFIA Holding over \$1M for school renovations. Partner in the New Market Tax Credit program.
- Morgan Stanley – Global bank and financial services company

Federal Deposit Insurance Corporation (FDIC): Agency that provides deposit insurance to protect funds in the event of bank failure. Deposits are automatically insured up to \$250,000. With total cash near \$2M, AFIA would have to make deposits at 8 different banks to be fully insured by the FDIC. This is not practicable.

Repurchase Agreement Account: The bank “sweeps” funds in excess of \$250,000 each night into an account that is collateralized by safe investments (eg. US Treasuries). This is a more convenient option for a checking account that has a lot of activity and a daily balance that can fluctuate above and below the \$250,000 threshold often.

Direct Pledge of Security: Bank pledges to you a safe security they own as collateral for amounts on deposit in excess of \$250,000.

Other Approved Investments: There is an extensive list of investments that are considered acceptable for public funds. US Treasury investments are the only one AFIA uses at this point.

AFIA Cash and Cash Equivalents as of November 2023

	Interest Rate	Maturity Date	Security First	Community First	Morgan Stanley	Total
Checking	-	-	\$250,000	\$150,000		\$400,000
Money Market	5.00%	-			\$247,000	\$247,000
Repurchase Agreement Account**	1.15%	-	\$1,065,000			\$1,065,000
Certificate of Deposit	5.50%	Feb 2025		\$150,000		\$150,000
			\$1,315,000	\$300,000	\$247,000	\$1,862,000
How are AFIA's funds secured?						
Insured by FDIC			\$250,000	\$250,000	\$247,000	\$747,000
Repurchase Agreement			\$1,065,000			\$1,065,000
Bank pledge of US Treasury as collateral				\$50,000		\$50,000
			\$1,315,000	\$300,000	\$247,000	\$1,862,000

**** Propose investing \$500,000 of this amount in 3 month Treasury through Morgan Stanley. Earn more than existing 1.15%**

Days Cash

Definition	Given what it costs to operate the school, how long could AFIA operate on existing cash balance.	
Rough analogy	If I left my job, how long could I pay my bills before I ran out of money.	
AFIA Forecast	SY 24 Income	\$5,416,000
	SY24 Expenses	\$5,112,000
	Cash on Jun 30, 2024	\$1,964,000
Calculation <div> <div> Step 1 Calculate cost per day to operate the school. <div> <div>\$5,112,000</div> <div>365</div> <div>\$14,005</div> </div> <div> SY24 Expenses divided by days in a year Cost per day to operate AFIA </div> </div> </div> <div> <div> Step 2 Calculate how many days cash balance can last <div> <div>\$1,964,000</div> <div>\$14,005</div> <div>140</div> </div> <div> Cash at Jun 30, 24 divided by Cost per day to operate AFIA "Days Cash" </div> </div> </div>		
Background	Unprecedented Federal covid related funding, state funding increases, and significant multi - year grants have allowed AFIA to substantially increase educating staff to support a team teaching model that we hope will not only address Covid related learning set-backs but also the significant needs of our student demographic.	
Current Analysis	Based upon existing forecast, AFIA expects to end the year with \$1.9M or 140 days cash. We expect the strong financial position to last through most of SY25.	
Strategy	AFIA will follow Missouri laws and guidelines governing deposits of public funds while trying to maximize the earning power of those funds in this current environment (higher interest rates; favorable days cash)	