

<p>North Wasco County School District 21</p>

Code: **DFA-AR**
 Adopted: 11/9/00
 Readopted: 1/28/04
 Orig. Code(s): The Dalles DFA

Investment of Funds

Monitoring and Adjusting the Portfolio

The investment officer will routinely monitor the contents of the portfolio, the available markets and the relative values of competing instruments and will adjust the portfolio accordingly.

If, due to unanticipated cash needs or investment maturities, the investment in any security type or financial institution exceeds the guidelines in this policy, or if the credit rating of a security type or financial institution is lowered after an investment is purchased, the investment officer is responsible for bringing the investment portfolio back into compliance as soon as practicable.

Portfolio Diversification

The district will diversify investments across maturities, security type and institution to avoid incurring unreasonable risks.

<u>DIVERSIFICATION BY INSTRUMENT</u>	<u>MAXIMUM % OF PORTFOLIO</u>
U.S. Treasury obligations (Bills, notes and bonds)	100%
Securities of U.S. Government Agencies and Instrumentalities of Government Sponsored Corporations	100%
State of Oregon Local Government Investment Pool	100%
Certificates of Deposit Must meet Oregon Depository and Collateralization requirements under ORS Chapter 295. Bank or savings and loan must have a head office or branch in Oregon.	25%
Bankers Acceptances	50%
Commercial Paper Must mature no later than 270 days after purchase and subject to ORS 294.035 (9) which includes the following:	20%
1. Domestic publicly held corporations organized under laws of a state other than Oregon and must be rated P-1 by Moody's Investor Service	

- or A-1 by Standard and Poor's Corporation or equivalent rating by any nationally recognized statistical rating organization;
2. Must be a business enterprise that has headquarters in Oregon, employs over 50% of its permanent workforce in Oregon or has 50% of its tangible assets in Oregon;
 3. A holding company owning not less than a majority interest in a qualified financial institution located and licensed to do banking business in Oregon or a holding company owning not less than a majority interest in a business enterprise described in 1. above; and must be rated P-2 or better by Moody's Investor Service, or A-2 or better by Standard and Poor's Corporation or equivalent rating by any nationally recognized statistical rating organization.

State and Local Government Securities 10%

Passbook Savings Account 10%

Investment Maturity

Maturity limitations will depend upon whether the funds being invested are considered short-term or long-term funds. All funds will be considered short term except those reserved for capital projects, i.e., bond proceeds and special assessment prepayments being held for debt retirement. Except for special situations, as directed by the investment officer, investments will be limited to maturities not exceeding 18 months.

“Short-Term Portfolio” - Instruments and diversification for the long-term portfolio shall be as for the short-term portfolio. Long-term portfolio is defined as “maturities over 18 months and maximum of 36 months.” Instruments to be purchased for the “Long-Term Portfolio” will be limited to Local Government Investment Pool and U.S. Government and agency securities as investments.

Maturities over 18 months will be avoided, unless they can be matched with the specific expected use of funds as provided for by ORS 294.135. For example, investment of capital project funds shall be timed to meet projected contractor payments, usually for a term not to exceed three years. Maturities over 18 months are allowed by ORS 294.135 following the review and approval of the district cash management policy by the Oregon Short-Term Fund Board.

Competitive Selection of Investment

Before the district invests funds, a minimum of three bids will be obtained. The most favorable offer or bid will be awarded the transaction. No competitive offer will be sought for investment of bond proceeds if a financial institution has been awarded a contract on a competitive basis.

Qualified Institutions

The district shall maintain a list of all authorized dealers and financial institutions which are approved for investment purposes. Any firm is eligible to make an application to the district and, upon due consideration and approval, will be added to the list. Additions or deletions to the list will be made at the investment officer's discretion. At the request of the district, the firms performing investment services shall provide their most recent financial statement or Consolidated Report of Condition (call report) for review. Further, there should be in place, proof as to all the necessary credentials and licenses held by employees of the broker/dealers who will have contact with the district as specified by, but not necessarily limited to, the National Association of Securities Dealers (NASD), the Securities and Exchange Commission (SEC), etc. The Board will be requested to approve the list annually, each July. Securities broker/dealers not affiliated with a bank shall be required to have an office located in Oregon and be classified as reporting dealers affiliated with the Federal Reserve as primary dealers.

