

Permitted Investment Guidelines --
Investments Authorized for School Districts
Under School Code § 440.1

1. Deposits in financial institutions insured by FDIC or another U.S. government instrumentality (amounts above insurance limit must be collateralized).
2. Short-term obligations of U.S. government agencies (even if not backed by the full faith and credit of the U.S. government). For this purpose, "short term" means an investment obligation with a maturity of 397 days or less from the time the investment is made.
3. Short-term, long-term, and mid-range U. S. government obligations, and obligations of U. S. government agencies backed by the full faith and credit of the U.S. government.
4. Short term, long term, and mid-range Commonwealth of Pennsylvania obligations, and obligations of Commonwealth agencies backed by the full faith and credit of the Commonwealth.
5. Short term, long term, and mid-range obligations of political subdivisions of the Commonwealth of Pennsylvania, and obligations of agencies backed by the full faith and credit of a political subdivision.
6. Shares of an investment company registered under the Investment Company Act of 1940 (54 Stat. 789, 15 U.S.C. § 80a-1 *et seq.*), whose shares are registered under the Securities Act of 1933 (48 Stat. 74, 15 U.S.C. § 77a *et seq.*); provided the following are met:
 - The only investments of the investment company are in the authorized investments for school district funds listed above, and repurchase agreements fully collateralized by such investments.
 - The investment company is managed so as to maintain its shares at a constant net asset value in accordance with 17 CFR § 270 2a-7 (relating to money market funds).
 - The investment company is rated in the highest category by a nationally recognized rating agency.

KKAG Summary

Permitted U.S. Government Agency or Instrumentality Obligations

1. Permitted short-term obligations – not backed by the full faith and credit of the U.S. Government:
 - Federal National Mortgage Association (Fannie Mae) (FNMA)
 - Federal Home Loan Mortgage Corporation (Freddie Mac) (FHLMC)
 - Student Loan Marketing Association (Sallie Mae) (SLMA)
 - Federal Home Loan Banks (FHLB)
 - Federal Farm Credit Banks (FFCB)
 - Tennessee Valley Authority (TVA)

2. Permitted short-term or long-term obligations – backed by the full faith and credit of the U.S. Government:
 - Government National Mortgage Association (Ginnie Mae) (GNMA)

Repurchase Agreement Guidelines

1. Repurchase Agreement Provider. The entity which sells the securities to the district is the "repurchase agreement provider."
2. Compliance with Investment Policy. All provisions of the school district investment policy shall apply to repurchase agreement providers, including without limitation the provisions on qualification, ethics, audits, and legal counsel.
3. Permitted Investments. Repurchase agreements shall limit securities purchased pursuant to the repurchase agreement to permitted investments as set forth in the school district investment policy.
4. Master Agreement. The district should require a comprehensive written agreement, sometimes called a master repurchase agreement, between the district and the repurchase agreement provider. The master repurchase agreement will govern repurchase transactions between the district and the repurchase agreement provider. The district should not enter into repurchase transactions that are simply evidenced by a confirmation slip, without a master repurchase agreement. The master repurchase agreement should include the following and other normal and appropriate terms:
 - a. Purchase Not Collateralized Debt Instruments. The agreement should require an actual purchase and sale between the district and the repurchase agreement provider, with the district taking ownership of the underlying securities; the district should not enter into collateralized debt instrument repurchase agreements. Except for the interest of other participants in an approved local government investment pool, the district should own the entirety of the securities purchased, not a partial interest, and the securities should be owned by the district free of any security interest or lien in favor of any other party.
 - b. Custodian Possession of Securities. As a part of the purchase, a third party custodian should take possession (by book entry or otherwise) of the underlying securities, and the third party custodian should confirm in writing to the district its receipt of securities on behalf of the district. The district may waive the third party custodian requirement in appropriate cases based on the amount of the school district investment in the repurchase transaction, the duration of the repurchase transaction, and the creditworthiness of the repurchase agreement provider.
 - c. Written Confirmation of Individual Repurchase Transaction. The repurchase agreement provider should send written confirmation to the district of each repurchase transaction. The confirmation should include, among other information, a description of the underlying securities (including a CUSIP number, if any). Additionally, the written confirmation should reflect that the master repurchase agreement governs the repurchase transaction.

