

## **Investment of Funds**

### **Scope**

This policy applies to the investment of short-term operating funds and capital project funds (including bond proceeds and bond reserve funds) held by CESD. Investments of employees' retirement funds, deferred compensation plans, and funds held and invested by trustees, escrow agents, or fiscal agents are not covered by this policy. This policy does not apply to CESD's checking account.

Except where legally required to hold separate funds, CESD may consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds monthly based on their respective cash balances.

### **General Objectives**

These procedures have been established to provide guidelines for the investment of available funds of the district. The primary objectives for this investment policy, in priority order, shall be: preservation of capital, maintenance of a liquid position, and maximum yield.

### **Safety**

Safety of principal is the foremost objective of the investment program. Investment decisions shall be undertaken 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.

### **Interest Rate Risk**

CESD will minimize the price risk, due to changes in general market interest rates associated with the sale of securities prior to maturity, by:

1. Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and/or capital projects, thereby avoiding the need to sell securities on the open market prior to maturity.
2. Investing operating funds primarily in shorter-term securities or short-term investment pools.

## **Credit Risk**

CESD will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:

1. Limiting investments to the types of securities listed in this investment policy.
2. Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which CESD will do business in accordance with this policy.
3. 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.

## **Liquidity**

The investment portfolio shall remain sufficiently liquid to meet all operating, capital, and construction requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with anticipated cash needs.

Because of the inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds, such as the Oregon Local Government Investment Pool or overnight repurchase agreements, or held in bank balances to ensure that appropriate liquidity is maintained to meet ongoing obligations.

## **Yield**

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 lesser importance compared to the safety and liquidity objectives described above. The portfolio investments are limited to highly rated/low risk securities in anticipation of earning a fair return relative to the risk being assumed.

Securities shall not be sold prior to maturity with the following exceptions:

1. A security with declining credit may be sold early to minimize loss of principal.
2. A security swap that would improve the quality, yield, or target duration in the portfolio.
3. Liquidity needs of the portfolio require that the security be sold.
4. To liquidate a security purchased in error that violates state law or this policy.

## **Standards of Care**

### **Prudence**

The standard of prudence to be used by investment officials shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. Investment officers acting 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 liquidation and/or sale of securities are carried out in accordance with the terms of this policy.

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

### **Ethics and Conflicts of Interest**

Officers and employees 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. Employees, officers, and their families shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of CESD. Officers and employees shall, at all times, comply with the State of Oregon Government Standards and Practices code of ethics set forth in ORS 244.

### **Delegation of Authority**

The director of fiscal services, as authorized by the Board, shall manage CESD’s investment program and ensure compliance with Oregon Revised Statutes and the investment policy, designate eligible investment institutions, review periodic investment reports, and monitor investment transactions.

The director of fiscal services will administer the policy, place investments, maintain accounting records, and prepare investment reports.

### **Investment Advisory Services**

Subject to required procurement procedures, CESD may engage the support services of outside professionals in regard to its investment program, so long as it can be demonstrated or anticipated that these services produce a net financial advantage and necessary financial protection of CESD’s resources. External service providers shall be subject to Oregon Revised Statutes and the provisions of this investment policy.

The investment advisory service firm will function in a nondiscretionary role and provide technical market research to help in implementing investment strategies. Nondiscretionary management requires that CESD maintains control of investments by requiring the firm to obtain approval for all investment transactions.

## **Accounting Method**

CESD shall comply with all required legal provisions and Generally Accepted Accounting Principles (GAAP) relating to investment accounting. The accounting principles are those contained in the pronouncements of authoritative bodies including, but not necessarily limited to, the Governmental Accounting Standards Board (GASB); the American Institute of Certified Public Accountants (AICPA); and the Financial Accounting Standards Board (FASB).

## **Safekeeping and Custody**

### **Authorized Financial Dealers and Institutions**

A list will be maintained of financial institutions authorized to provide investment and safekeeping services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness and other factors considered relevant by CESD. These may include primary dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule). Regional brokers and dealers must be licensed in Oregon in order to be considered for doing business with CESD. CESD will limit all security purchases to institutions on the approved lists.

