Investment of Funds

1. Scope

This investment policy applies to activities of the Pleasant Hill School District with regard to investing the financial assets of all funds. Funds held and invested by trustees or fiscal agents are excluded from these rules; however, such funds are subject to the regulations established by the state of Oregon. This policy provides direction for the following funds:

Size of Fund in Dollars

A.	General Fund	High	3,000,000	Low	1,000,000
B.	Capital Projects Funds	High	9,600,000	Low	6,000,000
C.	Student Body Fund	High	325,000	Low	200,000

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 294.250, ORS 294.810 and other applicable statutes. Investments will be in accordance with this policy. Investment of any tax-exempt borrowing proceeds and any debt service funds will comply with the "arbitrage" restrictions of Section 148 of the Internal Revenue Code of 1986.

2. Objectives

Pleasant Hill's investment objectives are:

A. Preservation of capital and the protection of investment principal;

B. Conformance with federal, state and other legal requirements;

C. Maintenance of sufficient liquidity to meet operating requirements;

D. Diversification to avoid incurring unreasonable risks regarding specific security types or individual financial institutions;

E. Attainment of a market rate of return throughout budgetary and economic cycles.

3. Delegation of Authority

The business manager is the designated investment officer of the Pleasant Hill School District and is responsible for investment decisions, under the review of the Board. In the absence of the business manager, the superintendent shall perform the duties. The business manager is responsible for setting investment policy and guidelines subject to review and adoption by the Board and, if required, review and comment by the Oregon Short-Term Fund Board. Further, the business manager will be responsible for the day-to-day operations of the investment process which includes, but is not limited to, choosing what to buy or sell, from whom investments will be purchased, executing the buy/sell orders, producing necessary reports and supervising staff. In addition to the active management of the investment portfolio, the business manager is responsible for the maintenance of other written administrative procedures consistent with this policy and the requisite compliance. To further optimize the total return of the investment portfolio, the business manager will administer an active cash management program, the goal of which will maintain historical cash flow information; i.e., debt service, payroll, revenue receipts and any extraordinary expenditures. Finally, the business manager shall be responsible for committing adequate financial support for staffing, training, telecommunications and computer hardware, systems and software, and any other necessary resources deemed appropriate for incremental benefit to the investment and cash management programs.

4. Prudence

The standard of prudence to be used by the business manager in the context of managing the 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 business manager 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 or market price changes, provided that these deviations are reported as soon as practical and that appropriate action is taken to control adverse developments.

5. Investment Diversification

The business manager will diversify the portfolio to avoid incurring unreasonable risks inherent in overinvesting in specific instruments, individual financial institutions or maturities.

Diversification by Instrument	Percent of Portfolio
U.S. Treasury obligations (Bills, notes and bonds)	100%
U.S. government agency securities and instrumentalities of government-sponsored corporations	100%
State of Oregon investment pool	100%
State and Local Government Securities Must be rated A or better by Moody's Investor Services if Oregon municipality. Must be rated AA or better if California or Washington municipality	100%
Certificates of Deposit from Qualified Institutions	75%
Repurchase Transactions	15%

6. Investment Maturity

Maturity limitations shall depend upon whether the funds being invested are considered short-term or long-term funds. All funds shall be considered short-term except those reserved for special assessment prepayments being held for debt retirement. Investments shall be limited to maturities not exceeding 18 months in accordance with ORS 294.135.

The Capital Fund can be invested in U.S. Treasury Obligations (Bills, Notes and Bonds), U.S. Government Agency securities and the state of Oregon investment pool to a maximum of 18 months or an approved draw down schedule certified by the project architect, whichever is less.

Funds considered short-term will be invested to coincide with projected cash needs or with the following serial maturity:

Approximate percentage minimum to mature within three months should be 40% in the General Fund; 40% in the Capital Projects Funds and 20% in the Student Fund.

Approximate percentage maximum to mature over one year out to 18 months should be 50% in the Capital Projects Fund.

No funds are considered long-term (over 18 months) and shall be held to a maximum maturity of 18 months. Maturities shall be structured to meet anticipated cash needs. For example, investments of capital project funds shall be timed to meet projected contractor payments based on the architect's estimated drawdown schedule.

7. Competitive Selection of Bids or Offers

Before the business manager invests funds or sells securities prior to their maturity, competitive offers or bids will be sought from two institutions. The most favorable offer or bid will be awarded the transaction. No competitive offer will be sought for investment of bond proceeds if an investment firm has been awarded a contract for the management of those funds.

