

FINANCIAL AUDIT

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

October 2023



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General

**TREASURY DEPARTMENT
INVEST PROGRAM FOR LOCAL GOVERNMENTS
DECEMBER 31, 2022**

CONTENTS

Background	1
Independent Auditor’s Report.....	2
Management’s Discussion and Analysis	6
Statement of Fiduciary Net Position – Daily Pool.....	8
Statement of Fiduciary Net Position – Community Pool.....	9
Statement of Changes in Fiduciary Net Position	10
Statement of Operations.....	11
Financial Highlights for a Share Outstanding.....	12
Notes to Financial Statements.....	13
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 <i>Government Auditing Standards</i>	21
Audit Report Distribution List.....	23

**TREASURY DEPARTMENT
INVEST PROGRAM FOR LOCAL GOVERNMENTS
DECEMBER 31, 2022**

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.



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov

TIMOTHY L. DEFOOR
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

Shareholders
INVEST Program for Local Governments

Report on the Audit of the Financial Statements

Opinion

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, 2022, 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.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the respective financial position of the INVEST Daily and INVEST Community Pools of the Treasury Department's INVEST Program for Local Governments as of December 31, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Treasury Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note A, the financial statements and financial highlights are intended to present 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, 2022, and the changes in financial position for the year then ended in accordance 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements and financial highlights in accordance with accounting principles generally accepted in the United States of America, and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements and financial highlights as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements and financial highlights.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements and financial highlights, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements and financial highlights.
- Obtain an understanding of internal control relevant to the audit 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 Treasury Department's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements and financial highlights.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6-7 be presented to supplement the financial statements and financial highlights. Such information is the responsibility of management and, 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 GAAS, 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.

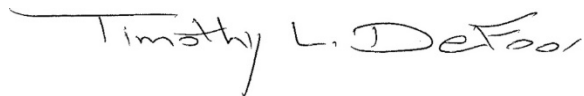
Other Information

Management is responsible for the other information included in the annual report. The other information comprises the background section but does not include the financial statements and financial highlights and our auditor's report thereon. Our opinion on the financial statements and financial highlights do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements and financial highlights, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements and financial highlights, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2023, on our consideration of the Treasury Department'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 solely 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 the effectiveness of the Treasury Department's 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 the Treasury Department's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending to the left of the first letter.

Timothy L. DeFoor
Auditor General
October 26, 2023

TREASURY DEPARTMENT
INVEST PROGRAM FOR LOCAL GOVERNMENTS
DECEMBER 31, 2022

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 2022. 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 considered, 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)

	<u>2022</u>	<u>2021</u>	<u>Net Change</u>	
			<u>Amount</u>	<u>Percent</u>
Daily and Community Pools				
Total Investments	\$ 1,000,944	\$ 876,046	\$ 124,898	14%
Other Assets	5,509	76	5,433	7149%
Less: Other Liabilities	7,305	86	7,219	8394%
Total Net Position	<u>\$ 999,148</u>	<u>\$ 876,036</u>	<u>\$ 123,112</u>	<u>14%</u>

Total Net Position increased by \$123 million or 14% from prior year. This increase in deposits was primarily due to a more attractive rate environment in the Fixed Income asset class. Daily and Community average yield in January 2022 was .013% and .011% compared to December 2022 of 4.023% and 4.008% respectively. The year 2022 marked a continued raising rate environment throughout the entire year, as the Federal Reserve increased the federal funds target range seven different times. Following each Federal Reserve meeting from March 2022-December 2022, the Federal Reserve increased rates anywhere from 25 bps-75 bps. The federal funds target range started at 0.00%-0.025% and by the end of the year, it was 4.25%-4.50%. Other Assets increased, more specifically income receivables increased by \$5.4 million or 7,149% from 2021. Liabilities also increased by \$7.2 million or 8,394% due to an outstanding purchase payable for money markets. Both Assets and Liabilities increased due to investment sales in-process creating a receivable and the corresponding payable in the amount of \$3.6 million.

Total investments increased by \$125 million, a 14% increase year-over-year. This is primarily due to the aforementioned rate increases also combined with the average daily balance which increased from \$943 million from 2021 to \$1,098 million in 2022.

TREASURY DEPARTMENT
INVEST PROGRAM FOR LOCAL GOVERNMENTS
DECEMBER 31, 2022

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

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

	2022	2021	Net Change	
			Amount	Percent
Daily and Community Pools				
Operating Expenses				
Administrative Fees Expense	\$ (1,208)	\$ (1,037)	\$ (171)	16%
Non-operating Expenses				
Investment Income	19,288	1,197	18,091	1,511%
Capital Share Transactions:				
Dividends Distributed	(18,079)	(160)	(17,919)	11,199%
Shares Issued	2,455,344	2,039,435	415,909	20%
Shares Issued in Lieu of Cash Distributions	12,562	172	12,390	7,203%
Shares Redeemed	(2,344,795)	(2,019,762)	(325,033)	16%
Change in Net Position	\$ 123,112	\$ 19,845	\$ 103,267	

For 2022, the Administrative Fees Expense increased by 16% as compared to prior year. The fee increase can be attributed to the increase in monthly average investment balance compared to prior year as mentioned in the prior paragraph.

