

**Oregon School Boards Association
Finance Committee
Operating Manual**

Adopted by the OSBA Board on November 16, 2014

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I. Purpose of this Operating Manual

The purpose of this operating manual is to set forth policies and procedures to guide the deliberations of the OSBA Finance Committee. Among other things, the manual discusses the purposes of the Finance Committee and the relationship between the committee, Oregon School Boards Association (OSBA) and the various OSBA trusts; the frequency of committee meetings; the general agenda for such meetings;; and the duties and responsibilities of the committee.

This operating manual is intended to be a guide, which by its provisions, is intended to help improve the operation of the Finance Committee over time.

II. Purpose of the Finance Committee

The purpose of the OSBA Finance Committee is to review and recommend investment policies for OSBA, the OSBA Property and Casualty Coverage for Education Trust (PACE); to select and monitor the performance of a professional investment advisor for these investments; to serve as the audit committee for OSBA and its other entities; to serve as part of the Budget Committee for OSBA, along with the full Executive Committee (policy 400.1), and to monitor the general finances and financial practices of the Association.

The committee will evaluate and make recommendations to the OSBA board and/or staff regarding investment policies and strategies as well as the overall financial condition of the Association, as follows:

1. The committee will, through its own deliberations and conversations with the OSBA board and staff and its respective trusts, determine appropriate risk profiles for the investment portfolios with the adopted policies of the OSBA Board of Directors. It is understood that the degree of risk assumed will substantially determine the investment return available.
2. The committee will prepare and recommend revisions to the OSBA investment policy statement when deemed appropriate or necessary. Any recommended change is simply that and must be presented to the OSBA Board of Directors (Board) for approval prior to implementation.
3. The committee will recommend changes to the oversight of the investment portfolio. These recommendations may include items such as (a) engaging an investment advisor, (b) utilizing the services of a custodial bank, (c) employing

independent advisors, (d) managing the funds in-house, (e) or following some combination of these options.

4. The committee will participate in the selection of investment Advisors, monitoring the performance of those advisors, and recommending termination of underperforming advisors.
5. The committee will monitor the expenses incurred in the management of the investment portfolio, including fees, commissions and other transaction costs, and soft dollar arrangements, if any.
6. The committee will receive the annual audits for OSBA and will also review the audits for PACE, Legal Assistance Trust, and the Local Government Center each year. They will recommend to the OSBA Board or appropriate board of trustees any actions needed that emerge from these annual audits.
7. The committee will inform the OSBA Board of the financial health of the Association annually.

III. Committee Membership

The committee recognizes that institutional memory and experience in the management of the portfolios are important advantages. The Executive Director or designee is designated as the staff liaison to the committee. At a minimum the committee will consist of:

1. OSBA Vice President
2. OSBA Secretary/Treasurer
3. Local Board Member from OSBA Member District – 2 year term
4. OSBA PACE Trustee
5. Local School Business Official – 2 year term
6. Chief Financial Officer for the Special Districts Association, ex-officio
7. OSBA President or President Elect as Ex-officio members
8. Other Local Board Members from OSBA Member Districts as appointed by the OSBA Board of Director's – 2 year terms.

The two OSBA officer positions will allow the officers to serve on the committee for a two-year rotation. The OSBA board will make appointments as needed to fill committee vacancies. IV.Meetings of the Finance Committee

IV. Meetings of the Finance Committee

Unless otherwise determined by the Chair of the committee, the committee will meet on a quarterly basis generally in conjunction with a regularly scheduled OSBA board meeting, and at dates and times so established as to ensure that the committee has access to the most recent financial documents for the Association. The meeting schedule should enable the committee to report to the Board and Trustees on any important actions or recommendations of the committee. Minutes will be taken of the decisions made at each meeting of the committee.

