

Investment of Funds

Scope

This administrative rule applies to district activities with regards to investing the financial assets of all funds under the control of the district. Funds held by trustees or fiscal agents are excluded from these rules; however, all funds are subject to statutes and regulations established by the state of Oregon. This administrative rule applies to the investment of operating funds and capital funds including bond proceeds and bond reserve funds held by the district. This administrative rule excludes petty cash activities.

Funds of the district will be invested in compliance with Oregon law. 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 preservation of capital, liquidity and yield.

1. Preservation of capital. Preservation of capital 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 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.

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 person” standard, 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 Chapter 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. 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 the investment policy and administrative rules 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.

Transaction Counterparties and Depositories

1. Broker/Dealers

The investment officer shall determine which broker/dealer firms and registered representative are authorized for the purposes of investing funds within the scope of this investment policy. A list will be maintained of approved broker/dealer firms and affiliated registered representatives.

The following minimum criteria must be met prior to authorizing investment transactions. The investment office may impose more stringent criteria.

- a. Broker/Dealer firms must meet the following minimum criteria:
 - (1) Be registered with the Securities and Exchange Commission (SEC);
 - (2) Be registered with the Financial Industry Regulatory Authority (FINRA);
 - (3) Provide most recent audited financials;
 - (4) Provide FINRA Focus Report filings.

- b. Approved broker/dealer employees who execute transactions with the district must meet the following minimum criteria:
 - (1) Be a registered representative with the FINRA;
 - (2) Be licensed by the state of Oregon;
 - (3) Provide certification, in writing, of having read; understood; and agreed to comply with the most current version of this investment policy.

- c. The investment officer may want to establish policy for engaging broker/dealer firms and registered representatives that are more restrictive than stated in this policy. Additional requisites or due diligence items may include:
 - (1) Positive reference from other local government clients;
 - (2) As part of the periodic due diligence review, inquires with other local government clients with regard to their recent experiences with broker/dealer firms or registered representatives and any change in relationship status;
 - (3) Requirements that approved registered representative provide notification with 30 days of any formal investigations or disciplinary actions initiated by federal or state regulators.
 - (4) Requirement that prospective registered representative have established history of advising local governments with similar amounts of assets under management;
 - (5) Requirement that approved registered representative maintain an office in the state of Oregon, Washington or California.

- d. Periodic, at least annual, review of all authorized broker/dealers and their respective authorized representative will be conducted by the investment officer. Factors to consider would be:
 - (1) Pending investigations by securities regulators;
 - (2) Significant changes in net capital;
 - (3) Pending customer arbitration cases;
 - (4) Regulatory enforcement actions.

2. Depositories

All financial institutions who desire to become depositories must be qualified Oregon depositories pursuant to ORS Chapter 295.

Administration and Operations

1. 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. Confirmation of transactions for investments and wire transfers in written or digitally verifiable electronic form;
 - g. Development of a wire transfer agreement with the lead bank and third-party custodian and implementation of appropriate safeguards described in the GFOA Best Practice on Adopting Electronic Payment Systems;
 - h. Compliance and oversight with investment parameters including diversification and maximum maturities;
 - i. Staff training;
 - j. Review, maintenance and monitoring of security procedures both manual and automated.
2. Delivery vs. Payment. All trades where applicable will be executed by delivery vs. payment (DVP) in accordance with ORS 294.145(4), ORS 291.145(5) and GFOA Best Practice to ensure that securities are deposited in an eligible financial institution prior to the release of funds.
 3. Safekeeping. Securities, excluding bank deposits and CD's, will be delivered by fed book entry, DTC or physical delivery and to the extent feasible, held in third party safekeeping with a designated custodian. The trust department of a bank may be designated as custodian for safekeeping specific securities. The custodian shall issue a safekeeping receipt to the Gresham-Barlow School District listing the specific instrument, selling broker/dealer, transaction date and other pertinent information.

4. 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 Government Finance Officers Association (GFOA) policy statement on state and local laws concerning investment practices, the following investments will be permitted by this administrative rule and are those defined under ORS 294.035, ORS 294.052, ORS 294.046 and 294.810:
 - a. U.S. Treasury Obligations: U.S. Treasury and other government obligations that carry the full faith and credit guarantee of the United States for the timely payment of principal and interest;
 - b. U.S. Agency Obligations: Senior debenture obligation of U.S. federal agencies and instrumentalities or U.S. government sponsored enterprises (GSE);
 - c. Debt of the agencies and instrumentalities of the State of Oregon and its political subdivisions with a long-term debt rating of A or an equivalent rating or better or are rated on the settlement date in the highest category for short-term municipal debt by a nationally recognized statistical rating organization;
 - d. Debt of the agencies and instrumentalities of the states of California, Idaho and Washington and their political subdivisions with a long-term debt rating of AA or an equivalent rating or better or are rated on the settlement date in the highest category for short-term municipal debt by a nationally recognized statistical rating organization;
 - e. Time deposits, certificates of deposits and savings accounts held in qualified Oregon depositories in accordance with ORS Chapter 295;
 - f. 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, F-1 or better. 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.
 - g. 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 have minimum ratings of A-1 or P-1 or F-1 by Moody's or Standard & Poor's or Fitch. Corporate notes must have minimum ratings of 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).
 - h. Repurchase agreements with a maximum term of 90 days and comply with specific terms of ORS 294.035(3)(j) 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;

- i. Oregon Short-Term Fund (OSTF), also known as the Local Government Investment Pool (LGIP);
 - j. For investment of bond proceeds only: various investment agreements that meet the requirements of ORS 294.052 and the collateral requirements and restrictions of this administrative rule.
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. A list of the qualified depositories for public funds can be found on the Oregon State Treasury's website. Such deposits are designated cash management tools and not investments under this administrative rule 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 OSTF. The OSTF Board adopted the following margins:

- a. U.S. Treasury Securities: 102%;
- b. U.S. Agency Discount and Coupon Securities: 102%;
- c. Mortgage Backed and Other¹: 103%.

