

# Policy Guide



Policy No. 609

Section FINANCES

Title INVESTMENT OF DISTRICT FUNDS

Adopted NOVEMBER 20, 2014

Revised NOVEMBER 20, 2018

<p><b>Section 1</b></p>	<p style="text-align: center;"><b>POLICY NO. 609 INVESTMENT OF DISTRICT FUNDS</b></p> <p><b><u>Purpose</u></b></p> <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 with the following principles:</p> <p><b>Legality</b> - All investments shall be made in accordance with applicable laws of Pennsylvania.</p> <p><b>Safety</b> - Preservation of principal shall be of highest priority. Preservation of principal in the portfolio of investments shall be ensured by diversification and other means of minimizing credit risk, market risk and interest rate risk and by thoroughly investigating and reviewing the performance of all investment providers and professionals.</p> <p><b>Liquidity</b> - 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><b>Yield</b> - 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>	
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<b>Section 2</b>	<p><b><u>Authority</u></b></p> <p>All investments of the District made by an officer and/or employee of the District shall be made in accordance with this policy, applicable laws, and the Board-approved investment program.</p>	<p>SC 440.1, 621, 622, 623 53 P.S. 5406, 5410.1</p>
<b>Section 3</b>	<p><b><u>Definitions</u></b></p> <p><b>Act 10 Permissible Investments</b> – 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> <p><b>School Code Permissible Investments</b> – Any investment 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> <p><b>Short-term</b> – Any period thirteen (13) months or less.</p> <p><b>Long-term</b> – Any period exceeding forty-eight (48) months duration.</p> <p><b>Mid-range</b> – Any period between short-term and long-term.</p> <p><b>Bankers’ acceptances</b> – Banker’s 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.</p> <p><b>Collateral</b> – Security pledged by a financial institution to a governmental entity for its deposit.</p> <p><b>Commercial paper</b> – 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)</p>	<p>SC 440.1 53 P.S. 5406, 5410.1</p> <p>SC 440.1</p>

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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 that a counterparty to an investment transaction will not fulfill its obligations. Overall credit risk can be associated with the issuer of a security, with a financial institution holding deposits, or with a party holding securities or collateral. Credit risk exposure can be affected by a concentration of deposits or investments in any one (1) investment type or with any one (1) counterparty.

**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 deposit. Investments depending on substantial overseas activities or markets may present related foreign currency risk.

**Interest rate risk** – The risk that changes in interest rates will adversely affect the fair value of an investment.

**Issuer** – The entity that has the authority to distribute a security or other investment. A bond issuer is the entity that is legally obligated to make principal and interest payments to bond

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holders. In the case of mutual funds, external investment pools, and other pooled investments, issuer refers to the entity invested in, not the investment company-manager or pool sponsor.

**Investment program** – The specifically enumerated and Board approved investment strategy.

**Local Government Investment Pool (LGIP)** – An investment trust or pool organized by groups of political subdivisions or municipal authorities pursuant to Section 521 of the Public School Code of 1949, or pursuant to the Intergovernmental Cooperation Law, 53 Pa. C.S.A. Sec. 2301 et seq., for the purpose of investing funds of such political subdivisions or municipal authorities for their exclusive benefit and in accordance with the laws governing their permissible investments. LGIPs include, but are not limited to, the Pennsylvania School District Liquid Asset Fund (PSDLAF), the Pennsylvania Local Government Investment Trust (PLGIT), and for purposes of this policy, the PA INVEST program operated by the Pennsylvania Treasury Department.

**Market Risk** – The risk that the market value of an investment, collateral protecting a deposit, or securities underlying a repurchase agreement will decline. Market risk is affected by the length to maturity of a security, the need to liquidate a security before maturity, the extent that collateral exceeds the amount invested, and the frequency at which the amount of collateral is adjusted for changing market values.

**Repurchase agreement** –

- a. An agreement in which a governmental entity (buyer-lender) transfers cash to a broker-dealer or financial institution (seller-borrower); the broker-dealer or financial institution transfers securities to the entity and promises to repay the cash plus interest in exchange for the same securities.
- b. A generic term for an agreement in which a governmental entity (buyer-lender) transfers cash to a broker-dealer or financial institution (seller-borrower); the broker-dealer or financial institution transfers

SC 521  
53 Pa. C.S.A. 2301  
et seq.

