

Gresham-Barlow SD 10

Code: **DFA**
Adopted: 7/11/94
Readopted: 6/10/96, 5/02/02, 11/06/08
Orig. Code(s): DFA

Investment of Funds

Scope

This policy applies to district activities with regards to investing the financial assets of all funds, except deferred compensation funds held under annuity contracts for district employees. In addition, funds held by trustees or fiscal agents are excluded from these rules; however, all funds are subject to regulations established by the state of Oregon. This policy provides direction for the following funds:

General Fund	Debt Service Funds
Special Revenue Funds	Internal Service Funds
Capital Project Funds	Pension Trust Funds

Funds of the district will be invested in compliance with the provisions of, but not necessarily limited to, ORS 294.035 through 294.048; ORS 294.125 through 294.155; ORS 294.810; and other applicable statutes. Investments will be in accordance with these policies and written administrative procedures. Investments of any tax exempt borrowing proceeds and of any debt service funds will comply with the “arbitrage” restrictions of the Internal Revenue Code.

General Objectives

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

1. **Safety.** Safety of principal is the foremost objective of the investment program. Investments 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.
 - a. **Credit risk** - The district will minimize credit risk, the risk of loss due to the financial failure of the security issuer or backer by:
 - (1) Limiting exposure to poor credits and concentrating investments in the safest types of securities.
 - (2) Pre-qualifying financial institutions, broker/dealers, intermediaries, and advisers with which the district will do business.
 - (3) Diversifying the investment portfolio to minimize potential losses on individual securities.
 - (4) Actively monitor investment portfolio holdings for ratings changes, changing economic and market conditions, etc.
 - b. **Interest rate risk** - The district will minimize risk that the market value of securities in the portfolio will fall due to changes in general interest rates by:

- (1) Structuring the investment portfolio to ensure that maturities meet cash requirements for ongoing operations, 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.
2. **Liquidity.** The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This will be accomplished by structuring the portfolio where securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, the portfolio will consist largely of securities with active secondary or resale markets (dynamic liquidity). A portion of the portfolio may also be placed in the Oregon Short-Term Fund which offers next-day liquidity for short-term funds.
3. **Yield.** The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles while accounting for investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. Core investments are limited to relatively low risk securities in anticipation of earning a fair return compared to the risk assumed. Securities shall not be sold prior to maturity with the following exceptions:
 - a. A security with declining credit may be sold early to minimize loss of principal.
 - b. A security swap would improve quality, yield, or target duration in the portfolio.
 - c. Liquidity needs of the portfolio require sale of the security.

Standards of Care

1. **Prudence** - The standard of prudence to be used by the investment officer in the context of managing an overall portfolio shall be the “prudent investor” rule, which states: “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.”

The investment officer and staff, acting in accordance with written procedures and exercising due diligence, shall not be held personally responsible for a specific security’s credit risk, market price changes or loss of principal if securities are liquidated prior to maturity, provided that these deviations and losses are reported as soon as practical and appropriate action is taken to control adverse developments.

2. **Ethics and Conflicts of Interest** -The investment officer and staff 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 shall disclose any material interests in financial institutions that conduct business with the district. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is

conducted on behalf of the district. Officers and employees shall, at all times, comply with the Oregon Government Ethics Commission code of ethics set forth in ORS 244.

3. **Delegation of Authority.** Authority to manage the investment program is granted to the Chief Financial Officer or investment officer and derived from the following: ORS 294.035 to 294.053, 294.125 to 294.145, and 294.810. Responsibility for the operation of the investment program is hereby delegated to the investment officer, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. No person shall 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 and shall establish a system of controls to regulate the activities of subordinate officials.

Safekeeping and Custody

1. **Authorized Financial Dealers and Institutions.** The district shall maintain a listing of all authorized dealers and financial institutions which are approved for investment purposes. Any firm is eligible to make an application to the investment officer and upon due consideration and approval, may be added to the authorized list. Additions or deletions to the list will be made at the investment officer's discretion. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

Securities dealers not affiliated with a qualified financial institution of the State of Oregon shall be required to have an office located in Oregon (preferably local) and classified as reporting as dealers affiliated with the New York Federal Reserve Bank as primary dealers. The investment officer may reserve the right to waive the primary dealer requirement for broker/dealers in good standing with the National Association of Securities Dealers (NASD) and which have a local office that is supervised by an NASD qualified principal.

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

- a. Audited financial statements.
- b. Proof of National Association of Securities Dealers (NASD) certification.
- c. Proof of state registration.
- d. Completed broker/dealer questionnaire
- e. Certification and agreement to comply with the district's investment policy.

A periodic review of the financial condition and registration of qualified financial institutions and broker/dealers will be conducted by the investment officer.