- d. Disbursement of Cash and Securities. The district should not disburse funds to the repurchase agreement provider until the third party custodian (or the repurchase agreement provider where the custodian requirement has been waived) has confirmed receipt of possession of the underlying securities on behalf of the district, and a third party custodian should not deliver securities at the time of repurchase of the securities until the district has received the funds due from the repurchase agreement provider.
 - e. Required Margin. The market value of the securities purchased by the district will at all times equal or exceed 102% of the cash outlay by the district. Market value should be calculated daily by the repurchase agreement provider, and additional securities transferred to the district if necessary to maintain this margin ratio.
 - f. Protection from Bankruptcy or Insolvency of Repurchase Agreement Provider. To avoid the automatic stay and to take advantage of other terms in the bankruptcy law and banking laws, the master repurchase agreement generally should provide that all repurchase transactions will conclude in less than one year; in other words, the repurchase agreement provider will be obligated to repurchase the securities within one year of sale of the securities to the district.
 - g. Rights Upon Default, Insolvency or Bankruptcy. The master repurchase agreement should set forth the rights of the district in the event of a default, insolvency or bankruptcy of the provider. The agreement should permit the district to sell the underlying securities in such event, and should also set forth rights and remedies of the district if the repurchase transactions are deemed loans rather than sales and purchases.
5. Custodian Agreement. Unless the requirement of a third party custodian has been waived, there shall be a written custodian agreement. The terms of custodian agreement should be consistent with the master repurchase agreement, including terms on possession, substitution, and remedies.
6. No Reverse Repurchase Agreements. Reverse repurchase agreements are not permitted.
7. Legal Counsel Review. District legal counsel shall review documents relating to repurchase agreements. The above rules relating to repurchase agreements may be modified or waived with approval by district legal counsel.

Certificate of Deposit Guidelines

Rules Applicable to All Certificates of Deposit

1. Compliance with Investment Policy. All provisions of the school district investment policy shall apply to certificates of deposit.
2. Yield Quotes. The school district should obtain yield quotes in terms of bond equivalent yield (BEY) in addition to simple interest yield. The BEY is the industry standard for comparing yields and should be used when evaluating investment options.
3. Information Contained in Certificates Held by District. If the district holds either the original certificate of deposit or a safekeeping certificate, the Investment Officer should review the certificate carefully to verify: (1) The name and address of the issuing financial institution. (2) There is a statement that the institution is federally insured. (3) There is a statement that the certificate evidences a deposit. (4) The deposit terms stated are correct. (5) The deposit is registered in the name of the district as "owner." (6) The certificate reflects the district tax identification number. (7) There are no unacceptable liability disclaimers.
4. Custody of Certificate. A custodian is required unless the district holds either the original certificate of deposit or a satisfactory safekeeping certificate. If there is a custodian, the custodian should hold either the original certificate or a safekeeping certificate.
5. Custodian. If there is a custodian, the district should obtain information about the custodian per the school district investment policy, in order to ensure the custodian meets the requirements of the policy.
6. Custodian Agreement. If there is a custodian, there should be a written custodian agreement. The custodian agreement should generally include the following and other normal and appropriate terms: (1) The custodian shall send written confirmation to the district of completion of each transaction, confirming receipt from the financial institution in which the deposit is made of the certificate of deposit or a safekeeping certificate. The custodian shall also, by copy of the written confirmation to the district or otherwise, in writing advise the financial institution in which the deposit is made of the district's ownership of the deposit. (2) The deposit must be titled by the issuer in a manner which provides "pass-through" federal insurance coverage in accordance with federal regulations. For example: "_____ Bank, as custodian for _____ District" or "_____ Bank, as custodian for customers." (3) Records of the custodian must designate that the custodian is holding the deposit as custodian and that the district is the owner. (4) The custodian is prohibited from granting a security interest or other lien in or on the certificate of deposit. (5) The custodian shall remain fully responsible to the district for delivery or transfer to the district of the certificate or proceeds of the deposit. (6) The district at any time may withdraw the deposit, the certificate, or other evidence of the deposit from custody of the custodian. In such event, the certificate or other evidence of ownership of the deposit shall be retitled, as directed by the district, in the name of, and all funds shall be transferred to, the district or another custodian designated by the district. The financial institution in which the deposit is made shall be authorized to rely on a written request from the district for such withdrawal, transfer, or retitling. (7) The custodian's internal and external auditors shall audit the custodian's custodial account as part of a regular audit process. (8) If the custodian agreement is a blanket custodian agreement (set up for application to multiple investors), there should be a clause indicating the right of the district to make direct requests to and claims against the custodian, and the custodian should acknowledge in writing the custodian's direct obligations to the district.