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

1. Audited financial statements;
2. Proof of National Association of Securities Dealers (NASD) certification;
3. Proof of state registration;
4. Demonstration of an understanding of Oregon Revised Statute 294 and other applicable laws;
5. Certification of having read and understood CESD's investment policy;
6. References from other Oregon local government clients;
7. Assets of at least \$200 million.

A review of the financial condition and registration of qualified financial institutions and broker/dealers will be conducted by the director of fiscal services at least every five years. Additions and deletions to the list may be made at the discretion of the director of fiscal services.

### **Internal Controls and Compliance**

The director of fiscal services shall establish and maintain a system of internal controls consistent with this policy designed to prevent the loss of public funds due to fraud, error, misrepresentation, or imprudent actions by third parties or by employees of CESD. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. Written internal controls shall be reviewed and

tested at least annually or upon any extraordinary event such as turnover of key personnel or the discovery of inappropriate activity.

The policies set forth in this document shall be adhered to and monitored. Any instance which is deemed to be out-of-compliance with this investment policy shall be brought back into compliance as soon as prudently feasible.

## **Delivery, Safekeeping and Collateral**

### **Delivery & Safekeeping**

All securities purchased or sold will be transferred only under the “delivery versus payment” (DVP, in accordance with ORS 294.145(4) and (5)) method to insure that funds or securities are not released until all criteria relating to the specific transaction are met. Securities may be held by the broker/dealer in CESD’s name in the broker/dealer’s account or they may be held by a third party safekeeping agent. Whenever possible, physical delivery of securities will be avoided.

It is the intent of CESD that all purchased securities shall be perfected in the name of CESD. Sufficient evidence to title shall be consistent with modern investment and commercial practices.

Written confirmations will be required for all investment transactions and wire transfers covered by this policy.

### **Collateral**

Cash management tools, defined as bank deposits, time deposits, certificates of deposit and savings accounts, shall be held in qualified Oregon depositories and collateralized in accordance with ORS Chapter 295.

ORS 294.035(11) requires repurchase agreement collateral to be limited in maturity to three years and priced according to percentages prescribed by written policy of the Oregon Investment Council or the Oregon Short-Term Fund Board. On March 12, 1996, the OSTF Board adopted the following margins:

1. U.S Treasury securities: 102%
2. U.S. Agency discount and coupon securities: 102%
3. Mortgage backed securities, although allowed by ORS Chapter 294, are not allowed as repurchase agreement collateral under this policy.

A signed Master Repurchase Agreement must be in place between CESD and the securities dealer prior to entering into any repurchase agreement with that dealer.

## Suitable and Authorized Investments

### Investment Types

CESD will diversify its investment portfolio to protect its principal by investing in varied instruments and institutions. Furthermore, for sound cash flow, varied dates of maturity for instruments will be established.

This investment policy restricts the types of investment instruments and percentage of investment to the following:

#### Type of Investment Instrument Maximum % of Total Portfolio

Certificate of Deposit	50% Maximum
US Treasury Bills, Notes and Bonds	100% Maximum
Local Government Investment Pool	100% Maximum
Federal Agency Securities	100% Maximum
Commercial Paper	25% Maximum
Bankers' Acceptances	25% Maximum
Repurchase Agreements	25% Maximum
Guaranteed Investment Contracts	25% Maximum

### Investment Parameters

The director of fiscal services will diversify the investment portfolio to avoid incurring unreasonable risks inherent with over-investing in specific instruments, individual institutions or maturities.

1. Banker's acceptances: All banker's acceptances (BA's) will be purchased from an Oregon financial institution with a limit of 25 percent per issuer.
2. Repurchase Agreements: Repurchase agreements will be limited to maturities of no longer than 90 days. All repurchase agreements will be collateralized 102 percent by U.S. Government or Agency obligations. All collateral will be held by third party safekeeping. A signed repurchase agreement will be obtained from the issuing institution. Confirmation of collateral will be provided to CESD on a timely basis.
3. U.S. Treasury Obligations: No limits on purchase.
4. U.S. Government Agency Securities: No limits on purchases other than a limit on concentration of 25 percent in any one issuer.
5. Commercial Paper: There shall be a limit of 25 percent of the portfolio held in commercial paper. In addition, ORS 294.035 limits investment in a single corporate entity to no more than 5 percent of the portfolio.
6. Local Government Investment Pool: The LGIP limits the amount of investment per ORS 294.810. Other than this limitation, there is no limit to the amount that can be invested in the pool, although the pool does not collateralize, deliver, or guarantee investment instruments.

