

Lebanon Community Schools

Code: **DFA**
Adopted: 12/4/00
Readopted: 5/6/10
Orig. Code(s): DFA

Investment of Funds

Scope

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

	<u>Low Balance</u>	<u>High Balance</u>
General Fund	\$150,000	\$7,481,375
Debt Service Fund	0	\$2,500,000
Bond Construction Fund	\$25,000,000	\$28,500,000
Food Service Fund	\$30,000	\$150,000
Student Body Fund	\$100,000	\$250,000

Funds will be invested in compliance with Oregon Revised Statutes (ORS), Chapter 294, other applicable statutes, and this policy. Investments will be in accordance with these policies and written administrative procedures. Investment of any tax exempt borrowing proceeds and any related debt service funds will comply with the arbitrage restrictions in all applicable Internal Revenue Codes.

Investment Objectives

The district will limit investment activities in order to ensure safety, legality, liquidity, diversity and yield. Preservation of capital and the protection of investment principal is accomplished by limiting types of risk:

1. Credit risk – The risk of failure of a security issuer or backer. Credit risk is minimized by limiting investments to the safest types of securities and by diversifying the investment portfolio; this is by limiting the district’s exposure to an individual security issuer or backer. The credit worthiness of a security user or backer prior to an investment being purchased will be a major factor and lessens credit risk.
2. Interest rate risk – The risk that the value of the portfolio will decline due to an increase in the general level of market interest rates. Interest rate risk is lessened by generally matching investment maturities with cash requirements so that sales prior to maturities (and the possibility of loss of principal) are minimized. Only investments which can be held to maturity shall be purchased. Investments shall not be made predicated upon selling prior to maturity. This policy shall not preclude the sale of securities prior to their maturity in order to improve the quality, net yield or maturity characteristic of the portfolio.
3. Liquidity – Maintenance of sufficient daily operating cash (liquidity) to pay the district obligations when due while maximizing the amount of monies invested.

4. Yield – Attainment of a market rate of return throughout budgetary and economic cycles, consistent with applicable federal and state laws and district policies and regulations. The district will not assume unreasonable investment risk to obtain investment income.

Delegation of Authority

The director of business is the designated investment officer of the district and is responsible for investment decisions, under the review of the Board. The investment officer is responsible for setting investment policy and guidelines subject to review and adoption of the Board and if required, review and comment by the Oregon Short-Term Fund Board.

The investment officer 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 investment officer will administer an active cash management program, the goal of which will maintain historical cash flow information such as debt service, payroll, revenue receipts, and any extraordinary expenditures. Finally, the Board 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.

Prudence

The standard of prudence to be used by the investment officer in the context of managing an overall portfolio shall be the “prudent investor” rule, which states: “Investments shall be made with judgement 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 superintendent, 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.

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.

Diversification by Instrument

	Maximum % of Portfolio
U.S. Treasury Obligations (bills, notes, bonds, strips)	100%
Securities of U.S. Government Agencies and Instrumentality's 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%
Commercial Paper	20%

Must mature no later than 270 days after purchase and subject to ORS 294.035 (9) which includes the following:

1. Domestic publicly held corporations organized under laws of a state other than Oregon and must be rated P-1 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 work force 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 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 Subject to ORS 294.035(2), (3) as amended 1995	10%
Passbook Saving 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 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 – Investment maturities for operating funds shall be scheduled to coincide with projected cash flow needs. The district will generally follow these guidelines.

Under 30 days	50% minimum
Under 90 days	75% minimum
Under 180 days	80% minimum
Under 1 year	100% minimum
Under 18 months	100% minimum

Long-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” shall be limited to 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 294.136 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 listing 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 for the district shall provide their most recent financial statements 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 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 control procedures. Those procedures shall be reviewed and tested by the independent auditor annually or upon any extraordinary event; i.e., turnover of key personnel or the discovery of any 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 their value as of year-end. 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 investment officer will generate monthly and quarterly reports for management purposes.

Performance Evaluation

The performance of the district's short-term portfolio shall be measured against the performance of the State of Oregon Local Government Investment Pool, using the monthly net yield of both portfolios as the yardstick. The performance of the long-term portfolio may vary accordingly 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 re-adopted annually even if there are no changes (ORS 294.135a)

END OF POLICY

Legal Reference(s):

[ORS 294.033](#)
[ORS 294.035](#)
[ORS 294.125](#)

[ORS 294.135](#)
[ORS 294.145](#)
[ORS 294.155](#)