2. **Internal Controls.** The investment officer is responsible for establishing and maintaining an adequate internal control structure designed to reasonably protect the assets of the district from loss, theft or misuse. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

Accordingly, the investment officer shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following:

- a. Control of collusion.
 - b. Separation of transaction authority from accounting and record keeping.
 - c. Custodial safekeeping.
 - d. Avoidance of physical delivery of securities whenever possible and address control requirements for physical delivery where necessary.
 - e. Clear delegation of authority to subordinate staff members.
 - f. Written confirmation of transactions for investments and wire transfers.
 - g. Development of a wire transfer agreement with the lead bank and third-party custodian and implementation of appropriate safeguards described in the GFOA Recommended Practice on Electronic Transfers for State and Local Governments.
 - h. Compliance and oversight with investment parameters including diversification and maximum maturities.
3. **Delivery vs. Payment.** All trades where applicable will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.
 4. **Safekeeping.** Securities (excluding bank deposits and CD's) will be held by a third-party custodian as evidenced by safekeeping receipts.
 5. **Pooling of Funds.** Except for cash in certain restricted and special funds, the district will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with Generally Accepted Accounting Principles (GAAP).

Suitable and Authorized Investments

1. **Investment Types.** Consistent with GFOA Policy Statement on State and Local Laws Concerning Investment Practices, the following investments will be permitted by this policy and are those defined by ORS 294.035 and 294.810:
 - a. US Treasury securities and other lawfully issued general obligations of the United States;
 - b. General obligations of government sponsored enterprises (GSE's) of the United States;
 - c. Time deposits, certificates of deposits and savings accounts;
 - d. Guaranteed investment contracts (GIC's) issued by insurance companies licensed to do business in Oregon;
 - e. Banker's acceptances that meet the following criteria:

- (1) Guaranteed and carried on the books of a qualified financial institution whose short-term letter of credit rating is A-1, P-1, D-1, or F-1. The financial institution must be located and licensed to do banking business in Oregon, or be wholly owned by a bank holding company that owns a financial institution that is located and licensed to do banking business in Oregon, and
 - (2) Eligible for discount by the Federal Reserve System;
- f. Commercial paper or corporate notes that meet the following criteria:
- (1) Issued under section 3(a)(2) or 3(a)(3), but not under section 4(2) of the Securities Act of 1933.
 - (2) Issued by a commercial, industrial or utility business enterprise, or on behalf of a financial institution.
 - (3) Commercial paper must be rated A-1 or P-1 by Moody's or Standard & Poor's. Corporate notes must be rated AA or Aa. Commercial paper ratings may be A-2 or P-2 and corporate note ratings may be A or better if issued on Oregon business enterprises. (See specific requirements under ORS 294.035(9)(c) before purchasing the lower rated debt);
- g. Repurchase agreements with a maximum term of 90 days and comply with specific terms of ORS 294.035(11) and the coverage specified by the Oregon Investment Council or Oregon Short-Term Fund Board which may be found on the Oregon State Treasury website;
- h. Municipal debt obligations in accordance with ORS 294.035;
- i. Oregon Short-Term Fund.

Investment in derivatives of the above instruments shall require authorization by the governing body.

- 2. Collateralization.** All bank deposits, time deposits, certificates of deposit, and savings accounts shall be held in qualified Oregon depositories in accordance with ORS Chapter 295. Such deposits are designated cash management tools and not investments under this policy or otherwise.

ORS 294.035(3)(k) requires repurchase agreement collateral to be limited in maturity to three years and priced according to percentage prescribed by written policy of the Oregon Investment Council or the Oregon Short-Term Fund Board (OSTF). On March 12, 1996 the OSTF Board adopted the following margins:

- a. US Treasury Securities: 102%
- b. US Agency Discount and Coupon Securities: 102%

Investment Parameters

- 1. Diversification.** Investments shall be diversified by:
- a. Limiting investments to avoid over-concentration in securities from a specific issuer or business sector (excluding US Treasury securities).
 - b. Limiting investment in securities with high credit risks.
 - c. Investing in securities with varying maturities.

d. Continuously investing a portion of the portfolio in readily available funds such as the Oregon Short-Term Fund.

2. **Maximum Maturities.** To the extent possible, the district shall attempt to match its investments with anticipated future cash flow requirements. The maximum maturity shall be the anticipated use of the cash or 18 months, whichever is shorter, unless:

- a. This investment policy has been submitted to the OSTF Board for comment prior to being approved by the District’s governing body and complies with the requirements of ORS 294.135. In this case, the maximum maturity shall be defined based on board action.
- b. The funds are accumulated for a specific purpose, including future construction projects and, upon approval of the District, the maximum maturity date matches the anticipated use of the funds according to ORS 294.135(1)(b).

