

# EPHRATA AREA SCHOOL DISTRICT

SECTION: FINANCES  
 TITLE: INVESTMENT OF DISTRICT FUNDS  
 ADOPTED: May 12, 2014  
 REVISED: January 29, 2018

| 609. INVESTMENT OF DISTRICT FUNDS  |  |
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| <p>1. Purpose</p>  | <p>It is Board policy to optimize its return on funds available for investing through investment of cash balances so as to minimize uninvested balances and to obtain a market rate of return on investments consistent with the following principles:</p>   |
| <p>2. Authority<br/>                     SC 440.1, 621-625<br/>                     53 P.S. Sec. 5406, 5410.1</p>                            | <p>Legality - All investments shall be made in accordance with applicable laws.</p> <p>Safety - Preservation of principal shall be of highest priority. Preservation of principal shall be ensured by diversification and other means of minimizing credit risk, concentration of credit risk, market risk and interest rate risk, and by thorough due diligence investigation of all investment providers and professionals.</p> <p>Liquidity - Investments shall remain sufficiently liquid to meet all anticipated operating requirements.</p> <p>Yield - Investments shall be made with the objective of attaining a market-average rate of return, taking into account investment risk constraints and liquidity needs.</p> |
| <p>3. Definitions<br/>                     SC 440.1<br/>                     53 P.S. Sec. 5406, 5410.1</p> <p>72 P.S. Sec. 3836-1 et seq</p> | <p>Short-term – Any period thirteen (13) months or less.</p> <p>Long-term – Any period exceeding forty-eight (48) months.</p> <p>Mid-range – Any period between short-term and long-term.</p> <p>Collateral – Security pledged to the District by a financial institution to secure repayment of a deposit or other investment.</p> <p>Concentration of credit risk – The risk of loss attributed to the magnitude of investment in a single institution, issuer, pool, or instrument.</p>   |

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| <p>4. Delegation of Responsibility<br/>SC 440.1</p> <p>SC 621</p> <p>SC 511<br/>Pol. 618</p> | <p>Credit risk – The risk that another party 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.</p> <p>Interest rate risk – The risk that changes in interest rates will adversely affect the market value of an investment.</p> <p>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, and the quality of collateral.</p> <p><b><u>Investment Officer</u></b></p> <p>The Board shall designate the Treasurer or Business Manager as the Investment Officer, who shall implement a District investment plan.</p> <p><b><u>Annual Investment Plan</u></b></p> <p>The Investment Officer shall prepare an annual investment plan establishing a general investment plan for the general fund and other funds, including bond proceeds. The plan shall include, among other things: anticipated fiscal year cash flow, so that investments can be made as early as possible, with maturities consistent with cash needs (compliance with this requirement envisions sharing with the Board a look-back of the prior year or two cash flows and communicating known or anticipated changes for the current year); Local Government Investment Pools to be used by the District; and any planned schedule for updating due diligence as required below in this policy.</p> <p>Unless such action has been taken at a prior time, the plan shall include designation of one or more banks as depositories for District funds. Such designation means that such institutions will be the primary depositories for District funds during the school year, but does not preclude deposits otherwise authorized by the Board with other financial institutions.</p> <p>The plan may allow moneys from more than one fund to be combined for the purchase of a single investment, provided each combined fund is accounted for separately.</p> <p>The plan need not address student activity or class-related funds separately managed pursuant to School Code Section 511.</p> <p>The plan shall be submitted for Board approval by October 1 of each year.</p> |
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| <p>SC 440.1<br/>72 P.S. Sec. 3836-1 et seq</p> <p>SC 624</p> <p>5. Guidelines</p> | <p><b><u>Monthly Investment Reports</u></b></p> <p>The Investment Officer shall report to the Board monthly the following: amount of funds invested; types and amounts of each investment and rate of return; the names of the institutions or Local Government Investment Pools where investments are placed; the means by which deposits exceeding insurance limits are collateralized (for example, pooled collateral, letter of credit, or tri-party collateral); and for institutions designated by the Board as Direct depository institutions, account balances, earnings, and disbursements.</p> <p>When specific investments are authorized and when monthly investment reports are prepared, the Investment Officer shall be sensitive to any red flags concerning permissible investments and compliance with this policy.</p> <p>Investments permitted are those authorized by law and this policy.</p>  |
| <p>SC 440.1<br/>72 P.S. Sec. 3836-1 et seq</p>                                    | <p><b><u>School Code Permissible Investments</u></b></p> <p>School Code Permissible Investments are any investment permitted under Section 440.1 of the School Code. They are enumerated as follows:</p> <ol style="list-style-type: none"> <li>1. United States Treasury bills.</li> <li>2. Short-term obligations of the United States Government or its agencies or instrumentalities.</li> <li>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.</li> <li>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.</li> </ol> |