Recommended Agenda for this meeting, the committee will:

1. Review and approve the Minutes of the previous meeting of the committee.
2. Review the fiscal year performance (current and prior) of the Association including income statement, balance sheet, audit, and investment reports.
3. Review the performance of the investments against the benchmarks established in the Investment Policies for each type of investment (fixed income, equities, and cash. Review the compliance of investments with all guidelines set forth in the investment policy statement and any pertinent Oregon statute.
4. Identify any performance issues with regard to any of the investment advisors and resolve those issues in a timely manner.
5. Once each fiscal year (before the June Board meeting) meet with the executive committee as the Budget Committee to review and approve the budget for the Association for the next fiscal year.
6. Select an area of the investment process or the capital markets to examine in depth, generally with the assistance of the OSBA investment advisor. For example, the committee may wish to examine a particular asset class, developments in portfolio design and asset allocation procedures, particular investment styles, the details of performance reporting and monitoring. Pre-set

V. Investment Policy Statement

OSBA has adopted a written investment policy and set of guidelines. This policy has historically been reviewed and re-adopted on an annual basis. The Finance Committee will review and recommend revisions to that written investment policy statement on an annual basis. The recommended changes will be presented to the OSBA Board of Directors on an annual basis at a

regular board meeting for adoption. A copy of the current investment policy is included in this document as Appendix A.

VI. Deposits

Deposits with financial institution include bank demand deposits. Oregon Revised Statutes, which are voluntarily followed for investments, require bank deposits to be adequately covered by federal depository insurance or deposited at an approved depository as identified by the Oregon State Treasury.

VII. Selection of Investment Advisors

Prior to engaging an investment advisor, the committee will gather quantitative and, especially, qualitative information about interested parties utilizing a formal Request for Proposals (RFP) or informal interview process. The focus of the committee through this process is to select financial advisors who are believed to best represent the interests of the association.

The committee will provide to any finalist the Associations investment policies which include the benchmarks for each asset type. The performance of the investment advisor will be measured against the asset class benchmarks in the association investment policy in the event the committee believes an investment advisor should be terminated the guidelines prepared for that advisor will be reviewed to ensure sufficient time has been given to demonstrate his/her capabilities. Advisors will typically be terminated before the prescribed time period only (i) because of some fundamental change in the advisor (e.g., loss of key personnel, overly rapid gain or loss in assets and/or accounts, etc.), or (ii) as the result of a change in strategy on the part of the portfolio.

VIII. Portfolio Monitoring

The performance of the investment portfolios will be monitored and reviewed on an ongoing basis by staff and quarterly by the Finance Committee.

In addition to assessing investment performance, the committee will also review compliance with all guidelines set forth in the investment policy statement.

IX. Evaluation of Performance

The investment portfolios shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and cash flow needs.

X. Conflicts of Interest

The committee recognizes that conflicts of interest can be especially destabilizing to an investment portfolio. Therefore, in addition to any conflicts of interest provisions that apply to

OSBA at large, the following policies shall apply to the members of and the activities of the Finance Committee:

1. No money advisor, asset custodian, broker, manager, or other advisor may be retained by OSBA if any member of the Finance Committee is an employee of such firm. All Finance Committee members shall comply with Oregon State Ethics laws.
2. OSBA may employ money advisors in which a member of the Finance Committee is also invested, provided that the member shall make full disclosure of the member's interest.

XI. Internal Control

OSBA's Executive Director or designee is responsible for ensuring compliance with the Association's investment policies as well as for establishing systems of internal control designed to prevent losses of public funds due to fraud, employee error, and misrepresentation by third parties, or imprudent actions by employees or officers of OSBA. 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 be reviewed annually by an external independent auditor as part of the Association's annual audit process.

XII. Cash Management

To achieve a reasonable return on the Association funds invested, the following cash management practices will be followed:

1. Maximize investment of all funds not required to meet immediate cash flow needs while maintaining adequate compensating balances to meet any banking service agreement required balances.
2. Maximize cash flow through the immediate deposit of all cash receipts, use of direct deposits and wire transfers when available, and appropriate timing of payments to vendors.

XIII. Investment Selection

The Executive Director, serving as the investment officer, or a designate determines how much of the cash balance is available for investment. In conjunction with the investment advisor, the investment officer selects the area of the yield curve that most closely matches the required maturity date for these funds. In determining the maturity date, the investment officer will consider liquidity, cash flow and expected expenditures.