<p><b>Section 4</b></p>	<p style="text-align: center;"><b>POLICY NO. 609</b> <b>INVESTMENT OF DISTRICT FUNDS</b></p> <p>securities to the entity and promises to repay the cash plus interest in exchange for the same securities (as in definition (a) above) or for different securities.</p> <p><b>Shares of an investment company</b> – For purposes of School Code Permissible Investments, shares of an investment company registered under the Investment Company Act of 1940 (54 Stat. 789, 15 U.S.C. Sec. 80a-1 et seq.), and whose shares 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><b>Weighted average maturity</b> – 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><b><u>Delegation of Responsibility</u></b></p> <p>The Board shall delegate to the Assistant to the Superintendent for Operations 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 Assistant to the Superintendent for Operations based upon the anticipated cash flow for general and segregated/ designated funds of the District (i.e. general, capital reserve, bond, etc.), including bond proceeds, taking into account the anticipated liquidity needs of each fund. The investment program shall be submitted to the Board no later than sixty (60) days after adoption of the annual budget.</p> <p>The plan may provide for moneys from more than one (1) fund under school district control for the purchase of any single investment, provided that each of the funds combined for the purpose shall be accounted for separately in all respects and that the earnings from the investment are separately and individually computed and recorded, and credited to the accounts from which the investment was purchased.</p>	<p>SC 440.1 15 U.S.C. 77a et seq. 15 U.S.C. 80a-1 et seq.</p> <p>SC 440.1</p>
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The plan shall not encompass the investment of any student activity or class-related funds separately managed pursuant to School Code Section 511.

SC 511  
Pol. 618

The Assistant to the Superintendent for Operations shall report quarterly to the Board the following:

SC 440.1  
72 P.S. 3836-1 et seq.

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. Transactions occurring since the last report.
6. The means by which any deposits exceeding insurance limits are collateralized.
7. Other information required by the Board.

This report may, but is not required to, include the information regarding depository balances, earnings and transactions required by the School Code to be reported to the Board monthly as set forth in Policy 608.

SC 624  
Pol. 608

If there is a major change in the District's investment portfolio, such as a transfer of funds, the Assistant to the Superintendent for Operations will alert the Board at that time and not wait for the quarterly report.

The Board directs the Superintendent or his/her designee to develop 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.



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listed in items 1 through 4 above and repurchase agreements fully collateralized by such investments.

- b. The investment company is managed so as to maintain its shares at a constant net asset value in accordance with 17 CFR Sec. 270 2a-7 (relating to money market funds).
  - c. The investment company is rated in the highest category by a nationally recognized statistical rating organization.
6. Local Government Investment Pools (LGIPs) as defined in this policy.
7. Repurchase agreements with respect to U.S. Treasury bills or obligations, participations or other instruments of or guaranteed by the U.S. or any federal agency, instrumentality or U.S. government-sponsored.

Act 10 Permissible Investments

- 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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4. Negotiable certificates of deposit or other evidences of deposit, with a remaining maturity of three (3) years or less, issued by a nationally or state-chartered bank, a federal or state savings and loan association or a state-licensed branch of a foreign bank.
  - a. For obligations with a maturity of one (1) year or less, the debt obligations of the issuing institution or its parent must be rated in the top short-term rating category by at least two (2) nationally recognized statistical ratings organizations.
  - b. For obligations with a maturity in excess of one (1) year, the senior debt obligations of the issuing institution or its parent must be rated at least "A" or its equivalent by at least two (2) nationally recognized statistical ratings organizations.
  
5. 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:
  - a. The investments of the company are the authorized investments under 53 P.S. §5410.1, subsection (a) (Act 10, Section 1.1(a)).
  - b. The investment company is managed in accordance with 17 CFR Sec. 270.2a-7 (relating to money market funds).
  - c. The investment company is rated in the highest category by a nationally recognized rating agency.

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Management of Investment and Collateral

All securities or other investments in which the school district invests or that collateralize school district investments shall be managed as provided in this policy and in the school district's investment plan annually approved by the Board.

The plan shall require that securities purchased as investments be purchased in the name of the school district and held in custody for the benefit of the school district as provided in the investment plan and authorized custodian agreements. The plan may make exceptions to such requirements for investments in LGIPs as defined in this policy, or for the purchase of shares of an investment company as defined in this policy.

