

REVENUES FROM INVESTMENTS/USE OF SURPLUS FUNDS

Scope

The District is a corporate entity in the State of Colorado governed by a seven member Board. This Investment Policy addresses the methods, procedures, and practices that must be exercised to ensure the effective and judicious fiscal and investment management of the District's funds. This Policy applies to the investment of all financial assets and all funds of the District over which it exercises financial control and has been written to comply with various regulatory requirements under which the District operates.

In order to effectively make use of the District's cash resources, all of the general, capital reserve, insurance reserve, Nutritional Services, Pupil Activity and special revenue funds will be pooled into one investment account and accounted for separately. The Building and Bond Funds shall each have separate investment accounts, each of which shall maintain its own investments. Each such investment account shall be subject to the objectives and restrictions set forth below except that 100 percent of the funds in each investment account may be invested in the following to the extent consistent with Colorado law and this Policy: Flexible Repurchase Agreements, Time Certificates of Deposit, Federal Instrumentality Securities, U.S. Treasury Obligations, Local Government Investment Pools, Money Market Mutual Funds, savings accounts or Guaranteed Investment Contracts.

Objectives

All funds that are held for future disbursement shall be deposited and invested by the District in accordance with Colorado statutes and resolutions enacted by the Board in a manner to accomplish the following objectives.

1. Safety of Funds: 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 failure of the security issuer, by:
 - Limiting investments to the safest types of securities;
 - Prequalifying financial institutions, broker/dealers, intermediaries, and advisors with which the District will do business;

- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.
- 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:
- Structuring the investment portfolio so that securities mature sufficiently close to cash requirements for ongoing operations, thereby minimizing the potential need to sell securities on the open market prior to maturity;
 - Investing operating funds primarily in shorter-term securities, approved local government investment pools, approved money market mutual funds, and repurchase agreements.
2. Liquidity of Funds: The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. To ensure that adequate funds are available to pay the District's projected financial obligations, investment will be purchased or deposits made that reasonably match the anticipated cash disbursements of the District.

Since all possible cash demands cannot be anticipated, the portfolio shall consist largely of securities with active secondary or resale markets so that the potential for a realized loss if an early liquidation of a security is necessary will be minimized.

A core of stable funds may be identified through cash flow analysis that is available for investing in longer term securities. Although the market value of these longer term securities may fluctuate significantly, the fluctuation will not effect the liquidity of the portfolio since they can be held to maturity in all but extreme circumstances.

3. Yield: The District's portfolio shall earn a competitive market rate of return on available funds throughout budgetary and economic cycles. In meeting this objective, investment management personnel will take into account the District's investment risk constraints and cash flow needs.

Delegation of Authority

The Board shall designate the Superintendent and his/her designee as the investment officers of the District, who are responsible for all investment decisions and investment activities. The Board through the District's external auditors will periodically review the compliance of

the cash, treasury, and investment management practices with the District's Investment Policy and Regulations.

The Superintendent, or his/her designee, shall establish written administrative procedures for the operation of the District's investment program consistent with the Investment Policy and Regulations. The Superintendent and other authorized persons acting in accordance with the Colorado statutes, the resolutions enacted by the Board, and the written Investment Policy and Regulations, while exercising proper due diligence in making investment decisions, shall be relieved of personal responsibility for an individual security's credit risk or market price changes. The investment officers will be covered by the District's errors and omissions policy.

The Superintendent may engage the support services of outside professionals so long as it can be demonstrated that these services produce a net financial advantage and necessary financial protection of the District's resources. Such services may include engagement of financial advisors in conjunction with debt issuance, portfolio management support, special legal representation, third party custodial services, and independent rating services.

Prudence

The standard of prudence to be used for managing the District's assets is the "prudent investor" rule applicable to a fiduciary, which states that a prudent investor "shall exercise the judgment and care, under circumstances then prevailing, which men of prudence, discretion, and intelligence exercise in the management of the property of another, not in regard to speculation but in regard to the permanent disposition of funds, considering the probable income as well as the probable safety of their capital." (C.R.S. 15-1-304, Standard for Investments.)

Eligible Investments And Transactions

All investments will be made in accordance with governing law. The Board has further restricted the investment of District's funds to the following types of securities and transactions:

1. U.S. Treasury Obligations: Treasury Bills, Treasury Notes, Treasury Bonds, and Treasury Strips with maturities not exceeding five years from the date of purchase.
2. Federal Instrumentality Securities: Debentures, discount notes, callable securities, and stripped principal or coupons with final maturities not exceeding five years from the date of purchase issued by the following only: Federal National Mortgage Association (FNMA), Federal Farm Credit Banks (FFCB), Federal Home Loan Banks (FHLB), Federal Home Loan Mortgage

Corporation (FHLMC), and Student Loan Marketing Association (SLMA). For the purposes of this paragraph a “weighted average life” will not constitute a stated maturity. To be approved, Federal Instrumentality securities must be rated AAA by either Moody’s or Standard and Poors.