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| <p>17 CFR<br/>Part 270</p>           | <p>5. 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.), whose shares are registered under the Securities Act of 1933 (48 Stat. 74, 15 U.S.C. Sec. 77a et seq.), provided that the following are met:</p> <ul style="list-style-type: none"> <li>a. The only investments of the company are School Code Permissible Investments and repurchase agreements fully collateralized by such investments.</li> <li>b. The 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).</li> <li>c. The company is rated in the highest category by a nationally recognized rating agency.</li> </ul> <p>6. Investments in Local Government Investment Pools. (Local Government Investment Pools include, but are not limited to, the Pennsylvania School District Liquid Asset Fund [PSDLAF], the Pennsylvania Local Government Investment Trust [PLGIT], and the PA INVEST program operated by the Pennsylvania Treasury Department.)</p> <p>7. Repurchase agreements with respect to U.S. Treasury bills or obligations, participants, or other instruments of or guaranteed by the U.S. or any federal agency, instrumentality, or U.S. government-sponsored enterprise. (Repurchase agreement means an agreement in which a governmental entity [buyer-lender] transfers cash to a broker-dealer or financial institution [seller-borrower], and 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. As authorized by Act 10, this definition of permissible repurchase agreements is more expansive than authorized by the School Code.)</p> |
| <p>53 P.S. Sec. 5406,<br/>5410.1</p> | <p><b><u>Act 10 Permissible Investments</u></b></p> <p>Act 10 Permissible Investments are any type of investment permitted under Act 10 of 2016, (53 P.S. §§ 5406, 5410.1) that is not among the types of investments permitted under Section 440.1 of the School Code (24 P.S. § 4-440.1). They are enumerated as follows.</p> <ul style="list-style-type: none"> <li>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 rating agencies.</li> </ul>  |

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 rating agencies. (Commercial paper is an unsecured promissory note issued by a corporation for a specific amount and maturing on a specific day.)
3. 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 rating agencies. (Bankers' 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.)
4. Negotiable certificates 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 or a foreign bank. However, negotiable certificates of deposit in amounts exceeding federal insurance limits are subject to the collateralization requirements of School Code §§ 440.1, 621, 622, and 623.
  - 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 rating agencies.
  - 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 rating agencies.
5. 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.) 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: the investments of the company are Act 10 permissible investments; the company managed in accordance with 17 CFR Sec. 270.2a-7 (relating to money market funds); and the company is rated in the highest category by a nationally recognized rating agency.

**Foreign Currency Risk**

District funds shall not be invested in investments of which the market value can be influenced by changes in foreign currency exchange rates.