If, after purchase, the rating of any instrument is reduced and no longer in compliance with Board policy, the individual responsible for district investments shall advise the Board at the earliest opportunity of such action and make recommendations for altering investments.

The foregoing rating change related requirement(s) do(es) not apply to investments in LGIPs as defined in this policy.

For purposes of interest rate disclosure in the annual financial report, the method of determining interest rate risk shall be based on weighted average maturity.

Foreign Currency and Related Risk

District funds shall not be invested in foreign currency. To the extent other permissible investments are exposed to related foreign currency risk; they shall be disclosed as required by GASB Statement 40.

Bond Proceeds

Investment of bond proceeds shall be managed and reported to the Board in accordance with the Local Government Unit Debt Act, this policy, and applicable federal and state laws.

SC 440.1

53 Pa. C.S.A. Sec. 8001 *et seq.*, 8224

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Protection of Savings Accounts, Time Deposits, Share Accounts  
or Other Depository Balances in Excess of FDIC Insurance  
Limits

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:

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:
  - a. U.S. Treasury Securities.
  - b. 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.
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).

It shall be the responsibility of the Assistant to the Superintendent for Operations 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.

Following a review of valuation, the Assistant to the Superintendent for Operations 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 valuation review and any additional collateral shall be included in the periodic reports to the Board regarding the investment program.

SC 440.1  
72 P.S. 3836-1 et  
seq.

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seq.

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Reporting Requirement for Local Government Investment Pools (LGIPs)

Local Government Investment Pools (LGIPs) pool the resources of participating government entities and invest in various securities as permitted under state law, so that participating governments can benefit from economies of scale, professional fund management and other advantages.

Recognizing that LGIPs invest directly in permissible securities on behalf of the participating government entities, which in turn have proportional ownership rights in those securities, district investments in a LGIP shall not be subject to the collateral requirements of this policy, provided that the LGIP:

1. Makes available to participants daily and monthly statements, and other information from which the status of the investments can be verified.
2. Provides an audited annual financial report to each participating government entity.

Further Risk Mitigation for Act 10 Permissible Investments

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:

1. It cannot be assumed that negotiable certificates of deposit are collateralized.
2. A significantly more thorough level of due diligence is required.
3. Any investment in the fourth category of Act 10 Permissible Investments listed above (negotiable certificates of deposit or other evidences of deposit) must have a maturity not exceeding one (1) year in duration.

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4. In addition to verification of rating by a nationally recognized statistical rating organization and other due diligence requirements, the investigation of Act 10 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 organization(s)).
5. 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.

Audit

The Board directs that all investment records be subject to annual audit by the District's independent auditors.

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.

Conflict of Interest Avoidance and Disclosure

Designated officers and employees involved in the District's investment process shall disclose in writing to the Board any material conflict of interest or material potential conflict of interest which exists because of personal relationships or personal business activity between the Investment Officer or other employees and any depository institution, broker, dealer, investment advisor, or other investment provider or professional serving the District. The designated officers or other employees shall refrain from any personal business activity that could impair their ability to make impartial decisions in managing the annual investment plan.

Pol. 619

65 Pa C.S.A. 1101  
et seq.

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All depository institutions, repurchase agreement providers, brokers, and investment advisors and managers shall disclose in writing to the District: (1) any fees or other compensation paid to or received from a third party with respect to an district investment; and (2) any ownership of or by a parent corporation which owns any other depository institution, broker, dealer, investment advisor, or other investment provider or professional which does business with the District.

All investment advisors shall verify in writing or by electronic signature that they have received a copy of this policy. Such written or electronic 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.

**References:**

School Code – 24 P.S. Sec. 218, 440.1, 511, 521, 621, 622, 623, 624

Ethics Standards And Financial Disclosure – 65 P.A. C.S.A. Sec. 1101 et seq.

Local Government Unit Debt Act – 53 Pa. C.S.A. Sec. 2301 et seq., 8001 et seq.

Investment of Public Corporation or Authority Funds – 53 P.S. 5406, 5410.1

U.S. Code Chapter 2A Securities and Trust Indentures – 15 U.S.C. 77a et seq., 80a et seq.

Standardizing the Procedures for Pledges of Assets – 72 P.S. 3836-1 et seq.

Rules and Regulations, Investment Company Act of 1940 –17 CFR Part 270

Governmental Accounting Standards Board, Statement No. 3, 40

Board Policy – 608, 618, 619