XIV. Investment Reporting

The investment officer will provide quarterly investment reports to the Finance Committee for their review. Reports will include the following:

1. Current book value of investments
2. Current market value
3. A description of compliance with the Investment Policy
4. Evaluation of investment operations for the preceding period
5. Status of current portfolio
6. Summary of significant or unusual events
7. A listing of all banks, securities dealers and custodians holding any investment

A summary report on current investments and investment performance will be given to the OSBA Board of Directors and each of the Trusts at least annually. In addition, all investments will be audited in conjunction with the annual audits performed for OSBA and each of the Trusts served by this committee.

XV. Review and Revision

The procedures set forth in this operating manual may be reviewed from time to time and may be revised by majority vote of the Finance Committee and approval of the OSBA board.

APPENDIX A

Investment Policy Guidelines

Adopted January 21, 1996.

Re-adopted June 13, 1997; June 19, 1998; June 18, 1999; June 18, 2000; June 24, 2001; June 23, 2002; June 22, 2003; June 27, 2004; June 26, 2005; June 23, 2006; June 22, 2007; June 20, 2008; June 12, 2009; Sept. 11, 2009; June 11, 2010; June 26, 2011; July 19, 2012; March 15, 2013; June 20, 2014

This investment policy governs two separate funds of money:

- Surplus funds of the Oregon School Boards Association (OSBA).
- Surplus funds of the OSBA Property and Casualty Education Trust (PACE).

The goal in investing funds is to achieve an optimum rate of return (defined as income plus realized and unrealized capital gains and losses) while ensuring protection of invested cash. The fund seeks a total return of long-term capital appreciation and income net of fees in the range of 4-5% annually adjusted for inflation. Consistent with a spending policy of 3-4% annually of the fund's three-year trailing average market value, it is anticipated this total return will be enough to support spending from the fund. Such funds may be invested by the executive director of the Oregon School Boards Association or the executive director's designee as the custodial officer.

The Executive Director shall be permitted to enlist an outside investment agency for the purpose of managing operating reserve funds.

Investment Objectives

- A. To retain liquidity and provide income to meet projected or unexpected cash needs.
- B. To attain the best possible total return (yield and market appreciation) while retaining liquidity and minimizing risk.
- C. To assure the safety of principal.

These objectives are ranked in order of importance. No "speculative" activity on securities is permitted.

A. *Investment*

The OSBA Board of Directors has adopted the following asset allocation formula for OSBA’s investment manager. The formula is consistent with the desired objectives and risk tolerances of the funds.

1.	<u>Asset Category</u>	<u>Preferred Allocation</u>	<u>Target Range</u>
	Equities	40%	20 - 50%
	Bonds/Fixed Income	55%	30 - 70%
	Cash/Equivalents	5%	0 - 20%

2. Exception

The above formula may be altered to either reduce market risk or optimize opportunities to capitalize on expected market movement.

Diversification

The purpose of diversification is to insure that no single investment, security, class of investments or industry group will have a dominant position in the portfolio of investments.

- A. In order to minimize the risk of large losses in individual security positions, the portfolio will be constructed to attain extensive diversification in both equity and fixed income investments with no material concentration of plan assets in any single security or industry group with the exception of U.S. Government and Agency obligations.
- B. Economic Sectors: It is expected that the equity component of the portfolio will reflect a broad economic sector diversification.

Portfolio Constraints

A. *Permitted Transactions*

- 1. Federally insured certificates of deposits, savings accounts, and money market funds that invest in government backed securities.
- 2. Bank repurchase agreements, banker acceptances, and commercial paper.
- 3. United States Treasury Bills and United States Government Securities that are backed by full faith of the United States Government.