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| <p>SC 440.1</p>   | <p><b><u>Management of Investments and Collateral</u></b></p> <p>Securities purchased by the District shall be purchased in the name of the District and held in custody for the benefit of the District. Unless purchased through a Local Government Investment Pool, the Board shall approve the custodian agreement.</p> <p>If not acting as Investment Officer, the Treasurer shall at least quarterly consult with the Investment Officer and review investments made by the Investment Officer.</p> <p>All investments must be either approved by the Board in advance, or approved at a Board meeting as soon as possible after the investment is made.</p> <p>If, after purchase, the Investment Officer becomes aware that any investment is no longer in compliance with Board policy, the Investment Officer shall advise the Board at the earliest opportunity of such occurrence and of action taken or planned.</p>   |
| <p>SC 440.1, 621-625<br/>72 P.S. Sec. 3836-1 et seq</p> | <p><b><u>Collateral for Deposit Balances in Excess of Insurance Limits</u></b></p> <p>When District funds are deposited in any depository account – other than a local Government Investment Pool – if the cash balance exceeds federal insurance limits, the funds shall be collateralized in one of the following ways:</p> <ol style="list-style-type: none"> <li>1. Pooled collateral per Act 72, 72 P.S. Sec. 3836-1 et seq. (relating to pledge of pooled assets to secure deposit of public funds). Prior to making any deposit secured by pooled collateral, the depository institution shall provide the District with a written commitment documenting the collateral pledge. The Investment Officer shall periodically verify with the depository the pooled collateral value based on the securities being “marked to market.” This verification shall occur on a random schedule determined by the Investment Officer, but not less than annually.</li> <li>2. An Irrevocable Letter of Credit issued by a Federal Home Loan Bank and approved by District legal counsel.</li> <li>3. Tri-Party collateral consisting of the following underlying securities pursuant to a custodian agreement approved by District legal counsel and the Board: U.S. government obligations or debt obligations of any federal agency, instrumentality, or U.S. government-sponsored enterprise if the debt obligations are rated at least “A” or its equivalent by a nationally recognized rating agency.</li> </ol> |

**Due Diligence Qualification and Update Review of Investment Providers and Professionals**

**Due Diligence – General**

1. It is of utmost importance that the District or an agent acting for the District have thorough knowledge of all investment providers and professionals serving the District. Selection of Local Government Investment Pools, depository institutions, custodians, repurchase agreement providers, brokers, investment advisors or managers, and money market mutual funds will be based on legality, performance, quality of service, experience, reputation, integrity, financial strength, organizational management structure, and other relevant factors. The District will deal only with those having substantial experience and a high level of financial strength commensurate with potential risk to the District.

**Due Diligence – When is District Investment Officer Responsible?**

2. The District Investment Officer is responsible for due diligence with respect to the following if used by the District, and is not responsible for due diligence in other circumstances: selection of a Local Government Investment Pool; selection of a depository institution if selected directly by the District rather than by a Pool or a District investment advisor or manager; unless due diligence is performed by an investment advisor or manager engaged directly by the District, approval of a custodian used by a depository institution to hold collateral for uninsured deposits other than pooled collateral per Act 72; selection of an investment advisor or manager if engaged directly by the District rather than by a Pool; and if selected directly by the District, and not by or through a Pool or a District investment advisor or manager, selection of repurchase agreement providers, brokers, money market mutual funds, and other investments.

In performing due diligence, the Investment Officer is expected to rely on assistance from legal counsel or other professionals as deemed appropriate. When a conflict of interest is known to exist regarding investment due diligence sought from outside professionals, the Investment Officer will present that information to the Board.

**Due Diligence – Initial**

3. To the extent required in subsection (2) above, the Investment Officer will carefully investigate all investment providers and professionals before starting a business relationship or engaging in an initial transaction. For such purpose, the Investment Officer will require submission of Required Qualification Information set forth in subparagraphs 5 to 16.

**Due Diligence – Update**

4. To the extent required in subsection 2 above, the Investment Officer will update due diligence on investment providers and professionals if and when the Investment becomes aware of any occurrence that raises questions about the continued reliability of initial due diligence information. As part of the updated due diligence, the Investment Officer will require updated Required Qualifications Information as set forth in subparagraphs 5 to 16.

**Required Qualification Information – Local Government Investment Pools**

5. Local Government Investment Pools shall submit or provide Internet access to: copies of the trust or other documents establishing the Pool and defining the structure and management of the Pool; a comprehensive information statement describing the Pool, the types of investment options offered by the Pool, and an explanation of investment options; audited annual financial statements; and the Pool rating by a nationally recognized rating agency.

Various Local Government Investment Pools offer two different types of investments. The first is a money market fund-type investment representing an interest in a pool of investments owned by multiple government entities. This first type of investment is referred to herein as an investment “in a Pool.” The second is generally called a “Term” investment and represents an investment recommended by the Local Government Investment Pool manager or investment advisor and beneficially owned solely by the District. This second type of investment is referred to herein as an investment made “through a Pool.”

