

UNIONVILLE- CHADDS FORD SCHOOL DISTRICT

SECTION: FINANCES

TITLE: INVESTMENT OF
DISTRICT FUNDS

ADOPTED: August 15, 2016

REVISED:

<p>1. Purpose</p> <p>2. Authority SC 440.1, 621, 622, 623 53 P.S. Sec. 5406, 5410.1</p>	<p style="text-align: center;">609. INVESTMENT OF DISTRICT FUNDS</p> <p>It shall be the policy of the Board to optimize its return on funds available for investment through investment of cash balances in such a way as to minimize non-invested balances and to maximize return on investments consistent with the following principles:</p> <p>Legality - All investments shall be made in accordance with applicable laws of Pennsylvania.</p> <p>Safety – Preservation of principal shall be of highest priority. Preservation of principal in the portfolio of investments shall be ensured by diversification and other means of minimizing credit risk, including avoidance of concentration of credit risk, market risk and interest rate risk, and by thoroughly investigating and reviewing the performance of all investment providers and professionals.</p> <p>Liquidity - Investments shall remain sufficiently liquid to meet all operating requirements that are reasonably anticipated. A fiscal year operations anticipated cash flow shall be developed so that investments can be made as early as possible, with maturities consistent with anticipated cash demands.</p> <p>Yield - Investments shall be made with the objective of attaining a market-average rate of return throughout the budgetary and economic cycles, taking into account investment risk constraints and liquidity needs.</p> <p>The Investment Officer designated by the Board shall implement the school district’s investment program in accordance with this policy, applicable laws and the annual investment plan approved by the Board.</p>
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<p>3. Definitions SC 440.1 53 P.S. Sec. 5406, 5410.1</p> <p>SC 440.1</p>	<p>Act 10 Permissible Investments – Any type of investment permitted under Act 10 of March 25, 2016, (53 P.S. Sec. 5406, 5410.1) that is not among the types of investments permitted under Section 440.1 of the Public School Code of 1949, Act of March 10, 1949, (P.L. 30, No. 14) as last amended by the Act of June 30, 1995, (P.L. 220, No. 26).</p> <p>School Code Permissible Investments – Any investment permitted under Section 440.1 of the Public School Code of 1949, Act of March 10, 1949, (P.L. 30, No. 14) as last amended by the Act of June 30, 1995, (P.L. 220, No. 26).</p> <p>Short-term – Any period thirteen (13) months or less.</p> <p>Long-term – Any period exceeding forty-eight (48) months.</p> <p>Mid-range – Any period between short-term and long-term.</p> <p>Bankers’ acceptances – Bankers’ acceptances generally are created based on a letter of credit issued in a foreign trade transaction. Bankers’ acceptances are short-term, non-interest-bearing notes sold at a discount and redeemed by the accepting banks at maturity for face value.</p> <p>Collateral – Security pledged by a financial institution to a governmental entity for its deposit.</p> <p>Commercial paper – An unsecured promissory note issued primarily by corporations for a specific amount and maturing on a specific day. The maximum maturity for commercial paper is 270 days, but most is sold with maturities of up to thirty (30) days. Almost all commercial paper is rated as to credit risk by rating services.</p> <p>Concentration of credit risk – The risk of loss attributed to the magnitude of a government’s investment in a single issuer, pool, institution, or instrument.</p> <p>Counterparty – Another party to a transaction. In the case of deposits and investments made by governmental entities, a counterparty could be the issuer of a security, a financial institution holding a deposit, a broker-dealer selling securities, or a third party holding securities or collateral.</p> <p>Credit risk – The risk that a counterparty to an investment transaction will not fulfill its obligations. Overall credit risk can be associated with the issuer of a security, with a financial institution holding deposits, or with a party holding</p>
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<p>SC 521 53 Pa. C.S.A. Sec. 2301 et seq</p>	<p>securities or collateral. Credit risk exposure can be affected by a concentration of deposits or investments in any one (1) investment type or with any one (1) counterparty.</p> <p>Custodial credit risk – The custodial credit risk for <i>deposits</i> is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for <i>investments</i> is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.</p> <p>Foreign currency risk – The risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Investments depending on substantial overseas activities or markets may present related foreign currency risk.</p> <p>Interest rate risk – The risk that changes in interest rates will adversely affect the fair value of an investment.