Safekeeping and Collateralization

The broker or bank shall issue a safekeeping receipt to the district listing the specific instrument, selling broker/dealer, issuer, coupon, maturity, cusip number, purchase or sale price, transaction date and other pertinent information. The district, where possible, will maintain a custodial credit risk of Category 2 or better, as defined by GASB Statement No. 3 on all investments.

Deposit-type securities (i.e., certificates of deposit and demand deposit accounts) shall be collateralized through the state collateral pool as required by ORS 295.015 for any excess over the amount insured by an agency of the United States government. The district understands that in many cases ORS requires only 25% collateral. Other investments shall be collateralized by the actual security held in safekeeping by the primary agent.

Internal Controls

The investment officer shall maintain a system of written internal controls. These procedures shall be reviewed and tested by the independent auditor annually or upon any extraordinary event, e.g., the discovery of inappropriate activity, according to generally accepted auditing standards and this policy. The internal control procedures shall be designed to prevent loss of public funds due to fraud, error, misrepresentation or imprudent actions.

Accounting Method

Investments will be carried at amortized cost during the fiscal year and adjusted to fair value as of year-end. If in the opinion of the district's auditors the value is materially changed, gains or losses from investments will be credited or charged to investment income at the time of sale. Premiums or discounts on securities shall be amortized/accreted over the life of the securities. 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 Institution of Certified Public Accountants (AICPA) and the Government Accounting Standards Board (GASB).

Reporting Requirements

The investment officer shall generate quarterly reports for management purposes.

Performance Evaluation

The performance of the district's short-term portfolio shall be measured against the performance of the Oregon Local Government Investment Pool, using monthly net yield of both portfolios as the yardstick. The performance of the long-term portfolio may vary according to the use of those funds.

Investment Policy Adoption

This investment policy will be formally adopted by the Board. If investments exceeding a maturity of 18 months are contemplated, further review and comment by the Oregon Short-Term Fund Board will be sought and thereafter this policy will be readopted annually even if there are no changes (ORS 294.135a).

ATTACHMENT A

US Government and Agency Securities
For Local Government Investment
Under ORS 294.035 and 294.040
Provided Pursuant to ORS 294.046
January, 1997 (Revised)*

US Treasury Issues

4. US Treasury Bills
5. US Treasury Notes
6. US Treasury Bonds
7. US Treasury STRIPS (Separate Trading of Registered Interest and Principal of Securities) and CUBES (July, 1994).

Available with maturities in the months of February, May, August, and November out to 30 years. STRIPS are created by separating the interest (coupon) and principal (the note or bond itself), thereby creating zero coupon securities that are sold at a deep discount and pay interest at maturity. STRIPS are direct obligations of the US Treasury, and are not to be confused with CAT's, TIGR's etc., which are proprietary products that represent a security interest in an underlying US Treasury security; these latter investments ARE NOT permissible investments for local governments.

Previously, when US Treasury Bonds were in physical form, they were literally separated into serial coupons from their respective bonds. This was before book entry, before proprietary products created by dealers that were security interests in some underlying note or bond, and before the US Treasury itself allowed stripping of its longer debt issues. These old physically separated instruments (basically bearer securities) were converted by the Federal Reserve into wireable book entry form to make the STRIPS market more uniform. These former physical securities that have been so converted are called Coupons Under Book Entry Safekeeping (hence the acronym CUBES). These CUBES are very rare, trade at a higher rate than on-the-run comparable US Treasury STRIPS and are extremely illiquid. Being old US Treasury securities, CUBES carry the same full-faith and credit of the United States Government.