Investments may be made in a Pool or through a Pool only if: for investments in a Pool, the Pool is rated in the highest category by a nationally recognized rating agency; for all investments, the Pool provides participants monthly statements and other information from which the status of and return on the investment can be verified; and the legality of investment in a particular Pool or through a particular Pool has been approved by District legal counsel. (Legal counsel is not expected to review specific investments after use of a Pool is approved.)

**Required Qualification Information – Depository Institutions or Custodians**

6. The following requirements apply to a depository institution or a custodian – other than a depository institution or custodian selected or approved by a Pool.
7. Any depository institution is acceptable for deposits that are fully insured.

A depository institution is acceptable for deposits not fully insured, and a custodian is acceptable to hold District investments or collateral for investments, if the depository institution or custodian holds a high rating from a



nationally recognized rating agency. Depository institutions or custodians shall submit or provide Internet access to information reflecting satisfaction of this requirement.

If the foregoing rating requirement is not satisfied, depository institutions are limited to financial institutions: insured by FDIC or another U.S. government instrumentality, and have equity (capital stock and surplus) of not less than \$50,000,000 and “well capitalized” as defined in applicable federal regulations. Alternatively, a depository institution may provide, from a holding company that satisfies such requirements and that owns the depository institution, written assurance that if the depository institution should have insufficient assets at any time to meet any obligation to the District, the holding company will provide adequate capital to the depository institution to enable it to meet all obligations to the District. If a depository institution is qualified based on a holding company assurance letter, the holding company shall provide all information required under this policy to be provided by a depository institution.

In any event, custodians are limited to a bank or trust company. In addition, if the foregoing rating requirement is not satisfied, custodians are limited to financial institutions: insured by FDIC or another U.S. government instrumentality, and having equity (capital stock and surplus) of not less than \$50,000,000 and “well capitalized” as defined in applicable federal regulations. Alternatively, a custodian may provide, from a holding company that satisfies such requirements and that owns the custodian, written assurance that if the custodian should have insufficient assets at any time to meet any obligation to the District, the holding company will provide adequate capital to the custodian to enable it to meet all obligations to the District. If a custodian is qualified based on a holding company assurance letter, the holding company shall provide all information required under this policy to be provided by a custodian.

**Required Qualification Information – Repurchase Agreement Providers, Brokers, Investment Advisors, or Managers**

8. The following requirements apply to repurchase agreement providers, brokers, and investment advisors or managers other than those selected or approved by a Pool.
9. All repurchase agreement providers, brokers, and investment advisors or managers shall submit or provide Internet access to the information required in subsection 7 for depository institutions that have not satisfied the rating requirement.
10. Repurchase agreement providers shall have equity (capital stock and surplus) of not less than \$50,000,000.

11. Brokers shall submit evidence of SIPC membership, and for the firm and individual serving the District applicable regulatory agency registrations and NASD and Pennsylvania Securities Commission disciplinary information and affiliations for the prior 3 years. SIPC membership should also be confirmed through the SIPC website. Registrations and disciplinary history and affiliations should also be confirmed through the NASD and Pennsylvania Securities Commission websites or by telephone to these agencies.

12. Investment advisors and managers shall submit applicable regulatory agency registrations, SEC and Pennsylvania Securities Commission disciplinary information for the prior 3 years, and a written acknowledgment of receipt of an agreement to comply with this policy and knowledge of legal requirements applicable to District investments. Registrations and disciplinary information should also be confirmed through the SEC and Pennsylvania Securities Commission websites or by telephone to these agencies.

**Required Qualification Information – Money Market Mutual Funds**

13. The following requirements apply to money market mutual funds other than money market mutual purchased by or through a Pool.

14. Money market mutual funds shall be required to submit or provide Internet access to an up to date prospectus of the fund and evidence of rating in the highest category by a nationally recognized rating agency.

15. The District shall not invest in or through a money market mutual fund until the legality of investment in a particular fund has been approved by District legal counsel.