7. Guaranteed Investment Contracts: ORS 294.052 authorizes local governments to invest bond proceeds in authorized guaranteed investment agreements with qualified financial agencies with a limit of 25 percent per issuer.
8. Cash management tools, defined as bank deposits, time deposits, certificates of deposit, and savings accounts, shall be held in qualified Oregon depositories and collateralized in accordance with ORS Chapter 295. In purchasing a time or certificate of deposit (TCD), the director of fiscal services will not invest an amount which is more than 50 percent of the portfolio in TCD's with no more than 25 percent per financial institution. In addition, no TCD investment amount will be more than 5 percent of the total deposits of any single institution. As required by Oregon Revised Statutes 295, the director of fiscal services will be responsible to ensure that a Certificate of Participation has been presented by the issuing institution to cover any outstanding TCD above the statutory level of insurance provided by FDIC. CESD will always require full collateralization on all TCD investments.
9. Maximum maturities. CESD will not invest operating funds in securities having a maturity of more than three years from the date of purchase. Investment maturities shall be scheduled to coincide with projected cash flow needs. Guidelines for the maturity or maximum length of time that operating funds are invested before being returned to CESD for use or reinvestment will be as follows:

- 10% of the total funds invested will mature in 30 days or less.
- 30% of the total funds invested will mature in 90 days or less.
- 50% of the total funds invested will mature in 180 days or less.
- 75% of the total funds invested will mature in one year or less.
- 25% of the total funds invested will mature in 3 years or less.

The average maturity of the total funds invested should not exceed more than 18 months. If these maturity limits are inadvertently exceeded at the time of a specific investment, the purchase does not need to be liquidated. Future investments must not be made to longer maturity dates until the limits will be met, however.

Typically, total funds invested with maturities longer than 18 months will be scheduled to meet future cash needs.

Specific bond proceeds will be invested based on scheduled cash flow projections. The investments of bond proceeds are restricted under bond covenants that may be more restrictive than the investment parameters included in this policy. Bond proceeds shall be invested in accordance with the most restrictive parameters of this policy and the applicable bond covenants and tax laws.

This investment policy has been submitted for review by the OSTF Board as specified above and in accordance with ORS 294.135(1)(a).

10. Securities Lending and Reverse Repurchase Agreements. CESD will not lend securities nor directly participate in a securities lending or reverse repurchase program.
11. Competitively Priced Securities. Competitive pricing will be sought on all transactions.

12. The investment policy and guidelines apply to all funds accounted for in the annual budget.
13. The director of fiscal services will maintain a detailed list of all investments including the necessary cash flow projections and schedules for both operating and bond funds and comply with all accounting and statutory rules, including IRS rules on rebate. In addition, collateral for outstanding repurchase agreements and guaranteed investment contracts will be monitored for compliance with this policy.

## **Reporting**

### **Methods**

The director of fiscal services shall prepare an investment report quarterly including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the previous quarter. The report will be submitted to the Board for review. This management summary will be prepared in a manner which will allow the Board to ascertain whether investment activities during the reporting period have conformed to the investment policy.

At a minimum, this report will include the following:

1. Listing of individual securities held at the end of the reporting period.
2. Average weighted yield to maturity of portfolio on investments as compared to applicable benchmark(s).
3. Listing of investments by maturity date, call date, cost, and current fair value.
4. Collateral description including listing of securities by maturity date and fair market value if current portfolio includes repurchase agreements and/or guaranteed investment contracts.
5. Percentage of the total portfolio that each type of investment represents along with the percentages authorized in this policy.

### **Performance Standards**

The investment portfolio will be managed in accordance with the parameters specified within this policy. The appropriate benchmark may be the monthly yield for the LGIP, and CESD may also include a market benchmark that may match CESD's investment profile. Because bond proceeds are expected to be invested at the time they are received and are therefore invested in an interest rate environment that exists at that point in time, that portion of the portfolio will be excluded from ongoing benchmark performance measurement.

## **Policy Adoption and Readoption**

This policy was originally authorized by the Board in 1990. The director of fiscal services shall annually review the investment policy and submit the policy and revisions to the OSTF Board if required. The policy and any revisions shall be presented annually to the Board. The Board will approve all revisions to the policy.