Investment Income increased by \$18 million or 1,511% from prior year. This increase was also directly related to the aforementioned rate increases. Treasury is committed to participants earning a positive return and therefore has adopted a policy, beginning on May 10, 2021 under which it has instituted partial fee waivers on INVEST Daily and Community portfolios to ensure that participants maintain a minimum 1 basis point annualized return for INVEST account. Beginning in 2022 the fee waiver remained until June 30, 2022. The fee waiver was removed for the remainder of the year because rates improved as noted previously.

The increase of Dividends Distributed and Shares Issued in Lieu of Cash are attributed to the increase in investment returns which resulted from the rate increases within the year for the portfolio. Shares Redeemed by participants increased by approximately \$325 million or 16% from the prior year because of the rising yields in returns spurred by rate increases in 2022.

The credit quality of each of the Pools during 2022 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, 2022**

ASSETS

Investments, at value (cost \$928,806,296)	\$	930,413,452
Income Receivable		1,818,924
Receivable for Investment Sales		<u>3,345,996</u>
Total Assets	\$	<u>935,578,372</u>

LIABILITIES

Disbursements in Excess of Cash	\$	3,345,996
Distributions Payable		3,411,875
Administrative Fees		<u>93,397</u>
Total Liabilities	\$	<u>6,851,268</u>

NET POSITION	\$	<u>928,727,104</u>
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~ 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, 2022**

ASSETS

Cash	\$	217,025
Investments, at value (cost \$70,430,041)		70,530,354
Income Receivable		<u>127,984</u>
Total Assets	\$	<u>70,875,363</u>

LIABILITIES

Payable for Investment Purchases	\$	217,025
Distributions Payable		230,599
Administrative Fees		<u>6,327</u>
Total Liabilities	\$	<u>453,951</u>

NET POSITION	\$	<u><u>70,421,412</u></u>
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**TREASURY DEPARTMENT
INVEST PROGRAM FOR LOCAL GOVERNMENTS**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2022**

	<u>INVEST Daily Pool</u>	<u>INVEST Community Pool</u>
Operations		
Net increase in net position resulting from operations	\$ 17,088,569	\$ 990,822
Dividends distributed from net investment income	(17,088,569)	(990,822)
Capital Shares Transactions (at \$1.00 per share)		
Proceeds from Shares Issued	2,370,514,149	84,830,383
Shares Issued in Lieu of Cash Distributions	11,802,618	759,691
Shares Redeemed	<u>(2,270,115,368)</u>	<u>(74,679,195)</u>
Net increase from capital shares transactions	\$ 112,201,399	\$ 10,910,879
Net increase in net position	\$ 112,201,399	\$ 10,910,879
Net Position		
Beginning of period	<u>816,525,705</u>	<u>59,510,533</u>
End of period	<u>\$ 928,727,104</u>	<u>\$ 70,421,412</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, 2022**

	<u>INVEST Daily Pool</u>	<u>INVEST Community Pool</u>
Investment Income	\$ 18,229,893	\$ 1,057,614
Administrative Fees Expense	<u>(1,141,324)</u>	<u>(66,792)</u>
Net increase in net position resulting from operations	<u>\$ 17,088,569</u>	<u>\$ 990,822</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, 2022**

	<u>INVEST Daily Pool</u>	<u>INVEST Community Pool</u>
Net Position Value, Beginning of Period	\$ 1.000	\$ 1.000
Investment Activities:		
Income	0.0176	0.0174
Expense	0.0011	0.0011
Net Investment Income	0.0165	0.0163
Total from Investment Income	<u>0.0165</u>	<u>0.0163</u>
Distributions:		
Net Investment Income	<u>(0.0165)</u>	<u>(0.0163)</u>
Total Distributions	<u>(0.0165)</u>	<u>(0.0163)</u>
Net Position Value, End of Period	<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 average net position	1.76%	1.74%
Total return	1.65%	1.63%
Net Position, End of Period	<u>\$ 928,727,104</u>	<u>\$ 70,421,412</u>

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

**TREASURY DEPARTMENT
INVEST PROGRAM FOR LOCAL GOVERNMENTS**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022**

NOTE A – REPORTING ENTITY

The accompanying financial statements present, as of December 31, 2022, 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 rating 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.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

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, 2022. 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.