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 U.S. Treasury securities);
 - b. Investing in securities that have high credit quality;
 - c. Investing in securities with varying maturities; and
 - d. Continuously investing a portion of the portfolio in ready available funds such as the Oregon Short-Term Fund (LGIP).
2. Maximum Maturities and Percentage of Investment by Type.

The maximum percentage for direct investments of surplus funds are as shown in the chart below. Surplus funds are defined as the sum of all investments, cash balances, deposit balances of all types and LGIP balances. The maximum maturity is measured from the settlement date of the investment transaction. Capital project funds are funds specifically dedicated to capital projects, and will typically include proceeds from the district's bond sales. All bond fund reserves will be considered to be capital project funds. Operating funds are all surplus funds that are not capital project funds.

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 the investment policy and administrative rules have been submitted to the OSTF Board for comment prior to being approved by the district's Board as specified under ORS 294.135(1)(a).

¹Limited to those securities described in ORS 294.035(1)

Security	Maximum % of Total Portfolio	Maximum Maturity
U.S. Treasury Obligations	No limit	18 months for operating funds and 5 years for capital project funds
U.S. Agency Obligations	No limit, 50% of surplus funds in any single agency	18 months for operating funds and 5 years for capital project funds
State and Local Government Securities	25% Subject to ORS 294.035(3)	18 months for operating funds and 5 years for capital project funds
Time Deposits, CDs, Savings Accounts	50% of total portfolio, 25% of surplus funds with any single depository. (Unless total surplus funds are under \$5 million)	18 months
Banker's Acceptances	25% of surplus funds in any single qualified financial institution 50% of surplus funds in the aggregate	6 months
Commercial Paper and Corporate Notes	5% of surplus funds in any one corporation or their subsidiaries or affiliates. 35% of surplus funds in the aggregate	18 months
Repurchase Agreements	25% of Operating Surplus funds 100% of Capital Surplus funds 90 days	
OSTF Local Government Investment Pool	Maximum allowed per ORS 294.810	N/A

In addition to the above, the district may invest up to 100 percent of the proceeds from any bond issue in investment agreements that meet the requirements of ORS 294.052 and the repurchase agreement collateral requirements and restrictions of this administrative rule. The maximum percentage of callable securities in the portfolio shall be 25 percent.

Due to fluctuations in the aggregate amounts available for investment, maximum percentages (based on amortized book values) 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 purchases are made.

3. 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.

Maturity limitations will depend upon whether the funds being invested are considered short-term or long-term funds. Surplus funds will be considered operating except those reserved for capital projects. Except for special situations, as directed by the investment officer, investments will be limited to maturities not exceeding 18 months.

Short-term portfolio investment maturities for operating funds shall be scheduled to coincide with projected cash flow needs. In addition, the following maturity limits are designed to ensure liquidity in the portfolio:

Length of Maturity	Minimum % of Total Portfolio
Under 30 days	10%
Under 90 days	25%
Under 365 days	90%
Under 18 months	100%

If these maturity limits, based on amortized book values, 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.

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 administrative rule. Bond proceeds shall be invested in accordance with the most restrictive parameters of this administrative rule 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. **Competitive Transactions.** The investment officer shall obtain and document competitive bid information on all investments purchased or sold in the secondary market. Competitive bids or offers should be obtained when possible, from at least three separate broker/financial institutions. In the instance of a security for which there is no readily available competitive bid or offering on the same specific issue, the investment officer shall document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities as the same original issue price. However, the investment officer is encouraged to document quotations on comparable securities.

7. Credit Ratings. The minimum credit rating levels for the permissible investments are set out in ORS 294.035. The district will only recognize ratings of Moody's, S&P, and Fitch of the available NRSROs. These credit rating levels apply to the security at the transaction settlement date. If the credit rating of a security is subsequently downgraded below the minimum rating level for a new investment of that security, the investment officer shall evaluate the downgrade on a case-by-case basis in order to determine if the security should be held or sold. The investment officer shall notify the chief financial officer (CFO) or his/her designee about the credit rating downgrade and whether the decision was made to sell or hold the security.

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 the investment policy and administrative rules. The performance of the district's investment portfolio will be measured against the State of Oregon Local Government Investment Pool and the 90-day treasury bill rate. The average monthly net yield of the district's portfolio shall be used for such evaluation. The district may also benchmark against any other money market indices it deems appropriate. 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.
3. Marking to Market. The market value of the portfolio shall be calculated and reported to the Board quarterly. The portfolio shall be marked to market, if there are significant investments required to be marked to market in accordance with Government Accounting Standards Board (GASB) Statement 31, annually at fiscal year end. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with the GFOA Best Practice on Mark-to-Market for State and Local Government Investment Portfolios. In defining market value, considerations should be given to the GASB 31 pronouncement.

Policy Adoption and Re-Adoption

The investment policy and administrative rules for investments shall be reviewed annually by the investment officer and CFO, who shall submit the policy to the OSTF Board, if required. Regardless of whether the policy is submitted to the OSTF Board for comment or not, the investment policy shall be re-submitted to the Board for approval annually.

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 the discretion of the CFO 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 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 administrative rule:

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 qualified 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;
11. Broker/Dealer Questionnaire (DFA-AR-3).