

I. SCOPE

This policy applies to the investment of short-term operating funds and capital funds including bond proceeds and bond reserve funds. Investments of employees' retirement funds, deferred compensation plans, and other funds are not covered by this policy.

II. 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:
 - o Limiting exposure to poor credits and concentrating the investments in the safest types of securities.
 - o Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the District will do business.
 - o Diversifying the investment portfolio so that potential losses on individual securities will be minimized.
 - o Actively monitoring the investment portfolio holdings for ratings changes, changing economic/market conditions, etc.
 - b. **Interest Rate Risk** The District will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:
 - o Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
 - o 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 is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or

resale markets (dynamic liquidity). A portion of the portfolio also may 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, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The majority of the portfolio is limited to highly rated/low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal.
- A security swap would improve the quality, yield, or target duration in the portfolio.
- Liquidity needs of the portfolio require that the security be sold.

III. STANDARDS OF CARE

1. **Prudence** The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

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

2. **Ethics and Conflicts of Interest** Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees, officers and their families 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 State of Oregon Government Standards and Practices code of ethics set forth in ORS 244.
3. **Delegation of Authority** Authority to manage the investment program is granted to the Director of Fiscal Services, hereinafter referred to as 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, wire transfer agreements, and collateral/depository agreements. No person may 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.

IV. SAFEKEEPING AND CUSTODY

1. **Authorized Financial Dealers and Institutions** A list will be maintained of financial institutions authorized to provide investment and safekeeping services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness (a minimum capital requirement of \$10,000,000 and at least five years of operation). These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

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

- Audited financial statements
- Proof of National Association of Securities Dealers (NASD) certification
- Proof of state registration.
- Certification of having read and understood the District's investment policy
- Certification of agreement to comply with District's investment policy

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

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.

The internal controls shall address the following points:

- Control of collusion.
- Separation of transaction authority from accounting and record keeping.
- Custodial safekeeping.
- Avoidance of physical delivery of securities whenever possible and address control requirements for physical delivery where necessary.
- Clear delegation of authority to subordinate staff members.
- Written confirmation of transactions for investments and wire transfers.

- Development of a wire transfer agreement with the lead bank and third-party custodian.
 - Compliance and oversight with investment parameters including diversification and maximum maturities.
2. **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.
 3. **Safekeeping** Securities will be held by a third-party custodian as evidenced by safekeeping receipts.
 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.

V. SUITABLE AND AUTHORIZED INVESTMENTS

1. **Investment Types** The following investments will be permitted by this policy and ORS 294.035 and 294.810:
 - *US Treasury securities and other lawfully issued general obligations of the United States*
 - *General obligations of government sponsored enterprises (GSEs) of the United States*
 - *Banker's acceptances*
 - *Oregon Short-Term Fund*
 - *State and local government securities*
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.

VI. INVESTMENT PARAMETERS

1. **Diversification** The investments shall be diversified by:
 - Limiting investments to avoid over-concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities),
 - Limiting investment in securities that have high credit risks,
 - Investing in securities with varying maturities, and
 - 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:

- This investment policy has been submitted to the OSTF Board for comment prior to being approved by Board of Directors and complies with the requirements of ORS 294.135. In this case, the maximum maturity shall be **defined in policy**.
- The funds are being accumulated for a specific purpose, including future construction projects, and upon approval of the Board of Directors, the maximum maturity date matches the anticipated use of the funds (ORS 294.135(1)(b) and 294.135(3)).

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 a maturity date not exceeding five years. Otherwise debt service reserves shall not be invested to a maturity date exceeding one year.

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), bond proceeds may be invested to a maturity date not exceeding three years.

Maximum Percentages of Investments Surplus funds available for investment are those funds not required for immediate expenditure, and include: investments, savings accounts, CDs and OSTF deposits. Balances in checking accounts, negotiable order of withdrawal (NOW) accounts and demand deposit accounts are not considered surplus funds.

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

<i>Security</i>	<i>Limitation</i>
US Treasury	None
US Government Agencies	50% of surplus funds in any single GSE, no limit on GSE as a category
Banker's Acceptances	25% of surplus funds in any single qualified financial institution 50% of surplus funds in the aggregate
State and Local Government Securities	25% of surplus funds
OSTF Balances	None, except the maximum balance imposed by statute

Due to fluctuations in the aggregate surplus funds balance, 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, or held in bank balances to ensure that appropriate liquidity is maintained to meet ongoing obligations.

3. **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.
4. **Securities Lending and Reverse Repurchase Agreements** The District shall not lend securities nor directly participate in a securities lending or reverse repurchase program.
5. **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.

VII. REPORTING

The investment officer shall prepare an investment report at least monthly including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last month. 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 will include the following:

- Listing of individual securities held at the end of the reporting period.
- Average weighted yield to maturity of portfolio on investments as compared to applicable benchmark(s).
- Listing of investments by maturity date and call date.
- Percentage of the total portfolio that each type of investment represents along with the percentages authorized in this policy.

VIII. POLICY ADOPTION AND RE-ADOPTION

This policy will be submitted to the Bend-La Pine Schools Board of Directors for adoption. If investment maturities exceeding 18 months are contemplated, further review and comment by the Oregon Short-term Fund Board is required and the policy will then be subject to annual review by the Bend-La Pine Schools Board of Directors, whether there are changes to the policy or not.