



Book	BHASD Policies
Section	600 Finances
Title	Investment of District Funds
Number	609
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### **Purpose**

It shall be the policy of the Board to optimize its return on funds available for investment through investment of cash balances in such a way as to minimize non-invested balances and to maximize return on investments consistent with the following principles:

**Legality** - All investments shall be made in accordance with applicable laws of Pennsylvania.

**Safety** – 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 risk and by thoroughly investigating and reviewing the performance of all investment providers and professionals.

**Liquidity** - Investments shall remain sufficiently liquid to meet all operating requirements that are reasonably anticipated.

**Yield** - Investments shall be made with the objective of attaining a market-average rate of return throughout the budgetary and economic cycles, taking into account risk constraints and liquidity needs.

### **Authority**

The Business Manager shall implement the school district's investment program in accordance with this policy and applicable laws. [\[1\]](#)[\[2\]](#)[\[3\]](#)[\[4\]](#)[\[5\]](#)[\[6\]](#)

### **Definitions**

**Act 10 Permissible Investments** – 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). [\[1\]](#)[\[5\]](#)[\[6\]](#)

**School Code Permissible Investments** – 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). [\[1\]](#)

**Short-term** – Any period twelve (12) months or less.

**Long-term** – Any period exceeding forty-eight (48) months.

**Mid-range** – Any period between short-term and long-term.

**Collateral** – Security pledged by a financial institution to a governmental entity for its deposit.

**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 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.

**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.[\[7\]](#)

**Weighted average maturity** – 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.

### **Delegation of Responsibility**

The Board shall designate the Business Manager to implement the school district's investment program in accordance with this policy, related procedures, and applicable laws.[\[1\]](#)

The Business Manager shall report monthly to the Board the following:[\[1\]](#)[\[8\]](#)

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. The means by which any deposits exceeding insurance limits are collateralized.
6. 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.[\[10\]](#)[\[9\]](#)

### **Guidelines**

Investments permitted by this policy are those defined in law and enumerated in this policy that are appropriately collateralized in accordance with this policy and applicable laws.[\[1\]](#)

### **School Code Permissible Investments**

1. United States Treasury bills.
2. Short-term obligations of the United States Government or its agencies or instrumentalities.
3. Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation (FDIC) or the Federal Savings and Loan Insurance Corporation (FSLIC) or the National Credit Union Share Insurance Fund (NCUSIF) to the extent that such accounts are so insured, and, for any amounts above the insured maximum, provided

that approved collateral as provided by law therefore shall be pledged by the depository.

4. Obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or of any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.
5. Local Government Investment Pools (LGIPs) as defined in this policy.

### 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.

### Management of Investments 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.[\[1\]](#)

If, after purchase, the rating of any instrument is reduced and no longer in compliance with Board policy, the Business Manager shall replace the investment immediately upon receipt of notice of the rating change and notify the Board of the rating change, action taken and replacement investment.

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.[\[11\]](#)

### 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:[\[1\]\[8\]](#)

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).[\[8\]](#)

It shall be the responsibility of the Business Manager 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 Business Manager 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.

#### 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; and
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 Business Manager 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. 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)).
4. 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.[\[12\]](#)

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

The Business Manager and any other district employee performing functions related to the investment program 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 Business Manager or other employees and any depository institution, broker, dealer, investment advisor, or other investment provider or professional serving the district. The Business Manager or other employees shall refrain from any personal business activity that could impair ability to make impartial decisions in managing the annual investment plan. [\[13\]](#)

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 any 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 that they have received and reviewed a copy of this Board policy and agree to comply with this policy and all applicable laws related to school district investments.

### **PSBA Revision 5/16 © 2016 PSBA**

Legal

[1. 24 P.S. 440.1](#)

[2. 24 P.S. 621](#)

[3. 24 P.S. 622](#)

[4. 24 P.S. 623](#)

[5. 53 P.S. 5406](#)

[6. 53 P.S. 5410.1](#)

[7. 24 P.S. 521](#)

[8. 72 P.S. 3836-1 et seq](#)

[9. 24 P.S. 624](#)

10. Pol. 608

[11. 53 Pa. C.S.A. 8001 et seq](#)

12. Pol. 619

[13. 65 Pa. C.S.A. 1101 et seq](#)

[24 P.S. 218](#)

Governmental Accounting Standards Board, Statement No. 3 (amended by Statement 40)

Governmental Accounting Standards Board, Statement No. 40

Last Modified by Katharine Ege on October 5, 2016