</p> <p>Issuer – The entity that has the authority to distribute a security or other investment. A bond issuer is the entity that is legally obligated to make principal and interest payments to bond holders. In the case of mutual funds, external investment pools, and other pooled investments, issuer refers to the entity invested in, not the investment company-manager or pool sponsor.</p> <p>Investment plan – The school district’s specifically enumerated investment strategy approved annually by the Board.</p> <p>Local Government Investment Pool (LGIP) – An investment trust or pool organized by groups of political subdivisions or municipal authorities pursuant to Section 521 of the Public School Code of 1949, or pursuant to the Intergovernmental Cooperation Law, 53 Pa. C.S.A. Sec. 2301 et seq., for the purpose of investing funds of such political subdivisions or municipal authorities for their exclusive benefit and in accordance with the laws governing their permissible investments. LGIPs include, but are not limited to, the Pennsylvania School District Liquid Asset Fund (PSDLAF), the Pennsylvania Local Government Investment Trust (PLGIT), and for purposes of this policy, the PA INVEST program operated by the Pennsylvania Treasury Department.</p>
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<p>SC 440.1 15 U.S.C. Sec. 77a et seq, 80a-1 et seq</p> <p>4. Delegation of Responsibility SC 440.1</p>	<p>Market risk – The risk that the market value of an investment, collateral protecting a deposit, or securities underlying a repurchase agreement will decline. Market risk is affected by the length to maturity of a security, the need to liquidate a security before maturity, the extent that collateral exceeds the amount invested, and the frequency at which the amount of collateral is adjusted for changing market values.</p> <p>Repurchase agreement –</p> <p>a. An agreement in which a governmental entity (buyer-lender) transfers cash to a broker-dealer or financial institution (seller-borrower); the broker-dealer or financial institution transfers securities to the entity and promises to repay the cash plus interest in exchange for the same securities.</p> <p>b. A generic term for an agreement in which a governmental entity (buyer-lender) transfers cash to a broker-dealer or financial institution (seller-borrower); the broker-dealer or financial institution transfers securities to the entity and promises to repay the cash plus interest in exchange for the same securities (as in definition (a) above) or for different securities.</p> <p>Shares of an investment company – For purposes of School Code Permissible Investments, shares of an investment company registered under the Investment Company Act of 1940 (54 Stat. 789, 15 U.S.C. Sec. 80a-1 et seq.), and whose shares are registered under the Securities Act of 1933 (48 Stat. 74, 15 U.S.C. Sec. 77a et seq.) and which satisfies the further conditions set forth in Section 440.1 of the School Code, subsection (b), clause (v).</p> <p>Weighted average maturity – A weighted average maturity measure expresses investment time horizons—the time when investments become due and payable—in years or months, weighted to reflect the dollar size of individual investments within an investment type.</p> <p>The Board shall designate an Investment Officer, who shall implement the school district’s investment program in accordance with this policy, related procedures, applicable laws and the annual investment plan approved by the Board.</p> <p>The Investment Officer shall prepare, for approval of the Board, an annual investment plan for all general and segregated/designated funds of the district (i.e., general, capital reserve, bond, etc.), including bond proceeds, taking into account the anticipated liquidity needs of each fund.</p>
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SC 511 Pol. 618	<p>The plan may provide for moneys from more than one (1) fund under school district control for the purchase of any single investment, provided that each of the funds combined for the purpose shall be accounted for separately in all respects and that the earnings from the investment are separately and individually computed and recorded, and credited to the accounts from which the investment was purchased.</p> <p>The plan shall not encompass the investment of any student activity or class-related funds separately managed pursuant to School Code Section 511.</p> <p>The annual investment plan shall be submitted to the Board for review and approval during the month of <u>August</u>.</p>
SC 440.1 72 P.S. Sec. 3836-1 et seq	<p>The Investment Officer shall report monthly to the Board the following:</p> <ol style="list-style-type: none">1. Amount of funds invested.2. Interest earned and received to date.3. Types and amounts of each investment and the interest rate on each.4. Names of the institutions where investments are placed.5. The means by which any deposits exceeding insurance limits are collateralized.6. Other information required by the Board.
SC 624 Pol. 608	<p>This report may, but is not required to, include the information regarding depository balances, earnings and transactions required by the School Code to be reported to the Board monthly as set forth in Policy 608.</p>

