

# FINANCIAL AUDIT

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Commonwealth of Pennsylvania  
Treasury Department  
INVEST Program for Local Governments  
INVEST Daily and INVEST Community  
Pools  
Harrisburg, Pennsylvania

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October 2021



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TREASURY DEPARTMENT  
INVEST PROGRAM FOR LOCAL GOVERNMENTS  
DECEMBER 31, 2020**

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**TREASURY DEPARTMENT  
INVEST PROGRAM FOR LOCAL GOVERNMENTS  
DECEMBER 31, 2020**

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## **BACKGROUND**

The INVEST Program for Local Governments (INVEST) is a diversified investment portfolio open to all local governments in the Commonwealth of Pennsylvania. INVEST operates by pooling local government funds and investing them under the investment expertise and integrity of the Treasury Department.

Any local government in the Commonwealth (county, city, borough, incorporated town, township, school district, authority or other similar general purpose unit of the government which is created by the Pennsylvania General Assembly) or other non-profit or quasi-governmental entity, Pennsylvania colleges and universities, fire companies and libraries may participate in INVEST. INVEST was implemented to provide local governments an alternative to existing investment methods.

INVEST consists of two rated pools, INVEST Daily Pool and INVEST Community Pool. INVEST Daily Pool and INVEST Community Pool have no minimum or maximum balance requirement, no minimum investment term and no minimum transaction size.

The investment objective of INVEST is to provide a low-cost liquid investment mechanism for local government which 1) is operated by prudent investment management, 2) provides a high level of security for the INVEST members, and 3) also meets their short-term cash needs. In an effort to achieve this objective, INVEST prioritizes its operations in the following manner:

- ***Safety of principal.*** INVEST maintains a stable net asset value of \$1.00 per \$1.00 invested to preserve the capital commitments of the INVEST members. Safety of principal is the foremost objective.
- ***Liquidity.*** The INVEST Daily Pool and INVEST Community Pool maintain daily liquidity in order to meet any reasonably anticipated operational requirements of their members. Furthermore, the electronic transfer feature for deposits and withdrawals provides faster movement of funds available each day.
- ***Income.*** INVEST strives to provide the greatest possible market rate of return (after nominal fees are paid), while accounting for investment risk constraints and the cash-flow aspects of the investment pools.



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AUDITOR GENERAL

## Independent Auditor's Report

Shareholders  
INVEST Program for Local Governments

### Report on the Financial Statements

We have audited the accompanying statements of fiduciary net position of the INVEST Daily and INVEST Community Pools (the two primary pools constituting the Commonwealth of Pennsylvania Treasury Department's INVEST Program for Local Governments), a custodial fund of the Commonwealth of Pennsylvania, as of December 31, 2020, and the related statements of changes in fiduciary net position, operations and financial highlights for a share outstanding for the year then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements and financial highlights in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements and financial highlights based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements and financial highlights, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements and financial highlights in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and financial highlights.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the INVEST Daily and INVEST Community Pools of the Treasury Department's INVEST Program for Local Governments as of December 31, 2020, and the results of their operations, changes in their fiduciary net position and financial highlights for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note A, the financial statements and financial highlights present only the INVEST Program for Local Governments and do not purport to, and do not, present fairly the financial position of the Commonwealth of Pennsylvania as of December 31, 2020, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note A, the INVEST Program for Local Governments includes custom pools for certain shareholders, which are not reported as part of the accompanying financial statements. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 and 6 be presented to supplement the financial statements and financial highlights. Such information, although not a part of the financial statements and financial highlights, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements and financial highlights in an appropriate operational, economic, or historical context.

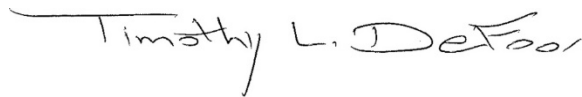
We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements and financial highlights, and other knowledge we obtained during our audit of the financial statements and financial highlights. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

The Background has not been subjected to the auditing procedures applied in the audit of the financial statements and financial highlights, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2021, on our consideration of Treasury's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Treasury's internal control over financial reporting and compliance.