Agencies and Instrumentalities of the United States

1. Student Loan Marketing Association ("Sallie Mae") - Discount Notes, Fixed and Floating Rate Notes, Zero Coupon Notes (also issue non dollar denominated securities not eligible for local government investment).
2. Federal Home Loan Banks (FHLB) - Discount Notes, Fixed and Floating Rate Notes, Bonds.
3. Federal Farm Credit Banks (FFCB) - Consolidated System wide Discount Notes, Fixed and Floating Rate Notes, Bonds.
4. Federal National Mortgage Association ("Fannie Mae") - Discount Notes, Fixed Rate Notes, Debentures, Capital Notes, Residential Financing Securities, Mortgage-Backed Securities.
5. Federal Home Loan Mortgage Corporation ("Freddie Mae") - Discount Notes, Debentures, Mortgage Participation Certificates (PC's), Collateralized Mortgage Obligation (CMO's).
6. Government National Mortgage Association ("Ginnie Mae") - Mortgage-Backed Securities in 15 and 30 year maturities - guaranteed by the full faith and credit of the US Government. Collateralized by FHA, VA and FMHA insured mortgage loans.
7. Financing Corporation (FICO) - Bonds - 30 year issued - Principal repayment defeased by zero coupon Treasuries.
8. Resolution Funding Corporation (REFCORP) - Strips and Bonds - 30 year issues - Principal collateralized by US Treasuries, interest payments backed by the US Treasury.

9. Tennessee Valley Authority (TVA) - Discount Notes, Strips, Notes and Bonds - Issues available in maturities out to 50 years.
10. Farm Credit System Financial Assistance Corporation ("FCSFAC") - Bonds - 15 year issues - Backed by the full faith and credit of the US Government and medium Term Notes available in maturities as short as 9 months (01/17/97).
11. Federal Land Banks (FLB) - Bonds - Currently issued through FFCB. (Banks for Cooperative and Federal Intermediate Credit Bank also issue through FFCB and have no direct issues outstanding.)
12. Federal Housing Administration (FHA) - Debentures - Backed by the full faith and credit of the US Government.
13. Farmers Home Administration (FmHA) - Certificates of Beneficial Ownership (CBO's). Backed by the full faith and credit of the US Government. Discontinued in 1975, small amount remain outstanding.
14. General Services Administration (GSA) - Participation Certificates - Secured by the full faith and credit of the US Government. No new issues since 1974.
15. Maritime Administration - Bonds - Collateralized by ship mortgages, further backed by the full faith and credit of the US Government in the event of default.
16. Washington Metropolitan Area Transit Authority - Bonds - Backed by the full faith and credit of the US Government. Small amount remain outstanding.
17. Small Business Administration (SBA) - Debentures - Backed by the full faith and credit of the US Government. Small amount remain outstanding.
18. Department of Housing and Urban Development (HUD) - Notes, New Housing Authority Bonds - 40 year issues with 15 year calls. Backed by the full faith and credit of the US Government. No new issues since 1974. Small amount remain outstanding.
19. United States Postal Service - Bonds - May be backed by the full faith and credit of the US Government. Small amount outstanding due 2/01/97 that are not guaranteed by the US Government.
20. United States Department of Veterans Affairs Guaranteed REMIC Pass-Through Certificates Vendee Mortgage Trust 1992-1 (VINNIE MAE). The full and timely payment of principal and interest of these certificates is guaranteed by the Department of Veterans Affairs and this guarantee is further backed by the full faith and credit of the United States of America (9/14/92).
21. Private Export Funding Corporation (PEFCO) - Fixed Rate Notes - interest is guaranteed by the Export-Import Bank of the United States (Eximbank, a Federal Agency) and whose principal is secured by either cash, securities backed by the full faith and credit of the United States or Guaranteed Importer Notes which are guaranteed by the Eximbank. The Secured Notes, which are rated AAA, have been issued periodically in amounts up to 200 million. (2/06/95)*
22. Federal Agricultural Mortgage Corporation (Farmer Mac), a federally chartered instrumentality of the United States was created to provide capital for agricultural real estate and rural housing. Instruments range from discount notes to medium term notes. (01/13/97)

Pursuant to ORS 294.046, this list contains all "agencies and instrumentalities of the United States with available obligations that any county, municipality, political subdivision or school district may invest in ..." Generally, all US Treasuries and Agencies listed in 1 through 8 are appropriate investments for excess cash funds (if the maturities of such instruments are within the local government's investment guidelines). However, attention should be paid to any peculiar characteristics of some of the instruments. For example, mortgage-backed securities like GNMA's may have volatile prepayment characteristics which may make their final maturities unknown. In falling interest rate cycles, borrowers whose underlying mortgages are the security for the GNMA bonds may refinance their loans accelerating the principal return to the investor. Therefore, the term for a GNMA

cannot be relied upon to perform, for example, a debt defeasance. Agencies listed in 9 through 21 are viewed as less appropriate for local government investments, may be infrequently traded, and can be characterized by thin, illiquid markets.