3. Prime Commercial Paper issued on U.S. companies and denominated in U.S. currency that, at the time of purchase, is rated in its highest rating category by one or more nationally recognized organizations which regularly rate such obligations. If the commercial paper issuer has senior debt outstanding, the senior debt must be rated by each service that publishes a rating on the issuer of at least A+ by Standard and Poors, A-1 by Moody’s, and A+ by Duff and Phelps. (Senior debt is defined as the most senior secured or unsecured debt of the insurer with an original maturity exceeding one year.) The aggregate amount of securities purchased from any one Commercial Paper issuer shall not exceed 50 percent of the District’s portfolio at the time of purchase.
4. Eligible Bankers Acceptances, with an original maximum maturity not exceeding 180 days, issued on domestic banks or branches of foreign banks domiciled in the U.S. and operating under U.S. banking laws, whose senior long-term debt is rated, at the time of purchase AA by Standard and Poors, Aa by Moody’s, or AA by Duff and Phelps. The aggregate amount of securities purchased from any one Bankers Acceptance issuer shall not exceed 10 percent of the District’s portfolio at the time of purchase.
5. Repurchase Agreements with a defined termination date of 180 days or less collateralized by U.S. Treasury securities listed in Item #1 above or Federal Instrumentality securities listed in Item #2 above. The maturity of the collateral shall not exceed 10 years. For the purpose of this section, the term collateral shall mean purchased securities under the terms of the District’s approved Master Repurchase Agreement. The purchased securities shall have an original minimum market value including accrued interest equal to or exceeding 102 percent of the dollar value of the transaction and the collateral maintenance level shall be 101 percent. Collateral shall be held in the District’s custodial bank as safekeeping agent, and the market value of collateral securities shall be marked-to-the-market daily based on that day’s bid price.

Repurchase Agreements shall be entered into only with dealers who have executed a Master Repurchase Agreement with the District and who are recognized as Primary Dealers with the Market Reports Division of the Federal Reserve Bank of New York.

6. Flexible Repurchase Agreement, as provided by Colorado law, entered into by the District with approved counter parties. These flexible repurchase agreements may be closed out in varying amounts and at varying times at the option of the District. These agreements are deemed by both parties to be purchases and sales of securities and are not loans.

All such Flexible Repurchase Agreements shall be determined as legal and valid for both parties and shall have a fixed rate during the entire life of the agreement. The District has the option of varying the dollar amount and the timing of the draw down by an agreed upon percentage of the anticipated draw down and a specified number of days. The District and the counter party to the agreement will specify the details of the allowable variance when the agreement is structured. In addition, the District may draw down in excess of the variance up to the remaining balance in the agreement for a bona fide, unanticipated cash need.

The collateral shall be limited to U.S. Treasury securities listed in Item #1 above or Federal Instrumentality securities listed in Item #2 above. The maturity of the collateral shall mean purchased securities under the terms of the District's approved Master Repurchase Agreement. The purchased securities shall have an original minimum market value including accrued interest equal to or exceeding 102 percent of the dollar value of the transaction and collateral maintenance level shall be 101 percent. Collateral shall be held in the District's custodial bank as safekeeping agent, and the market value of the collateral securities shall be marked-to-the-market daily based on that day's bid price.

Repurchase Agreements shall be entered into only with dealers who have executed a Master Repurchase Agreement with the District and who are recognized as Primary Dealers with the Market Reports Division of the Federal Reserve Bank of New York.

7. Local Government Investment Pools authorized under C.R.S. 24-7-701, 702 which: 1) are "no-load" (i.e., no commission fees shall be charged on purchases or sales of shares); 2) have an objective of maintaining a constant daily net asset value per share (usually \$1.00 per share); 3) limit assets of the fund to U.S. Treasury securities and Repurchase Agreements outlined in Item #5, Federal Instrumentality securities, and Commercial Paper; 4) have a maximum stated maturity in accordance with Federal Securities Law Regulation 2A-7; and 5) have a rating of AAAM by Standard and Poors or AAA by Moody's or AAA/V-1+ by Fitch IBCA, Inc. The District's investment shall not exceed 10 percent of the outstanding shares of any one local government investment pool at the time of purchase.

