

West Goshen Sewer Authority (WGSA)
Investment Policy of WGSA Funds
Revised: February 1, 2023

I. Governing Authority

The investment program shall be operated in conformance with governing legislation in the state of Pennsylvania and other legal requirements.

II. Scope

This policy applies to the investment of all WGSA funds.

III. General Objectives

The primary objectives of investment activities shall be safety, liquidity, and return:

1. *Safety*

Investments shall be made in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

a. Credit Risk

The WGSA will minimize credit risk, which is the risk of loss of all or part of the investment due to the failure of the security issuer or backer, by:

- Limiting investments to the types of securities listed in Section VII of this Investment Policy
- Pre-qualifying and conducting ongoing due diligence of the financial institutions, broker/dealers, intermediaries, and advisers with which the WGSA will do business in accordance with Section V
- Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.
- All deposits will be collateralized over the \$250,000 limit by using PA ACT 72. This requirement applies to any deposit of the West Goshen Sewer Authority including, for example, deposits in a checking or savings account and certificates of deposit.

b. Interest Rate Risk

WGSA will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

- Structuring the investment portfolio so that security maturities match cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity
- Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting individual security maturity as well as the average maturity of the portfolio in accordance with this policy (see section VIII).

2. *Liquidity*

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all

possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds which offer same-day liquidity for short-term funds.

3. Return

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal;
- Selling a security and reinvesting the proceeds that would improve the quality, yield, or target duration in the portfolio may be undertaken;
- Unanticipated liquidity needs of the portfolio require that the security be sold.
- Suspected improprieties, fraudulent activity, or imprudent actions

IV. Standards of Care

1. *Prudence*

The standard of prudence to be used by the WGSA investment officials (Chairman & Treasurer) shall be the "uniform prudent investor act" standard and shall be applied in the context of managing an overall portfolio. The WGSA investment officer (Treasurer, or anyone acting for the Treasurer in their absence) in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

2. *Ethics and Conflicts of Interest*

The WGSA investment officials involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. The WGSA investment officials shall disclose any material interests in financial institutions with which they conduct business, in accordance with applicable laws. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. The WGSA investment officer shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the WGSA.

3. *Delegation of Authority*

Authority to manage the investment program is granted to the Treasurer of the WGSA, herein referred to as the investment officer and derived from the following: PA Municipal Authorities Act, PA or Local Government Unit Debt Act or applicable statute. Responsibility for the operation of the investment program is hereby delegated to the investment officer, who shall act in accordance with any established written procedures and internal controls for the operation of the investment program consistent with this investment policy. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the investment officer. The investment officer shall be responsible for all transactions undertaken.

V. Authorized Financial Institutions, Depositories, and Broker/Dealers

1. Authorized Financial Institutions, Depositories, and Broker/Dealers

A list will be maintained of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by creditworthiness and/or other factors, such as FINRA broker check.

All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- Submit annually audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
- Proof of Financial Industry Regulatory Authority (FINRA) certification (not applicable to Certificate of Deposit counterparties)
- Proof of state registration
- Completed broker/dealer questionnaire (not applicable to Certificate of Deposit counterparties)
- Certification of having read and understood and agreeing to comply with the WGSa investment policy.
- Evidence of adequate insurance coverage.

An annual review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the investment officer.

VI. Safekeeping and Custody

1. Delivery vs. Payment

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible custody account prior to the release of funds.

2. Safekeeping

Securities will be held by an independent third-party custodian selected by WGSa as with all securities held in WGSa's name. The safekeeping institution shall annually provide a copy of their most recent report on internal controls.

3. Internal Controls

The investment officer in conjunction with the Township Finance Director shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed annually with the independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, mis-representation by third parties, unanticipated changes in financial markets, or imprudent actions by officers of the West Goshen Sewer Authority.

VII. Suitable and Authorized Investments

1. Investment Types

Consistent with the GFOA Policy Statement on State and Local Laws Concerning Investment Practices¹ and other binding documents, the following investments will be permitted by this policy:

- U.S. Treasury obligations which carry the full faith and credit guarantee of the United States government;

¹ <http://gfoa.org/public-policy-statements-treasury-and-investment-management#investmentpractices>

- U.S. government agency and instrumentality obligations that have a liquid market with a readily determinable market value;
- Savings accounts of institutions insured by the FDIC or the National Credit Union Share Insurance Fund up to the amount covered by the insurance;
- Obligations of the United States, Commonwealth of Pennsylvania, any political subdivision of the Commonwealth, and any of their agencies or instrumentalities, backed by their full faith and credit;
- Certificates of deposit from institutions insured by FDIC or the National Credit Union Share Insurance Fund or collateralized by applicable law;
- Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities;
- Investments permitted under the PA Municipal Authorities Act, PA Local Government Unit Debt Act or applicable statute.