October 26, 2021

Timothy L. DeFoor  
Auditor General

**TREASURY DEPARTMENT  
INVEST PROGRAM FOR LOCAL GOVERNMENTS  
DECEMBER 31, 2020**

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

Management’s discussion and analysis (MD&A) of the INVEST Program’s performance provides an overview of the financial activities for calendar year 2020. MD&A should be reviewed in conjunction with the INVEST financial statements.

The financial statements consist of the Statement of Fiduciary Net Position, Statement of Operations, Statement of Changes in Fiduciary Net Position, and Financial Highlights for a Share Outstanding. Together these statements provide information about the activities of INVEST as a whole and present a longer term view of the program’s assets. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year’s revenues and expenses are taken into account regardless of when the cash is received or paid.

There may be rounding differences between amounts reported in the various reports and statements.

**Comparative Condensed Statement of Fiduciary Net Position (Amounts in Thousands)**

|                                  | 2020              | 2019              | Net Change       |           |
|----------------------------------|-------------------|-------------------|------------------|-----------|
|                                  |                   |                   | Amount           | Percent   |
| <b>Daily and Community Pools</b> |                   |                   |                  |           |
| Total Investments                | \$ 856,303        | \$ 826,978        | \$ 29,325        | 4%        |
| Other Assets                     | 18,495            | 8,582             | 9,913            | 116%      |
| Less: Other Liabilities          | 18,607            | 8,654             | 9,953            | 115%      |
| <b>Total Net Position</b>        | <b>\$ 856,191</b> | <b>\$ 826,906</b> | <b>\$ 29,285</b> | <b>4%</b> |

Total Investments and Total Net Position increased by \$29 million or 4% from prior year. Other Assets increased by \$10 million or 116% from 2019. This was primarily due to an unsettled trade of \$10 million at year end. Liabilities also increased by \$10 million or 115% due an outstanding purchase payable for a money market purchase.

Total Investments increased by \$29 million, a 4% increase year-over-year. The net program contributions remained positive even during the harsh economic circumstances of 2020 which stemmed from the pandemic. Participants still valued the safe haven returns that the program provides during the year of uncertainty as the average Daily Pool balance was \$954 million over the calendar year which was an increase over prior year. Some participants in the program received CARES Act funding which was deposited into their INVEST accounts.



**TREASURY DEPARTMENT  
INVEST PROGRAM FOR LOCAL GOVERNMENTS  
DECEMBER 31, 2020**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)**

**Comparative Condensed Statement of Revenues and Expenses (Amounts in Thousands)**

|  | 2020             | 2019             | Net Change         |         |
|--|------------------|------------------|--------------------|---------|
|  |                  |                  | Amount             | Percent |
| <b>Daily and Community Pools</b>               |                  |                  |                    |         |
| <b>Operating Expenses</b>                      |                  |                  |                    |         |
| Administrative Fees Expense                    | \$ (1,134)       | \$ (1,025)       | \$ (109)           | 11%     |
| <b>Non-operating Expenses</b>                  |                  |                  |                    |         |
| Investment Income                              | 7,697            | 22,190           | (14,493)           | (65%)   |
| <b>Capital Share Transactions:</b>             |                  |                  |                    |         |
| Dividends Distributed                          | (6,562)          | (21,164)         | 14,602             | (69%)   |
| Shares Issued                                  | 2,366,123        | 2,487,968        | (121,845)          | (5%)    |
| Shares Issued in Lieu of<br>Cash Distributions | 6,800            | 18,592           | (11,792)           | (63%)   |
| Shares Redeemed                                | (2,343,639)      | (2,407,383)      | 63,744             | (3%)    |
| <b>Change in Net Position</b>                  | <u>\$ 29,285</u> | <u>\$ 99,178</u> | <u>\$ (69,893)</u> |         |

For 2020, the Administrative Expense Fees increased by 11% as compared to prior year. The fee increase can be attributed to the increase in monthly average investment balance compared to prior year. The average Daily Pool balance increased by \$84 million or 10% to \$954 million in 2020 from \$870 million in 2019.