8. Time Certificates of Deposit or savings accounts in state or national banks or state or federally chartered savings and loans which are state approved depositories per C.R.S. 24-75-603 et seq. (as evidenced by a certificate issued by the State Banking Board) and are insured by the FDIC. Certificates of Deposit will have a maximum maturity of five years. Certificates of Deposit which exceed the FDIC insured amount shall be collateralized in accordance with Colorado Public Deposit Protection Act. This collateral will have a market value equal to or exceeding 102 percent of the difference between the insured amount and the District's total deposit for all funds within the institution. The aggregate amount of Certificates of Deposit purchased from any one bank or savings and loan shall not exceed 25 percent of the District's portfolio at the time of purchase.

The Superintendent, or his designee, shall take steps on a routine basis to obtain copies from the banks and savings and loans of the periodic certification of collateral which is sent to the banking board.

9. Money Market Mutual Funds registered under the Investment Company Act of 1940 which: 1) are "no-load" (i.e. no commission fee shall be charged on purchases or sales of shares); 2) have a constant daily net asset value per share (usually \$1.00); 3) limit assets of the fund to those securities authorized in this Policy; 4) have a maximum stated maturity and weighted average maturity in accordance with Federal Securities Regulation 2A-7; and 5) are rated either AAA by Standard and Poors or AAA by Moody's or AAA/V-1+ by Fitch IBCA, Inc. The District's investment shall not exceed 10 percent of the outstanding shares of any one money market mutual fund at the time of purchase.

If the District uses a "sweep" account at the bank so that any remaining balances at the end of the day in any of the District's bank accounts can be captured in one account and invested overnight in a money market mutual fund designated by the District, the District's "sweep" account will not be subject to the limits described in the preceding paragraph because of the short-term nature (overnight) of the investment.

10. Municipal Notes or Bonds that are an obligation of any State of the United States, the District of Columbia, or any territorial possession of the United States or of any political subdivision, institution, department, agency, instrumentality, or authority of any such governmental entities which qualify under Colorado statutes. The municipal bonds or notes must be general obligation or revenue bonds with an effective final maturity of five years or less (the maturity for a pre-refunded bond will be its refunding date) and a

rating of Aa or better by Moody's or AA or better by Standard and Poors: original obligation or revenue bonds that are insured by the MBI, FGIC, or AMBAC Indemnity Corporation (as long as MBIA, FGIC, and AMBAC maintain their AAA rating), or are escrowed to maturity in U.S. Treasury collateral.

11. Guaranteed Investment Contracts shall, at the time the contract or agreement is entered into, be only with a party providing the investment whose long-term credit rating is rated in one of the two highest rating categories by Moody's, Standard and Poors or Fitch. The final maturity shall not exceed five years. The District has the option of varying the dollar amount and the timing of the draw-down by an agreed-upon percentage of the anticipated draw-down and a specified number of days. The District and the other party to the agreement will specify the details of the allowable variance when the agreement is structured. In addition, the District may draw down in excess of the variance up to the remaining balance in the agreement for a bona fide, unanticipated cash need, subject in all cases to compliance with applicable Colorado law.

The District will strictly interpret the foregoing list of authorized securities.

Investment Diversification

It is the intent of the District to diversify the investments within the portfolio to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions, or maturities. The asset allocation in the portfolio should, however, be flexible depending upon the outlook for the economy, the securities market, and the District's anticipated cash flow needs. A minimum of 50 percent of the investable assets of the District will be maintained in aggregate in the following:

- Federal Instrumentality Securities
- U.S. Treasury Obligations
- Repurchase Agreements
- Local Government Investment Pools
- Money Market Mutual Funds
- Time Certificates of Deposit
- Flexible Repurchase Agreements
- Guaranteed Investment Contracts

Investment Maturity And Liquidity

Investments shall be limited to maturities not exceeding five years unless otherwise approved in writing by the Board Finance Committee for special circumstances (e.g. the reinvestment

of bond proceeds). The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.

Competitive Transactions

Each investment transaction shall be competitively transacted with broker/dealers who have been authorized by the District. At least two broker/dealers shall be contacted for each transaction and their bid and offering prices shall be recorded.

Selection Of Broker/Dealers And Financial Institutions Acting As Broker/Dealers

The District shall maintain a list of authorized broker/dealers and financial institutions which are approved for investment purposes, and it shall be the policy of the District to purchase securities only from those authorized institutions and firms.

To be eligible, a broker/dealers or bank must meet at least one of the following criteria:

1. Be a member in good standing of the National Association of Securities Dealers AND registered with the State of Colorado, Department of Regulatory Agencies or; *(This is to include Colorado banks, S & Ls and local brokers.)*
2. Be recognized as a Primary Dealer by the Market Reports Division of the Federal Reserve Bank of New York; or;
3. Report voluntarily to the Market Reports Division of the Federal Reserve Bank of New York. *(This is to include national banks.)*

Each broker/dealer or financial institution will be sent a copy of this Policy and a list of those persons authorized to execute investment transactions. Each firm must acknowledge receipt of such materials to qualify for the Approved List of Brokers/Dealers and Financial Institutions.