International institutions in which the United States Government owns capital stock (paid-in or callable) are not eligible investments for local governments and are not listed here (World Bank, Asian Development Bank, Inter-American Development Bank, etc.).

Recently, new types of investment instruments called “derivatives” or structured financing products have been created and issued through government agencies. These instruments are usually marketed as floating rate securities but are really avenues for investors to make “bets” on the course and timing of future interest rates, exchange rates between various currencies, the future slope of the yield curve in both foreign and domestic markets, and virtually any combination of measurable economic parameters available. These instruments are extremely sophisticated, complex, volatile and for all practical purposes, illiquid. Extreme care and caution should be exercised when presented with such instrument, particularly if the initial coupon rate of return is very attractive relative to fixed coupon securities of the same maturity and issuer quality.

Attachment B

SUMMARY OF LIQUID INVESTMENTS AVAILABLE TO LOCAL
GOVERNMENTS FOR SHORT-TERM FUND INVESTMENT
JANUARY 1997

Treasury Bills: Considered the most secure and liquid short-term investment as they are fully guaranteed by the US Government, they are auctioned weekly as 13 week and 26 week bills, every four weeks as 52 week bills and, for special unscheduled auctions, as cash management bills. Minimum auction purchased are \$10,000 and \$5,000 increments thereafter. Cash management bills are auctioned in minimum lots of \$1,000,000. Bills traded in the secondary market may be available in more flexible denominations (ORS 294.035(1)).

Treasury Notes: Considered the more secure and liquid medium-term investment as they are fully guaranteed by the US Government. They are auctioned monthly as two year and five year notes; quarterly (February, May, August and November) as three year notes; and (with the three year notes) as ten year notes with additional separate auctions in the months of July and October*. They are auctioned in minimum denominates of \$1,000 or \$5,000 (ORS 294.035(1)).

Treasury Bonds: Considered the most secure and liquid long-term investment as they are fully guaranteed by the US Government, these thirty year bonds are auctioned semiannually (February and August though previously quarterly with three-year and ten-year notes) in minimum denominations of \$1,000 (ORS 2094.035(1)).

Treasury STRIPS/CUBES: These zero coupon US Government guaranteed securities are available in minimum denominations of \$1,000 but are not periodically auctioned like bills, notes or bonds. They are offered in the secondary market or are "created" by dealers on an order basis and are only available in monthly maturities of January 15, February 15, April 15*, May 15, August 15, October 15*, and November 15 out to thirty years. These instruments are created from the coupon or the actual principal of the underlying note or bond. Given matched maturity to bills, notes and bonds, they are not as liquid (ORS 294.035(1)).

Securities of US Government Agencies and US Government Sponsored Enterprises (GSEs): Considered the next more secure investment after Treasury securities, most are not US Government guaranteed, but are chartered and supervised by the US Government. Typically, they are available in minimum denominations of \$1,000 to \$1,000,000 depending on the issuer; with maturity ranges from one day (for discount notes) out to 40 years for notes and bonds and with fixed floating rate and zero coupon features (ORS 294.035(1)).

*Not available until October 1996.

THE ABOVE SECURITIES ARE ALLOWABLE SUBJECT TO ORS 294.040(1). FOR A COMPLETE LISTING OF THE ABOVE SECURITIES, SEE THE JANUARY 1997 REVISED LIST.

Local Government Investment Pool: No minimum investment; deposits are limited to a maximum of \$30 million which can be temporarily exceeded for 20 business days by county governments and 10 days by other local governments. No limitation on pass-through funds (ORS 2942.810).