Investment Income decreased by \$14 million or 65% from prior year. This decrease was directly related to the Federal Reserve Bank’s decision in March to reduce the Fed rate by 150 basis points. This reduced yields on Treasury notes and similar investments to between .00-.25%, far lower than past years.

The decrease of Dividends Distributed and Shares Issued in Lieu of Cash are attributed to the reduced investment returns by the program which resulted from the rate cuts for the portfolio. Shares Issued and Shares Redeemed by participants decreased by approximately \$122 and \$64 million or 5% and 3%, respectively from the prior year because of the aforementioned economic circumstances. The prior year shares issued included a one-time increase when the Higher Educational Services Inc. assets moved into the Community Pool, making the year over year change higher than two years of normal operating transactions.

The credit quality of each of the Pools during 2020 continues to be rated “AAAm” by the Standard & Poor’s Corporation (“S&P”). This is the highest “S&P” rating available for funds of this type.

**TREASURY DEPARTMENT  
INVEST PROGRAM FOR LOCAL GOVERNMENTS**

**STATEMENT OF FIDUCIARY NET POSITION – DAILY POOL  
AS OF DECEMBER 31, 2020**

**ASSETS**

|  |    |                    |
|--|----|--------------------|
| Cash                                       | \$ | 5,904,778          |
| Investments, at value (cost \$781,753,599) |    | 782,010,315        |
| Income Receivable                          |    | 17,406             |
| Receivable for Investment Sales            |    | <u>10,000,000</u>  |
| Total Assets                               | \$ | <u>797,932,499</u> |

**LIABILITIES**

|                                  |    |                   |
|----------------------------------|----|-------------------|
| Payable for Investment Purchases | \$ | 15,904,778        |
| Distributions Payable            |    | 43,590            |
| Administrative Fees              |    | <u>76,306</u>     |
| Total Liabilities                | \$ | <u>16,024,674</u> |

|                     |    |                    |
|---------------------|----|--------------------|
| <b>NET POSITION</b> | \$ | <u>781,907,825</u> |
|---------------------|----|--------------------|

~ The notes to the financial statements are an integral part of this statement. ~

**TREASURY DEPARTMENT  
INVEST PROGRAM FOR LOCAL GOVERNMENTS**

**STATEMENT OF FIDUCIARY NET POSITION – COMMUNITY POOL  
AS OF DECEMBER 31, 2020**

**ASSETS**

|   |    |                   |
|---|----|-------------------|
| Investments, at value (cost \$74,270,306) | \$ | 74,293,134        |
| Income Receivable                         |    | 1,009             |
| Receivable for Investment Sales           |    | <u>2,571,572</u>  |
| Total Assets                              | \$ | <u>76,865,715</u> |

**LIABILITIES**

|                                 |    |                  |
|---------------------------------|----|------------------|
| Disbursements in Excess of Cash | \$ | 2,571,572        |
| Distributions Payable           |    | 3,758            |
| Administrative Fees             |    | <u>7,217</u>     |
| Total Liabilities               |    | <u>2,582,547</u> |

|                     |    |                   |
|---------------------|----|-------------------|
| <b>NET POSITION</b> | \$ | <u>74,283,168</u> |
|---------------------|----|-------------------|

~ The notes to the financial statements are an integral part of this statement. ~

**TREASURY DEPARTMENT  
INVEST PROGRAM FOR LOCAL GOVERNMENTS**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2020**