<p>5. Guidelines SC 440.1</p>	<p>The Board directs the Superintendent and Investment Officer to develop, for approval by the Board as an appendix to this policy, specific due diligence and risk mitigation measures for:</p> <ol style="list-style-type: none"> 1. Evaluating and mitigating the risks associated with each investment; 2. Investigating, selecting and evaluating the performance of investment advisors and investment professionals; 3. Specifying standards for audits of investment transactions; and 4. Determining the qualifications, training, standards and disclosures required for district employees performing functions relating to the district's investment program. <p>Investments permitted by this policy are those defined in law and enumerated in this policy that are appropriately collateralized in accordance with this policy and applicable laws.</p> <p><u>School Code Permissible Investments</u></p> <ol style="list-style-type: none"> 1. United States Treasury bills. 2. Short-term obligations of the United States Government or its agencies or instrumentalities. 3. Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation (FDIC) or the Federal Savings and Loan Insurance Corporation (FSLIC) or the National Credit Union Share Insurance Fund (NCUSIF) to the extent that such accounts are so insured, and, for any amounts above the insured maximum, provided that approved collateral as provided by law therefore shall be pledged by the depository. 4. Obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or of any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.
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17 CFR
Part 270

5. Shares of an investment company registered under the Investment Company Act of 1940 (54 Stat. 789, 15 U.S.C. Sec. 80a-1 et seq.), whose shares are registered under the Securities Act of 1933 (48 Stat. 74, 15 U.S.C. Sec. 77a et seq.). Provided, that the following are met:
 - a. The only investments of that company are in the authorized investments for school district funds listed in items 1 through 4 above and repurchase agreements fully collateralized by such investments.
 - b. The investment company is managed so as to maintain its shares at a constant net asset value in accordance with 17 CFR Sec. 270 2a-7 (relating to money market funds).
 - c. The investment company is rated in the highest category by a nationally recognized statistical rating organization.
6. Local Government Investment Pools (LGIPs) as defined in this policy.
7. Repurchase agreements with respect to U.S. Treasury bills or obligations, participations or other instruments of or guaranteed by the U.S. or any federal agency, instrumentality or U.S. government-sponsored.

Act 10 Permissible Investments

1. Obligations, participations or other instruments of any federal agency, instrumentality or U.S. government-sponsored enterprise if the debt obligations are rated at least "A" or its equivalent by at least two (2) nationally recognized statistical ratings organizations.
2. Commercial paper issued by corporations or other business entities organized in accordance with federal or state law, with a maturity not to exceed 270 days, if the issuing corporation or business entity is rated in the top short-term category by at least two (2) nationally recognized statistical ratings organizations.
3. Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances, if the bankers' acceptances do not exceed 180 days maturity and the accepting bank is rated in the top short-term category by at least two (2) nationally recognized statistical ratings organizations.