7. Amount of Deposits. Prior to making any investment, the district should determine whether it will have deposits with a single institution over federal insurance limits. As provided in the investment policy, different criteria and screening procedures may apply depending whether deposits are insured or uninsured.
8. Disclosures. All depository institutions and brokers shall be required to disclose in writing fees and relationships per section 14(b) of the school district's investment policy.

Rules Applicable to Deposits of \$100,000 or Less

9. Screening Procedure. As provided in the investment policy, the district will either limit deposits of \$100,000 or less to institutions qualifying for uninsured deposits, or alternatively will establish less stringent minimum qualification criteria for depository institutions in which deposits of \$100,000 or less are made, and a screening method for ensuring compliance with the criteria. The district minimum qualification criteria apply whether or not deposits are brokered. For brokered certificates of deposit, the district may rely on the broker's screening procedure if the Investment Officer determines the procedure adequate.
10. Federal Insurance Verification. If not arranged through a broker, the district shall verify that the financial institution in which any deposit is made is federally insured (information available on FDIC and other agency websites).

Rules Applicable to Deposits over \$100,000

11. Pennsylvania Bank. Investments over \$100,000 should generally be made only with financial institutions with offices located in Pennsylvania, because of the difficulty of obtaining appropriate pooled collateral with non-Pennsylvania financial institutions.
12. Screening Procedure. The district will obtain information about any financial institution in which deposits are made, per the school district investment policy, in order to ensure the financial institution meets the requirements of the policy.
13. Federal Insurance Verification. The district shall verify that the financial institution in which any deposit is made is federally insured (information available on FDIC and other agency websites).
14. Collateral. The district will obtain either pooled or specific collateral or an acceptable surety bond, in all cases per the school district investment policy.

Rules Applicable to Brokered Certificates of Deposit

15. Brokered Certificate of Deposit. A "brokered certificate of deposit" is a certificate of deposit purchased through an entity engaged in the business of either placing or listing for placement bank deposits. Special caution is required for investment in brokered deposits.
16. Review and Selection of Broker. Prior to engaging in business with any broker, the district should conduct a thorough investigation of the broker, including obtaining information about the broker per the school district investment policy, in order to ensure the broker meets the requirements of the policy. In addition to the information required for all brokers under the investment policy, the district should require the broker to submit:

- (1) Information concerning the broker's internal and external audit procedures applicable to brokered certificate of deposits.
 - (2) Information on the broker's screening procedure for screening certificate of deposit issuers (including proof that the issuer's deposits are federally insured; that the issuer is "well capitalized," or "adequately capitalized" with an appropriate waiver within the meaning of the federal regulations on brokered deposits; and that the issuer meets any other minimum qualification criteria established by the broker or the district).
 - (3) a statement that the broker has read, understands and agrees to comply with the school district investment policy, and with the district's minimum qualification criteria for depository institutions.
17. Custodian Required. For brokered certificates of deposit, a custodian will generally be required. The custodian requirement may be waived if the district holds either the original certificate of deposit or a satisfactory safekeeping certificate.
 18. Exchange of Money. The school district will generally wire money to the financial institution providing the certificate of deposit, or to the custodian to wire to the financial institution providing the certificate of deposit. Money will generally not be wired to a brokerage firm.
 19. Confirmations. The school district will generally require written documentation of each transaction in the form of confirmations from the broker, and also from the custodian or the financial institution in which the deposit is made. In addition, the district should establish a procedure by which the district (or its auditor) independently calls or writes a selected number of issuers according to an established sampling method to verify the issuance of certificates.
 20. Broker Compensation. A broker will be required to state at the time of each proposed transaction all fees or other compensation to be paid by the school district or the financial institution in which the deposit is made, and the manner of payment of the fees or other compensation. A broker will be required to confirm the fees in writing as part of the transaction confirmation.
 21. Federal Insurance Verification. If certificates of deposit are purchased through a broker, the district shall require the broker to confirm in writing with each purchase confirmation that the institution in which the deposit is made is federally insured (including identifying insurance number), and in addition the district shall establish a procedure by which the district (or its auditor) independently verifies insurance of all financial institutions or of a substantial number of financial institutions according to an established sampling method (information available on FDIC and other agency websites).

Legal Counsel Review

22. Legal Counsel. District legal counsel should be requested to review the procedures applicable and documents establishing relationships with each broker; custodian agreements; arrangements and agreements as to collateral for deposits over \$100,000; and any other information the investment officer deems appropriate. The above rules relating to certificates of deposit may be modified or waived with approval by district legal counsel.