|  | <u>INVEST<br/>Daily Pool</u> | <u>INVEST<br/>Community Pool</u> |
|--|------------------------------|----------------------------------|
| <b>Operations</b>  |                              |                                  |
| Net increase in net position resulting from operations       | \$ 6,035,965                 | \$ 525,644                       |
| Dividends distributed from net investment income             | (6,035,965)                  | (525,644)                        |
| <b>Capital Shares Transactions<br/>(at \$1.00 per share)</b> |                              |                                  |
| Proceeds from Shares Issued                                  | 2,218,833,516                | 147,289,686                      |
| Shares Issued in Lieu of Cash Distributions                  | 6,170,466                    | 629,875                          |
| Shares Redeemed  | <u>(2,202,508,278)</u>       | <u>(141,130,526)</u>             |
| <b>Net increase from capital shares transactions</b>         | <b>\$ 22,495,704</b>         | <b>\$ 6,789,035</b>              |
| <b>Net increase in net position</b>                          | <b>\$ 22,495,704</b>         | <b>\$ 6,789,035</b>              |
| <b>Net Position</b>  |                              |                                  |
| Beginning of period  | <u>759,412,121</u>           | <u>67,494,133</u>                |
| End of period  | <u>\$ 781,907,825</u>        | <u>\$ 74,283,168</u>             |

~ The notes to the financial statements are an integral part of this statement. ~

**TREASURY DEPARTMENT  
INVEST PROGRAM FOR LOCAL GOVERNMENTS**

**STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2020**

|   | <u>INVEST<br/>Daily Pool</u> | <u>INVEST<br/>Community Pool</u> |
|---|------------------------------|----------------------------------|
| Investment Income   | \$ 7,085,449                 | \$ 611,863                       |
| Administrative Fees Expense                                       | <u>(1,049,484)</u>           | <u>(86,219)</u>                  |
| <b>Net increase in net position resulting<br/>from operations</b> | <u>\$ 6,035,965</u>          | <u>\$ 525,644</u>                |

~ The notes to the financial statements are an integral part of this statement. ~

**TREASURY DEPARTMENT  
INVEST PROGRAM FOR LOCAL GOVERNMENTS**

**FINANCIAL HIGHLIGHTS FOR A SHARE OUTSTANDING  
DURING THE YEAR ENDING DECEMBER 31, 2020**

|   | <u>INVEST<br/>Daily Pool</u> | <u>INVEST<br/>Community Pool</u> |
|---|------------------------------|----------------------------------|
| <b>Net Position Value,<br/>Beginning of Period</b>        | \$ 1.000                     | \$ 1.000                         |
| <b>Investment Activities:</b>                             |                              |                                  |
| Income  | 0.0074                       | 0.0078                           |
| Expense   | <u>0.0011</u>                | <u>0.0011</u>                    |
| Net Investment Income                                     | 0.0063                       | 0.0067                           |
| <b>Total from Investment Income</b>                       | <u>0.0063</u>                | <u>0.0067</u>                    |
| <b>Distributions:</b>                                     |                              |                                  |
| Net Investment Income                                     | <u>(0.0063)</u>              | <u>(0.0067)</u>                  |
| <b>Total Distributions</b>                                | <u>(0.0063)</u>              | <u>(0.0067)</u>                  |
| <b>Net Position Value,<br/>End of Period</b>              | <u>\$ 1.000</u>              | <u>\$ 1.000</u>                  |
| Ratio of expenses to average net position                 | -0.11%                       | -0.11%                           |
| Ratio of net investment income to<br>average net position | 0.74%                        | 0.78%                            |
| Total return  | 0.63%                        | 0.67%                            |
| <b>Net Position, End of Period</b>                        | <u>\$ 781,907,825</u>        | <u>\$ 74,283,168</u>             |

~ The notes to the financial statements are an integral part of this statement. ~

# TREASURY DEPARTMENT INVEST PROGRAM FOR LOCAL GOVERNMENTS

## FOR THE YEAR ENDED DECEMBER 31, 2020 NOTES TO FINANCIAL STATEMENTS

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### **NOTE A – REPORTING ENTITY**

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The accompanying financial statements present, as of December 31, 2020, the financial results of the INVEST Daily Pool and INVEST Community Pool, the two rated pools of the local government investment portfolio. Custom pools are established to meet the specific liquidity and investment requirements of certain shareholders. The custom pools are not included in the accompanying financial statements.