Repurchase Agreements: Typically these are investment arrangements involving the purchase of US Government and agency securities with a simultaneous agreement to resell them back to the same seller for the same dollar investment plus a fee. Amounts invested, rate and terms are negotiable but such repurchase transactions are limited to 90 days maximum term. Maximum percentages for prices paid for the collateral securities are prescribed by the Oregon Investment Council for the Oregon Short-Term Fund board (ORS 294.035(11); ORS 294.135(2)). On March 12, 1996, the Board prescribed the following minimum pricing margins for repurchase collateral:

US Treasury Securities:	102%
US Agency Discount and Coupon Securities:	102%
Mortgage Backed and Other:	103%*

Bankers' Acceptances: Appropriate if: guaranteed by and carried on the books of a qualified financial institution; eligible for discount by the Federal Reserve System; and issued by a qualified financial institutions whose short-term letter of credit rating is rated in the highest category by one or more nationally recognized statistical rating organizations. Acceptances are available in

various denominations. They are limited to a 25% maximum of the moneys of a local government available for investment on the settlement date per qualified financial institution (ORS 294.035(8)(a),(b),(c)).

Corporate Indebtedness (secured and unsecured): These securities are corporate commercial paper and promissory notes that have minimum commercial paper ratings of A1 or P1 or long-term minimum ratings of AA (Moody's) or AA (S & P) or equivalent by any nationally recognized statistical rating organization. The minimum credit quality may be lowered to A2, P2 for commercial paper and A for long-term if the issuer meets the criteria of paragraphs (A) and (B) of ORS 294.035(9)(c). Commercial paper is typically not very liquid though paper directly issued may be sold back to the issuer. For others, the secondary market is extremely limited. More active markets may be available for long-term notes and bonds. They are available in various denominations, maturities and payment features (floating rate, fixed, zeros, etc.) But are limited to 35% of the moneys of a local government available for investment (ORS 294.035(9),(a),(b),(c),(d)).

Municipal Debt Obligations: Lawfully issued debt obligations of the agencies and instrumentalities of the State of Oregon and its political subdivisions that have 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 (ORS 294.035(2)). Also, lawfully issued debt obligations of the States of California, Idaho and Washington and their political subdivisions if such obligations have a long-term rating of AA 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 (ORS 294.035(3)). For these latter obligations, they are allowable subject to ORS 294.040.

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

Certificates of Deposit: These are not a security but a deposit in a qualified financial institution. They should be FDIC insured to \$100,000 and further collateralized at 25% above the FDIC insurance. Available in various deposit amounts and maturities (flexibility subject to the amount), they have penalties for early withdrawal (ORS 294.035(4)).

THIS LIST IS PROVIDED AS A COURTESY BY THE OREGON STATE TREASURY. ITS PURPOSE IS TO SUMMARIZE INVESTMENTS THAT ARE AVAILABLE TO LOCAL GOVERNMENTS PURSUANT TO THE OREGON REVISED STATUTES FOR SHORT-TERM FUNDS. THE TREASURY NEITHER RECOMMENDS NOR ADVISES AGAINST THE ABOVE INSTRUMENTS AND TRANSACTIONS. LOCAL GOVERNMENTS MUST ASSESS THE APPROPRIATENESS OF EACH INVESTMENT BASED ON MATURITY, CREDIT QUALITY, DIVERSITY AND OTHER CONSIDERATIONS.

Oregon statutes also permit certain other investments and transactions for special purpose funds in limited circumstances. For example, fixed or variable life insurance or annuity contracts; guaranteed investment contract; and for deferred compensation funds; share and savings accounts in credit unions and trusts (ORS 294.033 and ORS 294.035(5),(6),(7)). The Treasury recommends seeking the advice of legal counsel if investments under ORS 294.035(10) are contemplated. Reverse repurchase agreements are not listed above since they are not technically "investment securities or investment transactions" in the strictest sense. These are financing arrangements with a counterpart. This type of agreement is typically used as part of interest rate arbitrage and to that extent, the same credit standards, delivery vs payment, market pricing, etc. for repurchase agreements (which is an investment vehicle) should apply to the transaction.