NOTE C – PROGRAM MANAGEMENT

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

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

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. Treasury is committed to participants earning a positive return and therefore has adopted a policy, beginning on May 10, 2021, under which it has instituted partial fee waivers, expiring June 30, 2022, on INVEST Daily and Community portfolios to ensure that participants maintain a minimum 1 basis point annualized return for INVEST account holders.

NOTE D – DERIVATIVE INSTRUMENTS

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.

NOTE E – FAIR VALUE MEASUREMENT

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**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022**

The Plan has the following recurring fair value measurements as of December 31, 2022:

Investments by Fair Value Level	Level One	Level Two	Total
Debt Securities			
U.S. Government Sponsored Enterprises		\$ 44,836,814	\$ 44,836,814
Commercial Paper		469,410,053	469,410,053
Other			
Certificates of Deposit		55,000,000	55,000,000
Money Markets	\$ 399,011,399	32,685,540	431,696,939
Grand Total	\$ 399,011,399	\$ 601,932,407	\$ 1,000,943,806

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.

NOTE F – INVESTMENT SECURITIES AND RISK

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 shares¹ 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:

¹ 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 net asset value basis.

**TREASURY DEPARTMENT
INVEST PROGRAM FOR LOCAL GOVERNMENTS**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022**

<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	3.93% to 4.22%	N/A	431,696,939	\$ 431,696,939
Federal Agency Obligation	4.06% to 4.2%	1/20/23 to 2/8/23	45,000,000	44,836,814
Certificates of Deposit	4.43% to 4.93%	2/8/23 to 5/16/23	55,000,000	55,000,000
Commercial Paper	N/A	1/3/23 to 5/2/23	471,500,000	469,410,053
Total Investments			<u>1,003,196,939</u>	<u>\$ 1,000,943,806</u>

N/A – Money market funds do not have specific maturity dates. 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, 2022, INVEST did not hold any repurchase agreements or deposit accounts.

**TREASURY DEPARTMENT
INVEST PROGRAM FOR LOCAL GOVERNMENTS**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022**

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.

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

<u>Issuer Name</u>	<u>Fair Value</u>	<u>Percentage of Total Investments</u>
Goldman Sachs	\$ 98,133,242	10%
Dreyfus	93,517,529	9%
Invesco	63,442,577	6%
Total Issuers Above 5%	\$ 255,093,348	25%

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 43% Money Market, 4% Federal Agency Obligations, 6% Certificate of Deposits, and 47% Commercial Paper. The following table discloses amounts, by major credit quality rating category at December 31, 2022:

**TREASURY DEPARTMENT
INVEST PROGRAM FOR LOCAL GOVERNMENTS**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022**

<u>Investment Services and Ratings</u>	<u>Total Fair Value</u>	<u>Percent</u>
Moody’s Investors Services		
Aaa	\$ 53,791,601	5%
P-1	209,356,139	21%
Total Moody’s Investors Services	263,147,740	
Standard & Poor’s		
AA+	44,836,814	4%
A-1+	377,905,337	38%
A-1	120,064,446	12%
A+	15,000,000	2%
Total Standard & Poor’s	557,806,597	
Fitch		
A+	19,825,667	2%
F1	69,585,203	7%
F1+	90,578,599	9%
Total Fitch	179,989,469	
Total Rated Securities	\$ 1,000,943,806	100%
Total Investments	\$ 1,000,943,806	100%

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, 2022, the Department’s fixed income portfolio had the following durations (in years) by fixed income sector:

**TREASURY DEPARTMENT
INVEST PROGRAM FOR LOCAL GOVERNMENTS**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022**

Investment Type	Amount of Securities With Duration	Option-Adjusted Duration	Total Securities	% of Holdings
Money Markets	\$ 431,696,939	0.081	\$ 431,696,939	43%
U.S. Government				
Sponsored Enterprises	44,836,814	0.089	44,836,814	4%
Certificates of Deposit	55,000,000	0.167	55,000,000	6%
Commercial Paper	<u>469,410,053</u>	0.124	<u>469,410,053</u>	<u>47%</u>
Total Investments	\$ <u>1,000,943,806</u>		\$ <u>1,000,943,806</u>	<u>100%</u>

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, 2022, 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

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*

Independent Auditor's Report

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, 2022, and the related notes to the financial statements and have issued our report thereon dated October 26, 2023.

Report on 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) as a basis for designing 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 entity's 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.

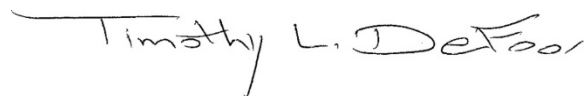
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Report on 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 financial statements. 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.



Timothy L. DeFoor
Auditor General
October 26, 2023

**COMMONWEALTH OF PENNSYLVANIA
TREASURY DEPARTMENT
INVEST PROGRAM FOR LOCAL GOVERNMENTS
DECEMBER 31, 2022**

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