The INVEST program for Local Governments (INVEST) aggregates the funds of local governments in external investment pools. The Treasury Department (Department) manages the local government investment pools, which make up the INVEST Program, by virtue of the authority set forth in the Fiscal Code at 72 P.S. § 3832. The INVEST Program is authorized to invest in federal obligations, repurchase agreements, and other debt instruments, subject to the provisions of the INVEST investment policy, local government participant statutory authority, and the guidelines of the rating agency Standard & Poor’s (S&P) as described below.

INVEST does not provide any guarantees against loss of principal, nor can it draw upon the taxing power of the Commonwealth of Pennsylvania. However, INVEST is managed to maintain a net asset value of \$1.00 per share to assure principal value and limit exposure to loss. The pools have the highest credit quality rating on the basis of portfolio assets, investment practices, diversification standards, operational controls and management oversight. INVEST Daily and Community pools received an “AAAm” investment rating from S&P, the highest ratings available. This rating indicates a level of quality based on the types of investments, weighted average duration to maturity, net asset value, issuer exposure and other factors. The rating agency monitors the pools weekly.

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### **NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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#### **Basis of Presentation**

The INVEST financial statements have been prepared in accordance with accounting principles generally accepted in the United States applicable to governments.

INVEST is classified as a Custodial Fund in accordance with Government Accounting Standards Board’s (GASB) Statement No. 84, *Fiduciary Activities*, and is reported using the economic resources measurement focus and the accrual basis of accounting. Under the measurement focus, all assets and liabilities associated with the operations of INVEST are included on the Statement of Fiduciary Net Position. Under the accrual basis of accounting, revenues are recognized in the fiscal year earned and expenses are recognized in the fiscal year incurred.

**TREASURY DEPARTMENT  
INVEST PROGRAM FOR LOCAL GOVERNMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2020  
NOTES TO THE FINANCIAL STATEMENTS**

*Security Valuation:*

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost, which approximates fair value. INVEST reports all investments at amortized cost. INVEST meets the provisions related to portfolio quality, custodial credit risk, and shadow pricing to continue to report the INVEST Program at amortized cost as of December 31, 2020. Since INVEST qualifies for reporting at amortized cost under GASB No. 79, the applicability of GASB Statement No. 72, *Fair Value Measurement and Application*, is limited to the disclosures referenced within GASB No. 79.

*Net Asset Value Per Share:*

Participant shares are sold and redeemed at the net asset value per share. INVEST calculates the net asset value per share on each business day separately for each pool by dividing the value of the assets of each pool, less its liabilities, by the number of shares outstanding. Each INVEST pool maintained a stable net asset value of \$1.00 per share throughout the period. The pool has not provided any legally binding guarantees to support the value of the shares.

*Security Transactions and Investment Income:*

Security transactions are accounted for on the trade date of the security purchased or sold. Investment income is recorded on the accrual basis. The change in value is included in income.

*Distributions to Shareholders:*

Distributions from net investment income, including net realized capital gains, are declared daily and are paid on the first business day of the following month.

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**NOTE C – PROGRAM MANAGEMENT**

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The Department, as manager of INVEST, has contracted with Marquette Associates, to provide financial advisory services for the pools. The Department also contracts with Wells Fargo Bank and BNY Mellon, to provide banking and custodial services, respectively, for the INVEST Program portfolio. The custodian plays no role in determining the investment policies or in determining which securities are to be purchased or sold. Additionally, the Department contracts with the Nottingham Company to provide shareholder accounting services. The Nottingham Company also administers the website and processes the on-line participant-initiated transactions. The pools are not registered with the Securities and Exchange Commission (SEC).



**TREASURY DEPARTMENT  
INVEST PROGRAM FOR LOCAL GOVERNMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2020  
NOTES TO FINANCIAL STATEMENTS**

To cover the costs of these services and other direct costs such as auditing, personnel, printing, and postage, the Department charges INVEST participants a fee based upon average daily net assets. The maximum allowable fee is 11 basis points. The Department does not allocate indirect expenses to INVEST.

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**NOTE D – DERIVATIVE INSTRUMENTS**

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GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No 53* requires disclosures about derivative financial instruments and other financial instruments with similar characteristics. This requirement is not applicable to the INVEST Program because no derivative financial instruments are held or traded by the portfolio.

