**FAQ’s for Pledge of Collateral**

1. Has the “Pledge of Collateral” replaced the “Bond of Depository”?

Yes. Per KRS 160.570 guidelines:

1. *Each board of education shall appoint a bank, trust company, or savings and loan association to serve as its depository, and if its annual receipts from all sources exceed one hundred thousand dollars ($100,000), it may designate three (3) depositories, except boards of education of school districts in counties containing cities of the first class may designate up to six (6) depositories. The depository may be designated for a period not to exceed two (2) years, and before entering upon its duties shall agree with the board as to the rate of interest to be paid on average daily or monthly balances.*
2. *The depository selected shall, before entering upon its duties, provide collateral in accordance with KRS 41.240 to be approved by the local board of education in accordance with Kentucky Board of Education administrative regulations, and to be approved by the commissioner of education. A board of education may enter into an agreement with its depository whereby the premium on collateral guaranteed by a surety company may be paid either by the board or by the depository. If the board pays the premium, the depository shall allow the board not less than two percent (2%) interest on its average daily or average monthly balances.*
3. *The depository shall hold for the board all funds deposited by the treasurer of the board or its tax collector or duly authorized agent, subject to withdrawal by the board at any time, and shall pay all funds so deposited to such person and in such manner as the board directs. The depository shall keep full and complete accounts of all the board's funds and make reports to the board or its authorized agents upon request. The depository shall keep all records relating to the transactions and duties of the office and turn them over to the successor of its office along with all school funds in hand. The board of education may at any time require a due and proper audit of the depository's records of the funds of the board by a competent outside agent.*
4. What does KDE require from the districts?

KDE requires the districts to enter their pledged collateral amounts through the SEEK Application web form by July 1 with the corresponding dates of assurance. Submission is required annually in SEEK, as collateral amounts may fluctuate yearly.

1. What happens if a district doesn’t submit their Pledge of Collateral information in SEEK by the July 1 deadline?

Per KRS 160.560, the Pledge of Collateral is due by July 1 and if not submitted by this date, the district may be subject to an audit finding. Additionally, late submission could cause a gap in the pledged collateral amounts in SEEK and the approval from KDE.

1. Who submits the pledged collateral amounts in SEEK to KDE?

Submission is by whomever the district has designated with access to the SEEK Application.

1. Is there anything in writing a district must obtain?

Yes. A “Pledge of Collateral Agreement” will be prepared and signed by a bank to guarantee both the safety of funds and their availability for withdrawal as indicated in the terms of deposit to the depositors. The guaranteed pledge amount should be the same amount as entered in SEEK. It protects a public body's deposits if the bank becomes insolvent and is normally used for municipalities and school districts. This agreement is prepared by the bank and signed by both the bank and district’s board. KDE does **not** require a copy of the agreement; however, the district is to retain the agreement in their respective board office for audit purposes.

1. How, or who uses the data/information submitted?

This information is audited for accuracy and adequate coverage by a CPA according to current auditing standards each fiscal year. It is also used by Legislation Research Committee (LRC) and other state or federal agencies.

1. Why is the accuracy of the data/information important and what impact can incorrect information have?

An understated collateral amount will affect the monetary amount the bank has to pledge, indemnifying the district’s account(s). If the district’s account(s) is not appropriately insured, it could result in large monetary losses if the bank becomes insolvent, resulting in financial devastation to the district.

1. If the board approved our Pledge of Collateral Agreement, but a signature is missing, do we have to wait to submit the information in SEEK?

No, if the board has approved the agreement, but a signature is missing, then you do **not** have to wait for the signature before submitting the information in the web form.

1. Is there a term limit on the Pledge of Collateral Agreement?

The Agreement is valid for two years and must be updated after the two-year period **and/or** if the secured collateral amount is reduced within the period. If the district is asking for a reduction in collateral amount, the request must be approved by KDE before being granted.

1. How long is the Pledge of Collateral agreement retained?

 The Pledge of Collateral agreement should be retained for three (3) years with the district.

1. If we decide to change banks, can we amend our Pledge of Collateral?

Yes, you will need to contact KDE to have the window opened so you can amend your Pledge of Collateral information in SEEK. Additionally, a new Pledge of Collateral Agreement will need to be completed, approved, and signed by the district’s board.

1. What if we change banks on July 1, and do not get our money moved and a pledge received from the new bank by this deadline date to submit?

Due to auditing purposes, you will need to show there is no break in coverage during the change to the new bank beginning July 1. It is recommended you report both banks and adjust the end date of the old bank to follow with the start date of the new bank. If you do not have the collateral amount from the new bank when you are entering information into SEEK, you can use the value from the previous bank. Once the new bank sends this information, you can request the window re-opening for updating the Collateral Market Value for the new bank.

1. Does a school district have to use an RFP for their banking services, or can they obtain quotes?

There is nothing in writing that says a district must use an RFP to bid their bank services, although some districts choose to use the service.

1. Can we have our depository pledge a Federal Home Loan Bank Letter of Credit against our deposits?

Yes, according to KRS 66.480, section (1)(c), it is acceptable for pledging and (1)(c)6, specifically refers to the Federal Home Loan Bank. The FDIC will insure up to $250,000, and the FHLB LOC should cover any additional balances. Please note your board must approve this depository pledge.

1. Can the district’s depository utilize the Insured Cash Sweep (ICS) service?

The use of this service would need to be authorized by the local school board after consulting with their attorney. Further, KDE does not regulate nor endorse the use of this service however, and recommends you work with the board counsel to determine if this is an expenditure of funds falling within the restricted scope of the Kentucky Constitution. Review the opinion, OAG 85-100- restricting the expenditure of school funds for educational purposes, to see if this is something the district wants to pursue.

1. Why didn’t I receive a confirmation email after completing the screens in SEEK?

Please remember to hit **submit** after saving the data.  Once you submit, a confirmation email will be sent.

1. After I submitted the bond information, why does it still show a “pending” status in SEEK?

KDE’s DFMB staff will review the information submitted and change the “pending” status to “review”. After KDE has reviewed all the districts’ submitted information, a report will be generated and forwarded to KDE’s commissioner for final approval. Once the commissioner approves, the status is changed to “approve” and an approval report is posted to KDE’s bond website.

Kentucky Department of Education

Office of Finance and Operation

Division of District Support

District Financial Management Branch

Dated: 5/24/21

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