2. *Collateralization*

When collateral is required for deposits in excess of insurance limits, the provision of the Act of August 6, 1971, P.L. 181 No. 72 (“Act 72”) and P.L. 281 as amended, will be followed with regard to pooling, custody, and type of collateral required to secure deposits. Among other things, Act 72 requires a third party to act as custodian for the pledged collateral. The Authority requires that the collateral maintained be at current market value (not face value as Act 72 requires). Such information as to current market value, face value and third-party custodian shall be available to the Authority at all times.

Monthly reports are required by the Authority listing total deposits covered by the bank’s collateral; the total amount and types (for example, U.S. Treasury Bills, GNMA’s, loan notes, etc.) of collateral held for such deposits; and the location the collateral is being held (for example, the Federal Reserve Bank of Philadelphia).

The Authority expects that the collateral at all times will have a market value at least equal to 102% of the amount of the applicable public deposits in excess of the FDIC insurance limits and that the collateral will be held by a third-party custodian in a separately designated Act 72 pledge account. This applies to invested accounts, and to all other related depository accounts.

VIII. Investment Diversification & Constraints

1. *Diversification*

It is the policy of the WGSA to diversify its investment portfolios. To eliminate risk of loss resulting from the overconcentration of assets in a specific maturity, issuer, or class of securities, all cash and cash equivalent assets in all Authority funds shall be diversified by maturity, issuer, and security type. Diversification strategies shall be determined and revised periodically by the investment officer for all funds.

In establishing specific diversification strategies, the following general policies and constraints shall apply: Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity sector. Maturities selected shall provide for stability of income and reasonable liquidity.

- Liquidity shall be assured through practices ensuring that the next disbursement date is covered through maturing investments or marketable U.S. Treasury bills.

- Positions in securities having potential default risk (e.g., commercial paper) shall be limited in size so that in case of default, the portfolio's annual investment income will exceed a loss on a single issuer's securities.
- Risks of market price volatility shall be controlled through maturity diversification and duration management.
- The investment officer shall establish strategies and guidelines for the percentage of the total portfolio that may be invested in securities other than repurchase agreements, Treasury bills or collateralized certificates of deposit.

The following diversification limitations shall be imposed on the portfolio:

- **Maturity:** No portion of the portfolio may be invested beyond three years.
- **Default risk:** No more than 10 percent of the overall portfolio may be invested in the securities of a single issuer, except for securities of the U.S. Treasury. No more than 10 percent of the portfolio may be invested in each of the following categories of securities:
 - a) Negotiable certificates of deposit to the extent not insured by FDIC or the National Credit Union Share Insurance Fund,
 - b) Any other obligation that does not bear the full faith and credit of the United States government or which is not fully collateralized or insured and
- **Liquidity risk:** Based on liquidity needs, at least \$250,000 of the overall portfolio shall be invested in overnight instruments or in marketable securities which can be converted to cash within one day.

2. *Maximum Maturities*

To the extent possible, the WGSA shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the WGSA will not directly invest in securities maturing more than three (3) years from the date of purchase or in accordance with governing legislation. The WGSA shall adopt weighted average maturity limitations consistent with the investment objectives.

IX. Bond Proceeds

Bond proceeds shall be invested in accordance with any Trust Indenture, or applicable governing instrument, or the Municipal Authorities Act, Local Government Unit Debt Act (Act of July 12, 1972 P.L. 78 1, No. 185) and applicable federal and state laws, subject to approval by the solicitor and/or bond counsel and the WGSA.

X. Reporting

1. *Methods*

The investment officer shall prepare an investment report monthly, including a management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the last quarter month. This management summary will be prepared in a manner which will allow the WGSA to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the WGSA Board and the West Goshen Township Finance Director. The report will include the following:

- Listing of individual securities held at the end of the reporting period including type,

- acquisition cost, book cost, and market value.
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity.

2. *Performance Standards*

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis. The benchmarks shall be reflective of the actual securities being purchased and risks undertaken, and the benchmarks shall have a similar weighted average maturity as the portfolio.

3. *Marking to Market*

The market value of the portfolio shall be calculated at least monthly, and a statement of the market value of the portfolio shall be issued at least monthly. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with the GFOA Recommended Practice on "Mark-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools."

XI. Audit

The WGSAs directs that all investment records be subject to annual audit by independent auditors. 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. It shall be the responsibility of the investment officer or banking institution to maintain necessary documents to permit independent audit of the WGSAs investments.

XII. Policy Considerations

1. *Amendments*

This policy shall be reviewed on an annual basis. Any changes must be approved by the WGSAs Board members.

XIII. Approval of Investment Policy

The investment policy shall be formally approved and adopted by the WGSAs Board and reviewed biennially.

XIV. Authorized Financial Institutions and Broker/Dealers

Fulton Financial Corporation,
One Penn Square,
P.O. Box 4887
Lancaster, PA 17604

TD Bank
3220 Tillman Drive
Bensalem, PA 19020

Janney Montgomery Scott
200 N. High St.
Ste. 201
West Chester, PA 19380