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**NOTE E – FAIR VALUE MEASUREMENT**

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INVEST’s investments on the statement of fiduciary net position are presented at amortized costs, in accordance with GASB No. 79. Information regarding the fair value of investments held by INVEST are presented below in accordance with GASB No. 72.

The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset as follows:

- Level 1 – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 – Valuations based on quoted prices for similar assets or liabilities in active markets or identical assets or liabilities in less active markets, such as dealer or broker markets; and
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

**TREASURY DEPARTMENT  
INVEST PROGRAM FOR LOCAL GOVERNMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2020  
NOTES TO FINANCIAL STATEMENTS**

The Plan has the following recurring fair value measurements as of December 31, 2020:

| <u>Investments by Fair Value Level</u> | <u>Level One</u>      | <u>Level Two</u>      | <u>Total</u>          |
|--|-----------------------|-----------------------|-----------------------|
| <b>Debt Securities</b>                 |                       |                       |                       |
| U.S. Treasury Obligations              | \$ 29,994,605         | \$                    | \$ 29,994,605         |
| U.S. Government Sponsored Enterprises  |                       | 67,667,495            | 67,667,495            |
| Commercial Paper                       |                       | 557,691,147           | 557,691,147           |
| <b>Other</b>                           |                       |                       |                       |
| Certificates of Deposit                |                       | 46,000,000            | 46,000,000            |
| Money Markets                          | 120,319,738           | 22,801,632            | 143,121,370           |
| <b>Grand Total</b>                     | <u>\$ 150,314,343</u> | <u>\$ 694,160,274</u> | <u>\$ 844,474,617</u> |

Debt securities classified in Level two of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Other securities classified in Level one are valued using prices quoted in active markets and level two are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

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**NOTE F – INVESTMENT SECURITIES AND RISK**

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GASB Statement No. 31, *Accounting and Reporting for Certain Investments and for External Investment Pools* requires a summary of investments for governmental external investment pools. This summary is to include: 1) fair value of securities by investment classification, 2) carrying amount if it differs from fair value, 3) number of shares<sup>1</sup> or principal amount, 4) ranges of interest rates and maturity dates for each investment classification. The following schedule investments has been prepared in compliance with GASB No. 31:

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<sup>1</sup> Under the amendments to Rule 2a-7 adopted by the SEC effective October 2016, institutional prime and institutional municipal money market funds must sell and redeem shares on a floating NAV basis.

**TREASURY DEPARTMENT  
INVEST PROGRAM FOR LOCAL GOVERNMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2020  
NOTES TO FINANCIAL STATEMENTS**

| <u>Investment Type</u>     | <u>Range of Interest Rates</u> | <u>Range of Maturity Dates</u> | <u>Shares</u>      | <u>Fair Value</u>     |
|----------------------------|--------------------------------|--------------------------------|--------------------|-----------------------|
| Money Markets              | .015% to .072%                 | N/A                            | 143,120,671        | \$ 143,121,370        |
| Federal Agency Obligations | .07% to .08%                   | 1/4/21 to 3/25/21              | 97,672,000         | 97,662,100            |
| Certificates of Deposit    | .22% to .38%                   | 2/2/21 to 12/3/21              | 46,000,000         | 46,000,000            |
| Commercial Paper           | N/A                            | 1/6/21 to 6/17/21              | 557,849,000        | 557,691,147           |
| Deposit Accounts           | .10% to .25%                   | N/A                            | 11,828,832         | 11,828,832            |
| <b>Total Investments</b>   |                                |                                | <u>856,470,503</u> | <u>\$ 856,303,449</u> |

*N/A – Money market funds do not have specific maturity dates and deposit accounts have daily maturity. Commercial Paper does not have interest rates.*

State and local governments, including school districts and other municipal entities, are required to classify their investments and deposits, excluding pools managed by governments and mutual funds, similar to INVEST, in defined categories of credit risk.