<p>SC 440.1</p>	<p>4. Negotiable certificates of deposit or other evidences of deposit, with a remaining maturity of three (3) years or less, issued by a nationally or state-chartered bank, a federal or state savings and loan association or a state-licensed branch of a foreign bank.</p> <p>a. For obligations with a maturity of one (1) year or less, the debt obligations of the issuing institution or its parent must be rated in the top short-term rating category by at least two (2) nationally recognized statistical ratings organizations.</p> <p>b. For obligations with a maturity in excess of one (1) year, the senior debt obligations of the issuing institution or its parent must be rated at least “A” or its equivalent by at least two (2) nationally recognized statistical ratings organizations.</p> <p>5. Shares of an investment company registered under the Investment Company Act of 1940 (54 Stat. 789, 15 U.S.C. Sec. 80a-1 et seq.) whose shares are registered under the Securities Act of 1933 (48 Stat. 74, 15 U.S.C. Sec. 77a et seq.), if all of the following conditions are met:</p> <p>a. The investments of the company are the authorized investments under 53 P.S. §5410.1, subsection (a) (Act 10, Section 1.1(a)).</p> <p>b. The investment company is managed in accordance with 17 CFR Sec. 270.2a-7 (relating to money market funds).</p> <p>c. The investment company is rated in the highest category by a nationally recognized rating agency.</p> <p><u>Management of Investments and Collateral</u></p> <p>All securities or other investments in which the school district invests or that collateralize school district investments shall be managed as provided in this policy and in the school district’s investment plan annually approved by the Board.</p> <p>The plan shall require that securities purchased as investments be purchased in the name of the school district and held in custody for the benefit of the school district as provided in the investment plan and authorized custodian agreements. The plan may make exceptions to such requirements for investments in LGIPs as defined in this policy, or for the purchase of shares of an investment company as defined in this policy.</p>
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<p>72 P.S. Sec 3836-1 et seq</p>	<p>2. Tri-Party Collateral in the name of the school district consisting of the following underlying securities only:</p> <ul style="list-style-type: none"> a. U.S. Treasury Securities. b. Obligations, participations or other instruments of any federal agency, instrumentality or U.S. government-sponsored enterprise if the debt obligations are rated at least “A” or its equivalent by at least two (2) nationally recognized statistical ratings organizations. <p>3. Assets pledged as collateral in accordance with the act of August 6, 1971, (P.L. 281, No.72), 72 P.S. Sec. 3836-1 et seq. (relating to pledges of assets to secure deposits of public funds, whether or not pooled).</p> <p>It shall be the responsibility of the Investment Officer to verify with the depository the value of the collateral instrument(s) based on the instrument being “marked to market.” This valuation shall occur at least monthly.</p> <p>Following a review of valuation, the Investment Officer may request an additional review by the district’s investment advisors or financial consultant, and shall require additional collateral if the existing collateral has declined in value and exposes the district to potential loss of principal. The status of the valuation review and any additional collateral shall be included in the periodic reports to the Board regarding the investment program.</p> <p><u>Reporting Requirement for Local Government Investment Pools (LGIPs)</u></p> <p>Local Government Investment Pools (LGIPs) pool the resources of participating government entities and invest in various securities as permitted under state law, so that participating governments can benefit from economies of scale, professional fund management and other advantages.</p> <p>Recognizing that LGIPs invest directly in permissible securities on behalf of the participating government entities, which in turn have proportional ownership rights in those securities, district investments in a LGIP shall not be subject to the collateral requirements of this policy, provided that the LGIP:</p> <ul style="list-style-type: none"> 1. Makes available to participants daily and monthly statements, and other information from which the status of the investments can be verified; and 2. Provides an audited annual financial report to each participating government entity.