Broker/dealers and other financial institutions will be selected by the District on the basis of their expertise in public cash management and their ability to provide service to the District's account. Each broker/dealer, bank, or savings and loan that has been authorized shall be required to submit and annually update a District approved Broker/Dealer Information Request Form which includes the firm's most recent financial statements. The District shall maintain a file of the most recent Broker/Dealer Information Forms submitted by each firm approved for investment purposes.

The District may purchase commercial paper from direct issuers as long as they meet the criteria outlined in item 3 of the Eligible Investments and Transactions section of this Investment Policy.

Selection Of Banks And Savings And Loans As Depositories And Providers Of General Banking Services

The District shall maintain a list of authorized banks and savings and loans which are approved to provide depository and other banking services for the District. To be eligible for authorization, state or national banks and state or federally chartered savings and loans must be state approved depositories per C.R.S. 24-75-603 et seq. (as evidenced by a certificate issued by the State Banking Board) and insured by the FDIC. Banks or savings and loans who fail to meet this criteria, or in the judgment of the District's finance staff no longer offer adequate safety to the District, will be removed from the list. The list will be updated annually to ensure current compliance.

The intent of the District is to support the financial institutions located within the District. Investments in institutions located outside of the District will be made only when competitive rate, adequate collateral, allocation of assets and stability do not permit the use of a local financial institution, or when investment timing or other substantial reasons make use of a local financial institution incompatible with the best interests of the District.

Safekeeping And Custody

The District shall approve one or more financial institutions to provide safekeeping and custodial services for the District. A District approved Safekeeping Agreement shall be executed with each custodian bank prior to utilizing that bank's safekeeping services. Custodian banks will be selected on the basis of their ability to provide service to the District's account and the competitive pricing of their safekeeping related services.

Except for non-negotiable Certificates of Deposit, Local Government Investment Pools, and Money Market Funds, all investment securities purchased by the District will be delivered by either book entry or physical delivery and will be held in third-party safekeeping by a District approved custodian bank, its correspondent New York bank, or the Depository Trust Corporation (DTC).

All non-book entry (physical delivery) securities shall be held by the custodian bank's correspondent bank in New York City and the custodian bank shall issue a safekeeping receipt to the District evidencing that the securities are held by the correspondent bank for the District. The District may utilize the services of the Depository Trust Corporation (DTC), through the custodian bank, as a depository for delivery of non-wirable securities.

It is the objective of the District that all owned securities be perfected in the name of the District. The District's perfected ownership of all book entry securities shall be evidenced by a safekeeping receipt issued to the District by the custodian bank who acts as the District's safekeeping agent. The safekeeping receipt shall state that the securities are held in the

Federal Reserve system either in a Customer Account/IO30 for the custodian bank which will name the District as “customer” or in a Trust Account/IO50 with the trust department named as agent for the District.

All custodied securities that are registered shall be registered in the name of the District or in the name of a nominee of the District or in the name of the custodian or its nominee or, if in a clearing corporation, in the name of the clearing corporation or its nominee. The District’s custodian will be required to furnish the District with monthly reports of holdings of custodied securities.

Reporting

Accounting and reporting on the District’s investments and deposits shall conform with Generally Accepted Accounting Principles (GAAP) and the accounting standards promulgated by the Governmental Accounting Standards Board (GASB). On a monthly basis, an investment report shall be prepared and submitted to the Superintendent or his designee and the Board of Education Finance Sub-Committee listing the investments held by the District, the current market valuation of the investments, and performance results. The report shall include a summary of investment earnings during the period. A record shall be maintained by the District of all bids and offerings for security transactions in order to ensure that the District receives competitive pricing.

Ethics And Conflicts Of Interest

Officers and employees involved in the investment process shall not engage in personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Superintendent any material financial interest in financial institutions that conduct business with the District and they shall further disclose any large personal financial investment positions that could be related to the performance of the District’s portfolio. Employees and officers shall subordinate their personal investment transactions to those of the District particularly with regard to the timing of purchases and sales.

Policy Revisions

This Investment Policy shall be reviewed periodically by the Superintendent, or his designee, and may be amended by the Board as conditions warrant.

Adopted: June 20, 2000
Revised: December 3, 2002
Revised: July 6, 2004
Revised: October 18, 2005

LEGAL REFS.:

C.R.S. 11-10.5-101 et seq.
C.R.S. 11-47-101 et seq.
C.R.S. 24-75-601 et seq.
C.R.S. 24-75-701 et seq.

CROSS REF.:

DG/DGA, Banking Services (and Deposit of Funds)

Douglas County School District Re. 1, Castle Rock, Colorado