8. Qualified Institutions

The business manager shall maintain a list of all authorized broker/dealers and financial institutions which are approved for investment purposes or investment dealings. 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 business manager'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 district shall conduct an annual evaluation of each firm's credit worthiness to determine if it should remain on the list. 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.

9. Safekeeping and Collateralization

Purchased investment securities will be delivered by either federal book entry, DTC or physical delivery, and held in third party safekeeping with a designated custodian. U.S. Bank has been designated as custodian for safekeeping securities. The purchase and sale of securities will be on a delivery versus payment basis. The custodian 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. Demand and time deposit shall be collateralized through the state collateral pool as required by statute for any excess over the amount insured by an agency of the United States government. Criteria for pricing collateral shall be U.S. Treasury and Agency at 102%, mortgaged backed and all other eligible at 103%.

10. Monitoring and Adjusting the Portfolio

The business manager will routinely monitor the contents of the portfolio comparing the holdings to the markets, relative values of competing instruments, changes in credit quality and benchmarks. If there are advantageous transactions, the portfolio may be adjusted accordingly.

11. Internal Controls

The business manager shall maintain a system of written internal controls which shall be reviewed by the independent auditor annually or upon any extraordinary event, i.e., turnover of key personnel or the discovery of inappropriate investments. The controls shall be designed to prevent loss of public funds due to fraud, error, misrepresentation or prudent actions.

12. Accounting Method

The district shall comply with all 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).

13. Reporting Requirements

The business manager shall generate daily and monthly reports for management purposes. In addition, the Board will be provided quarterly reports which will include, but not necessarily be limited to, portfolio activity, instruments held, market valuation, as well as any narrative necessary for adequate clarification.

14. Performance Evaluation

The performance of the district's portfolio shall be measured against the performance of the Oregon Local Government Investment Pool, using monthly net yield of both portfolios as the yardstick.

15. 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 in accordance with ORS 294.135(a).

16. Attachment A and B are provided as a part of the district's investment policy. Both attachments were provided by the Oregon State Treasurer's office and are intended to provide a definition of the securities that may be eligible within the Pleasant Hill investment policy.

    Not all investments defined within Attachment A or B are eligible within this investment policy. In fact, however, the entire list is provided as background to Board members, administration and staff and the general public for their understanding.

    Because a security is listed or defined does not necessarily constitute an eligible security within the Pleasant Hill policy. The reader must consult the district's permitted investments to determine eligibility.

ATTACHMENT A

U.S. Government and Agency Securities
For Local Government Investment
Under ORS 294.035 and 294.040
Provided Pursuant to ORS 294.046
September 9, 1997 (Revised)*

U.S. Treasury Issues

1. U.S. Treasury Bills

2. U.S. Treasury Notes

3. U.S. Treasury Bonds

4. U.S. Treasury STRIPS (Separate Trading of Registered Interest and Principal of Securities) and CUBES (July 1994)

5. U.S. Treasury Inflation-Indexed Bonds (January 1997)

Available with maturities in the months of January, February, April, May, July, August, October 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 U.S. 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 U.S. Treasury security, these latter investments are not permissible investments for local governments.

Previously, when U.S. 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 U.S. Treasury itself allowed stripping of its longer debt issues. These old physically separated instruments (basically bearer securities) were converted by the Federal Reserve into wirable 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 U.S. Treasury STRIPS and are extremely illiquid. Being old U.S. Treasury securities, CUBES carry the same full faith and credit of the United States Government.

In January 1997, the United States Treasury announced the issue of new 10-year maturity bonds that would be inflation-indexed. Originally auctioned on January 9, 1997 and settling on February 6, 1997, they will be auctioned quarterly (i.e., in April, July, October and January) thereafter. Like the fixed coupon 2-year and 5-year notes, the securities will be auctioned with a single-price, "Dutch" auction. However, the bidding will be for a "real" yield without regard to market discounting for inflation (the January 9, 1997 auction yielded a 3.50% coupon). It is possible that subsequent issues could be longer, i.e., 30-year (or shorter). These bonds will be strippable into principal and coupon securities. Initially, unlike fixed coupon bonds, the coupon (interest portion) STRIPS from different inflation-index bonds will not be fungible even if they have the same payment or maturity date. Like other bonds, they will be offered in denominations of $1,000. More detailed information beyond this cursory description is available from the PSA and brokers/dealers.