**Further Qualification Requirements**

16. Further qualification requirements for specific investments or entities may be developed by the Investment Officer and included as part of the annual investment plan.

**Further Risk Mitigation for Act 10 Permissible Investments**

Recognizing that Act 10 of 2016 expanded the permissible investments to include investments with the potential to expose the District to elevated levels of risk, the District is allowed to invest in Act 10 Permissible Investments only by investment in a Pool that includes investments owned by multiple government entities. The District will not make direct investments in Act 10 Permissible Investments, even if made through a Pool.

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| <p>65 Pa. C.S.A. Sec. 1101 et seq</p> | <p>Investments in a Pool or Pools that include such Act 10 Permissible Investments shall be limited to no more than twenty percent (20%) of District funds available for investment at the time the investment is made, excluding bond proceeds and refunding escrow balances. Bond proceeds and refunding escrow balances shall be limited to School Code Permissible Investments.</p> <p>“Funds available for investment” includes funds already invested or held in checking, money market, or operating accounts.</p> <p><b><u>Legal Counsel</u></b></p> <p>District legal counsel shall be requested to review investment agreements; documents establishing relationships with depository institutions, repurchase agreement providers, brokers, custodians, investments advisors, and Local Government Investment Pools; and other documents as appropriate to ensure compliance with this policy and applicable law. Legal counsel need not review documents relating to opening standard bank accounts, specific certificates of deposit, or specific security transactions. However, legal counsel should be requested to review any unusual documents or circumstances and any other information the Investment Officer deems appropriate. The rules set forth in this investment policy may be modified or waived with written approval by District legal counsel.</p> <p><b><u>Conflict of Interest Avoidance and Disclosure</u></b></p> <p>The investment officer and any other District employee performing functions related to the investment plan shall disclose in writing to the Board any material conflict of interest or potential material 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 Investment Officer and the provider or professional serving the district. The Investment officer and other employees shall refrain from any personal business activity that could impair ability to make impartial decisions in managing the annual investment plan. Although technically not a conflict of interest, in order to ensure maximum transparency, an Investment Officer shall disclose in writing to the Board if the Investment Officer serves on the board of directors of a Local Government Investment Pool if the District invests in or through the Pool.</p> <p>All depository institutions, repurchase agreement providers, brokers, and investment advisors and managers shall disclose in writing to the District: any fees or other compensation paid to or received from a third party with respect to any District investment and any ownership of an entity which owns any other depository institution, broker, dealer, investment advisor, or other investment provider or professional which does business with the District.</p> |
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| <p>Pol. 619</p> | <p><b><u>Audit</u></b></p> <p>All investment records shall be subject to annual audit by the District’s independent auditors.</p> <p>The audit shall include but not be limited to independent verification of amounts and records of all transactions and that investments conform to this policy, as deemed necessary by the independent auditors.</p> <p>References:</p> <p>School Code – 24 P.S. Sec. 218, 440.1, 511, 521, 621, 622, 623, 624</p> <p>Intergovernmental Cooperation Law – 53 Pa. C.S.A. Sec. 2301 et seq.</p> <p>Local Government Unit Debt Act – 53 Pa. C.S.A. Sec. 8001 et seq.</p> <p>Public Officials and Employee Ethics Act – 65 Pa. C.S.A. Sec. 1101 et seq.</p> <p>Security of Public Deposits – 72 P.S. Sec. 3836-1 et seq. (Act 72 of 1971)</p> <p>Act 10 of 2016 – Investment of Public Corporation or Authority Funds – Act of Mar. 25, 2016, P.L. 72, No. 10, 53 P.S. Sec. 5406, 5410.1</p> <p>Securities and Trust Indentures – 15 U.S.C. Sec 77a et seq.</p> <p>Investment Companies – 15 U.S.C. Sec 80a-1 et seq.</p> <p>Investment Companies – Title 17, Code of Federal Regulations – 17 CFR Part 270</p> <p>Governmental Accounting Standards Board, Statement No. 3, as amended by GASB Statement 40</p> <p>Board Policy 608, 618, 619</p> |
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