The Department, other agencies in the primary government, and discretely presented component units (Commonwealth) categorize investments according to the level of investment risk assumed by the Commonwealth. The Department has formally adopted a written investment policy. Provisions of the written investment policy and current management of investments consider custodial credit risk, concentration credit risk, credit quality risk, interest rate risk, and foreign currency risk. The identified risks are discussed in detail below in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. GASB No. 40 Note Disclosures are valued at amortized cost which approximates fair value as reflected in the financial statements.

**Custodial Credit Risk** - Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Department would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. In accordance with a contractual relationship between the Department and its custodial agents, all investments, where securities are used as evidence of the investment, are held in the name of the Commonwealth or the custodian. As of December 31, 2020, INVEST did not hold any repurchase agreements. However, INVEST held deposits<sup>2</sup> in the amount of \$11,829,000.

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<sup>2</sup> Includes NOW and deposit accounts.

**TREASURY DEPARTMENT  
INVEST PROGRAM FOR LOCAL GOVERNMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2020  
NOTES TO FINANCIAL STATEMENTS**

**Concentration of Credit Risk** - Concentration of credit risk is the risk of loss attributed to the magnitude of the government’s investment in a single issuer. The investment policy stipulates that investments of the INVEST Program shall be only investments as authorized by Pennsylvania statutes for respective shareholder participants. These investments include federal obligations, repurchase agreements, and other debt instruments. The Department places no limitations on investments in U.S. Government Agency Obligations. The Department places a 40% limit per assets of each pool for each counterparty at S&P credit quality rating A-1+; and 25% limit for S&P credit quality rating level A-1 counterparties.

GASB No. 40 requires disclosures of investment concentration of excess of 5% of holdings, these disclosures include:

| Issuer Name                   | Fair Value            | Percentage of Total Investments |
|-------------------------------|-----------------------|---------------------------------|
| Federal Home Loan Bank        | \$ 67,667,495         | 7.9%                            |
| First American Funds Inc.     | 65,386,100            | 7.6%                            |
| <b>Total Issuers Above 5%</b> | <b>\$ 133,053,595</b> | <b>15.5%</b>                    |

**Credit Quality Risk** - Credit quality risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit quality risk of a debt instrument is measured by nationally recognized statistical rating agencies such as Moody’s Investors Services, S&P, and Fitch Ratings. The Department requires purchases of plan assets to be exclusively statutorily authorized investments including federal obligations, repurchase agreements, and other debt instruments as authorized by Commonwealth of Pennsylvania statutes. The INVEST Program portfolio is comprised of approximately 17%<sup>3</sup> Money Market, 12% Federal Agency Obligations, 5% Certificate of Deposits, 65% Commercial Paper and 1% Unrated Deposit Accounts. The following table discloses amounts, by major credit quality rating category at December 31, 2020:

<sup>3</sup> Within the 17% are included \$742 of Federal Insured Cash accounts that hold an implied AAA rating per S&P but are left as Unrated in the table above.

**TREASURY DEPARTMENT  
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| <u>Investment Services and Ratings</u>  | <u>Total Fair Value</u> |
|---|-------------------------|
| <b>Moody’s Investors Services</b>       |                         |
| A1                                      | \$ 5,000,000            |
| P-1                                     | 176,853,484             |
| <b>Total Moody’s Investors Services</b> | <u>181,853,484</u>      |
| <b>Standard &amp; Poor’s</b>            |                         |
| AA+                                     | 97,662,100              |
| A-1                                     | 143,120,628             |
| A-1+                                    | 121,406,330             |
| A                                       | 16,500,000              |
| <b>Total Standard &amp; Poor’s</b>      | <u>378,689,058</u>      |
| <b>Fitch</b>                            |                         |
| A+                                      | 32,988,325              |
| F1                                      | 148,832,362             |
| F1+                                     | 102,110,646             |
| <b>Total Fitch</b>                      | <u>283,931,333</u>      |
| <b>Total Rated Securities</b>           | <u>\$ 844,473,875</u>   |
| <b>Unrated Securities</b>               |                         |
| Federal Insured Cash                    | \$ 742                  |
| <b>Unrated Deposits</b>                 |                         |
| Deposit Accounts                        | 11,828,832              |
| <b>Total Unrated/Deposits</b>           | <u>\$ 11,829,574</u>    |
| <b>Total Investments</b>                | <u>\$ 856,303,449</u>   |