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 nondollar denominated securities not eligible for local government investment). (September 9, 1997)* On September 30, 1996, the President signed The Student Loan Marketing Association Reorganization Act which calls for the gradual dissolution by September 30, 2008 of Sallie Mae's GSE status. A new holding company through its subsidiaries will manage the GSE operations as Sallie Mae is unwound. There may still be new GSE debt issued until the final unwinding, but that debt will be limited to final maturities shorter than September 30, 2008. There is a congressional recognition that the attributes of Sallie Mae's GSE debt will not change under this act and to avoid confusion, only the GSE debt will use the name Sallie Mae. Finally, when Sallie Mae as a GSE is dissolved, any remaining debt (the longest being the 8.08% due 10/2004) will be defeased via a trust collateralized by U.S. Treasuries.

2. Federal Home Loan Banks (FHLB) - Discount Notes, Fixed and Floating Rate Notes, Bonds.

3. Federal Farm Credit Banks (FFCB) - Consolidated Systemwide 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 Mac") - Discount Notes, Debentures, Mortgage Participation Certificates (PC's), Collateralized Mortgage Obligations (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 U.S. Government. Collateralized by FHA, VA and FMHA insured mortgage loans.

7. Financing Corporation (FICO) - Bonds - 30-year issues - Principal repayment defeased by zero coupon Treasuries.

8. Resolution Funding Corporation (REFCORP) - Strips and Bonds - 30-year issues - Principal collateralized by U.S. Treasuries, interest payments backed by the U.S. 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 U.S. 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 Cooperatives 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 U.S. Government.

13. Farmers Home Administration (FMHA) - Certificates of Beneficial Ownership (CBO's). Backed by the full faith and credit of the U.S. Government. Discontinued in 1975, small amount remains outstanding.

14. General Services Administration (GSA) - Participation Certificates - Secured by the full faith and credit of the U.S. Government. No new issues since 1974.

15. Maritime Administration - Bonds - Collateralized by ship mortgages, further backed by the full faith and credit of the U.S. Government in the event of default.

16. Washington Metropolitan Area Transit Authority - Bonds - Backed by the full faith and credit of the U.S. Government. Small amount remains outstanding.

17. Small Business Administration (SBA) - Debentures - Backed by the full faith and credit of the U.S. Government. Small amount remains 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 U.S. Government. No new issues since 1974. Small amount remains outstanding.

19. United States Postal Service - Bonds - May be backed by the full faith and credit of the U.S. Government. Small amount outstanding due 02/01/97 that is not guaranteed by the U.S. 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. (09/14/92)

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. (02/06/95)

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 U.S. 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 of 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 instruments, 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
SEPTEMBER 9, 1997

Treasury Bills: Considered the most secure and liquid short-term investment as they are fully guaranteed by the U.S. 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 purchases 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 most secure and liquid medium-term investment as they are fully guaranteed by the U.S. Government. They are auctioned monthly as 2-year and 5-year notes; quarterly (February, May, August, and November) as 3-year notes; and (with the 3-year notes) as 10-year notes with additional separate auctions in the months of July and October. They are auctioned in minimum denominations 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 U.S. Government, these 30-year bonds are auctioned semiannually (February and August though previously quarterly with 3-year and 10-year notes) in minimum denominations of $1,000 (ORS 294.035 (1)).

Treasury STRIPS/CUBES: These zero coupon U.S. 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 30 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 U.S. Government Agencies and U.S. Government Sponsored Enterprises (GSE's): Considered the next most secure investment after Treasury securities, most are not U.S. Government guaranteed, but are chartered and supervised by the U.S. 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) to 40 years for notes and bonds; and with fixed, floating rate and zero coupon features (ORS 294.035 (1)).

THE ABOVE SECURITIES ARE ALLOWABLE SUBJECT TO ORS 294.040 (1). FOR A COMPLETE LISTING OF THE ABOVE SECURITIES, SEE THE SEPTEMBER 9, 1997 REVISED LIST.

Local Government Investment Pool: No minimum investment; deposits are limited to a maximum of $31,120,000* which can be temporarily exceeded for 20 business days by county governments and 10 days by other local governments as a result of pass-through funds (ORS 294.810).

Repurchase Agreements: Typically these are investment arrangements involving the purchase of U.S. 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 or 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:

U.S. Treasury Securities:	102%
U.S. 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 institution 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. The 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 (Moodys) 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.

Certificates of Deposits: 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 295.035 (4)).

END OF POLICY

Legal Reference(s):

ORS 294.033
ORS 294.035
ORS 294.135(1)(a)
ORS 294.155