If this investment policy has been submitted for review by the OSTF Board as specified above and in accordance with ORS 294.135(1)(a), debt service reserves may be invested to mature (not longer than five years or other appropriate date). Otherwise, debt service reserves shall not be invested to a maturity date exceeding eighteen months as specified under ORS 294.135(1).

3. **Maximum Percentages of Investments.** Funds available for investment are those funds not required for immediate expenditure including investments, savings accounts, certificates of deposit, and Oregon Short-Term Fund deposits. Balances in checking accounts, negotiable order of withdrawal (NOW) accounts and demand deposit accounts are not considered funds available for investment.

The maximum percentages of investments for surplus funds are as follows:

Security	Limitation
US Treasury	None
US Government Agencies	50% of surplus funds in any single GSE, no limit on GSE as a category
Time Deposits, CDs, Savings Accounts	50% of surplus funds with any single depository. (Unless total surplus funds are under \$5 million)
GICs	25% of Operations surplus funds 100% of Capital Fund surplus funds
Banker’s Acceptances	25% of surplus funds in any single qualified financial institution 50% of surplus funds in the aggregate

Commercial Paper and Corporate Notes	35% of surplus funds in the aggregate 5% of surplus funds in any one corporation or their subsidiaries or affiliates
Repurchase Agreements	25% of Operations surplus funds 100% of Capital Funds surplus funds Maximum maturity of 90 days
OSTF Balances	None, except the maximum balance imposed by statute
State and Local Government Securities	25% Subject to ORS 294.035(3)

Due to fluctuations in the aggregate amounts available for investment, maximum percentages for a particular issuer or investment type may be exceeded at a point in time subsequent to the purchase of a particular security. Securities need not be liquidated to realign the portfolio, however, consideration should be given to this matter when future liquidations are made.

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

4. **Bond Funds.** The investment 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.
5. **Securities Lending.** The district shall not lend securities nor directly participate in a securities lending or reverse repurchase program.
6. **Bids and Offers.** Before any security purchase or sale is initiated, the investment officer shall first determine the appropriateness of seeking competitive bids or offers. Such factors to consider include where the securities are held, the size of the transaction, and the term to maturity. In the event competitive bids or offers are not sought, the decision to do so shall be documented. Competitive bids and offers shall always be sought for security purchases and sales of bond funds, when tax laws or bond covenants require such action.

Reporting

1. **Methods.** The investment officer shall prepare an investment report at least quarterly including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner which will allow the district to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report shall be provided to the governing body and will include the following:

- a. Listing of transactions occurring during the reporting period.
 - b. Listing of individual securities held at the end of the reporting period.
 - c. Listing of investments by maturity date.
 - d. Percentage of the total portfolio which each type of investment represents.
- 2. Performance Standards.** The investment portfolio will be managed in accordance with the parameters specified within this policy. The performance of the district’s investment portfolio will be measured against the State of Oregon Local Government Investment Pool, using monthly yield of both as a comparison. It is anticipated the portfolio should attain a benchmark average rate of return over time.
- 3. Marking to Market.** The market value of the portfolio shall be calculated at least annually and a statement of the market value of the portfolio shall be issued at least quarterly, if there are significant investments required to be marked to market in accordance with GASB Statement 31. 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 for State and Local Government Investment Portfolios and Investment Pools. In defining market value, considerations should be given to the GASB 31 pronouncement.

Policy Adoption and Re-Adoption. This policy shall be reviewed annually by the investment officer. OSTF Board review is required if:

1. District elects to invest to maturities described earlier under “maximum maturities” and, either
2. The policy has never been submitted to the OSTF Board for comment; or
3. Any material changes have been made since the last review by the OSTF Board.

In either case, this policy shall be re-submitted to the Board for approval if changes are recommended.

Banking Services. Bank services will be engaged by the district based solely on considerations of availability of required services, cost of those services and any applicable legal requirements. The district will solicit competitive proposals from commercial banks operating in Gresham to provide banking services. Such proposals will be solicited at least every five years and reviewed annually for viability. The district will use one bank as the primary depository institution, except for funds held in an agency capacity on behalf of student activity funds. The district may use different banks or other financial institutions for investment purposes than it does for depository purposes.

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

Documents used. The following documents are used in conjunction with this policy:

1. Listing of authorized personnel.

2. Relevant investment statutes and ordinances.
3. Master repurchase agreements and third-party agreements.
4. Listing of authorized broker/dealers and financial institutions.
5. Credit studies for securities purchased and financial institutions used.
6. Safekeeping agreements.
7. Wire transfer agreements.
8. Sample investment reports.
9. Broker confirmations and safekeeping reports.
10. Financial institution account agreements and resolutions.

END OF POLICY

Legal Reference(s):

[ORS 294.033](#)

[ORS 294.035](#)

[ORS 294.135\(1\)\(a\)](#)

[ORS 294.155](#)