**Interest Rate Risk** - Interest rate risk is the risk that changes in interest will adversely affect the fair value of an investment. The Department measures interest rate risk using option adjusted duration. Duration is a measure of an investment’s sensitivity to changes in interest rates. The higher the duration, the greater the changes in fair value when interest rates change. In accordance with the investment policy adopted by the Department, the average weighted maturity of each pool may not exceed 60 days. At December 31, 2020, the Department’s fixed income portfolio had the following durations (in years) by fixed income sector:

**TREASURY DEPARTMENT  
INVEST PROGRAM FOR LOCAL GOVERNMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2020  
NOTES TO FINANCIAL STATEMENTS**

| <u>Investment Type</u>                  | <u>Amount of<br/>Securities With<br/>Duration</u> | <u>Option-<br/>Adjusted<br/>Duration</u> | <u>Amount of<br/>Securities With<br/>No Duration</u> | <u>Total<br/>Securities</u> | <u>% of<br/>Holdings</u> |
|---|---|--|--|-----------------------------|--------------------------|
| Money Markets                           | \$ 143,120,628                                    | 0.08                                     | \$ 742   | \$ 143,121,370              | 17%                      |
| U.S. Government<br>Sponsored Enterprise | 67,667,495  | 0.09                                     |  | 67,667,495                  | 8%                       |
| U.S. Treasury<br>Obligations            | 29,994,605  | 0.23                                     |  | 29,994,605                  | 4%                       |
| Certificates of Deposit                 | 46,000,000  | 0.49                                     |  | 46,000,000                  | 5%                       |
| Commercial Paper                        | 557,691,147                                       | 0.17                                     |  | 557,691,147                 | 65%                      |
| <b>Total Fair Value</b>                 | <b>\$ 844,473,875</b>                             |  | <b>\$ 742</b>  | <b>\$ 844,474,617</b>       | <b>99%</b>               |
| Deposit Accounts                        |   |  |  | \$ 11,828,832               | 1%                       |
| <b>Total Investments</b>                |   |  |  | <b>\$ 856,303,449</b>       | <b>100%</b>              |

**Foreign Currency Risk** - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Department's policy requires all investments be denominated in U.S. dollars, issued under U.S. laws and regulations, designed for U.S. investors, and traded in U.S. markets. As of December 31, 2020, all INVEST investments are denominated in U.S. dollars. This did not change at any time during the year.



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TIMOTHY L. DEFOOR  
AUDITOR GENERAL

**Independent Auditor’s Report on Internal Control Over Financial Reporting and  
on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

The Honorable Stacy Garrity  
State Treasurer  
129 Finance Building  
Harrisburg, PA 17120

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying statements of fiduciary net position of the INVEST Daily and INVEST Community Pools (the two primary pools constituting the Commonwealth of Pennsylvania Treasury Department’s INVEST Program for Local Governments) and the related statements of changes in fiduciary net position, operations and financial highlights for a share outstanding, as of and for the year ended December 31, 2020, and the related notes to the financial statements and have issued our report thereon dated October 26, 2021.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements and financial highlights, we considered Treasury’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Treasury’s internal control. Accordingly, we do not express an opinion on the effectiveness of Treasury’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the INVEST Daily and INVEST Community Pools financial statements

will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

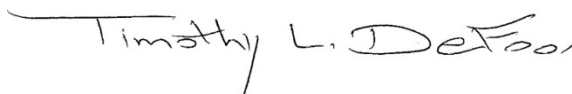
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the INVEST Daily and INVEST Community Pools financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Treasury's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Treasury's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



October 26, 2021

Timothy L. DeFoor  
Auditor General



**COMMONWEALTH OF PENNSYLVANIA  
TREASURY DEPARTMENT  
INVEST PROGRAM FOR LOCAL GOVERNMENTS  
DECEMBER 31, 2020**

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