4. Investment grade (BBB) or better individual corporate or municipal bonds.
5. Exchange traded funds.
6. Open end and closed-end mutual funds.
7. Equities of Corporations listed on the New York Stock Exchange (NYSE), American Stock Exchange (AMEX), and large and medium capitalization companies listed on National Association of Securities Dealers Exchange (NASDAQ).
8. Master Limited Partnerships (MLPs).
9. Real Estate Investment Trusts (REITs)

B. *Fixed Income Securities*

1. Quality

In addition to government Treasuries and Agencies, all other marketable issues held should have a minimum quality rating of investment grade or better, at time of purchase as designated by a recognized rating service. For purposes of commercial paper holdings, issues held should have a minimum quality rating of “A1 -PI”, as defined by a recognized rating service.

2. Maturity

The average duration will not exceed 10 years.

3. Limitation

The maximum investment in any one fixed income security will be limited to 5% of the fixed income portfolio, at time of purchase (Government and Agency obligations are excluded from this limitation).

4. Commercial paper and repurchase agreements, as well as convertible securities and bonds, are considered acceptable assets.

C. *Equity Assets*

The equity assets will be managed in accordance with the following criteria:

1. Minimum criteria for direct investment in a stock:

Market Value	1 Billion
Minimum Trading Volume	1 Million per day average over a 5 day period
Annual Sales	1 Billion
2. The equity investment in any single company should not exceed 5 percent of the fund's assets. Investments in mutual funds or ETF's would not be subject to this limit.
3. Investment in Mid, Small Cap, and International equities may also be made through the use of mutual funds or ETF's. Mutual funds and/or ETF's selected will be diversified and generally conform to the above-mentioned company and industry guidelines.
4. Exchange Traded Funds (ETF) are open-end funds that trade like a stock and are designed to track an index. Therefore, ETF's should be used to provide the desired diversification in the portfolio where allocation weighting is small (less than 5% of portfolio)

Prohibited Transactions

1. No assets shall be invested in non-negotiable and non-marketable issues.
2. No assets shall be invested in commodity contract, derivatives, futures, junk bonds, limited partnerships.
3. No assets shall be committed to short sale contracts.
4. No assets shall be invested in equity option contracts, i.e., the purchase or sale of "puts" or "calls" on equity securities.
5. There shall be no purchases or sales of assets between the funds and the Investment Manager(s) or any affiliate.
6. There shall be no purchases, sales, or other transactions in connection with which the Investment Manager(s) or any affiliate receives any payment or its own account, whether as underwriter, investment banker, or broker.

Performance Measurement

The OSBA Board of Directors shall use the following standards for measurement of the rate of return.

A. *Fixed Income*

The fixed income portion of the portfolio will be measured against the Lehman Brothers Intermediate Government Corporate Bond Index.

B. *Equities*

The large cap equity component of the portfolio will be measured against the S&P 500 w/ Income Index.

C. *Cash*

The cash positions will be measured against the 90-Day Treasury Bill return.

D. It is understood that total return performance of the funds will be measured over market cycle, generally assured a period of three to five years.

Payout Guidelines

Withdrawal of income from the funds shall be at the written discretion of the OSBA Executive Director or designee following OSBA policy.

Reporting

- A. The Custodian will furnish the appropriate OSBA staff monthly status reports of the Funds reflecting quantity of individual security purchased, security cost basis, percentage of asset allocation by security, month ending value, and any other data requested by the appropriate OSBA staff from time to time.
- B. The Manager(s) will furnish the appropriate OSBA staff and finance committee quarterly statements containing the same information enumerated in part A above and is expected to review personally the progress of the Funds with the OSBA Board of Directors at least annually or at such other times as requested.

Investment Practices

A. *Investment Authority*

Investment authority is vested with association's executive director. The executive director is directly responsible to the OSBA board of directors.

A register of investments will be kept by the executive director at all times. The association's investments will be reviewed with the board annually. Additionally, the investment policy will be reviewed annually with the board.

B. *Custody/Safekeeping of Assets*

The association will not normally take delivery of the investment securities purchased. Instead, the association will utilize a custodian, which can provide a timely confirmation of all sales and purchases.

C. *Investment Audits*

Once every other year the board of directors or executive director will provide for an audit of the association's investment activity to assure compliance with all applicable laws and policies.