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<p>Pol. 619</p>	<p><u>Further Risk Mitigation for Act 10 Permissible Investments</u></p> <p>Recognizing that Act 10 of 2016 expanded the range of permissible investments to include investments with the potential to expose the school district to elevated levels of credit risk and other investment risks, the Board directs that any investment plan or investment recommendations proposed by the Investment Officer take into account, implement and highlight the following factors and precautions with respect to Act 10 Permissible Investments:</p> <ol style="list-style-type: none">1. It cannot be assumed that negotiable certificates of deposit are collateralized.2. A significantly more thorough level of due diligence is required.3. Any investment in the fourth category of Act 10 Permissible Investments listed above (negotiable certificates of deposit or other evidences of deposit) must have a maturity not exceeding one (1) year in duration. <p>[Legal Note: Some school attorneys are of the opinion that negotiable certificates of deposit permitted under Act 10 constitute a type of deposit subject to the collateral requirements of Section 440.1 of the School Code, and that Act 10 does not supersede that requirement, or at least see this as an unresolved question. Because negotiable certificates of deposit generally are not collateralized, that casts doubt on whether school districts can lawfully invest in negotiable certificates of deposit notwithstanding Act 10. Consultation with the district solicitor is strongly recommended prior to including such investments in the district's investment plan or portfolio.]</p> <ol style="list-style-type: none">4. In addition to verification of rating by a nationally recognized statistical rating organization and other due diligence requirements, the investigation of Act 10 Permissible Investments shall include ensuring that there is an independent credit review (a qualified financial services organization with an active and recognized credit analysis team is also monitoring the issuer, in addition to the nationally recognized statistical rating organization(s)).5. Act 10 Permissible Investments shall be limited to no more than ten percent (10%) of district funds available for investment, excluding bond proceeds and refunding escrow balances. <p><u>Audit</u></p> <p>The Board directs that all investment records be subject to annual audit by the district's independent auditors.</p>
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<p>65 Pa. C.S.A. Sec. 1101 et seq</p>	<p>The audit shall include but not be limited to independent verification of amounts and records of all transactions, as deemed necessary by the independent auditors.</p> <p><u>Conflict of Interest Avoidance and Disclosure</u></p> <p>The Investment Officer and any other district employee performing functions related to the investment program shall disclose in writing to the Board any material conflict of interest or material potential conflict of interest which exists because of personal relationships or personal business activity between the Investment Officer or other employees and any depository institution, broker, dealer, investment advisor, or other investment provider or professional serving the district. The Investment Officer or other employees shall refrain from any personal business activity that could impair ability to make impartial decisions in managing the annual investment plan.</p> <p>All depository institutions, repurchase agreement providers, brokers, and investment advisors and managers shall disclose in writing to the district: (1) any fees or other compensation paid to or received from a third party with respect to any district investment; and (2) any ownership of or by a parent corporation which owns any other depository institution, broker, dealer, investment advisor, or other investment provider or professional which does business with the district.</p> <p>All investment advisors shall verify in writing that they have received and reviewed a copy of this Board policy and agree to comply with this policy and all applicable laws related to school district investments.</p> <p>References:</p> <p>School Code – 24 P.S. Sec. 218, 440.1, 511, 521, 621, 622, 623, 624</p> <p>Intergovernmental Cooperation Law – 53 Pa. C.S.A. Sec. 2301 et seq</p> <p>Local Government Unit Debt Act – 53 Pa. C.S.A. Sec. 8001 et seq</p> <p>Public Officials and Employee Ethics Act – 65 Pa. C.S.A. Sec. 1101 et seq</p> <p>Security of Public Deposits – 72 P.S. Sec. 3836-1 et seq (Act 72 of 1971)</p> <p>Act 10 of 2016 – Investment of Public Corporation or Authority Funds – Act of Mar. 25, 2016, P.L. 72, No. 10, 53 P.S. Sec. 5406, 5410.1</p> <p>Securities and Trust Indentures – 15 U.S.C. Sec. 77a et seq</p>
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	<p>Investment Companies – 15 U.S.C. Sec. 80a-1 et seq</p> <p>Investment Companies, Title 17, Code of Federal Regulations – 17 CFR Part 270</p> <p>Governmental Accounting Standards Board, Statement No. 3, as amended by Statement 40</p> <p>Governmental Accounting Standards Board, Statement 40</p> <p>Board Policy – 608, 618, 619</p>
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