DFA/DFAA - Revenues from Investments/Use of Surplus Funds

INVESTMENT POLICY AND PROCEDURE

Policy

The Board of Education ("Board") recognizes the importance of prudent and profitable investment of district moneys and its responsibility in overseeing this part of the district's financial program. This DFA/DFAA Policy ("Policy") shall apply to the investment of all financial assets and all funds of the district over which the Board exercises financial control.

In order to effectively make use of the district's cash resources, the district shall invest its funds in a manner which will provide for a combination of security, accessibility, and the highest investment return consistent with the preservation of principal and provision of the liquidity necessary for daily cash flow demands. In addition, it is the policy of the district to implement internal controls to ensure the safeguard of its financial assets and cash, and to conform with federal and state legal requirements for investments. The investment income derived from any investment account shall be distributed to the various district funds accordance with district policies and state law.

The intent of the district is to support the financial institutions located within the district. Investments or deposits 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.

Purpose

This Policy addresses the methods, procedures, and practices which must be exercised to ensure effective and judicious fiscal and investment management of relevant district funds. The guidelines contained in this Policy are designed to adhere to the Colorado Revised Statutes ("C.R.S.) § 24-75-601 et seq.

Scope

This 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.

Delegation of Authority

The ultimate responsibility and authority for the investment program resides with the Board. It is recognized that investment decisions need to be made expeditiously within the context of prudent portfolio management and thus the Board shall designate the

Superintendent, the ~~Business Services Director~~CFO/COO and his/her designee as the investment officer(s) of the district, who are responsible for all investment decisions and investment activities that are consistent with the exercise of proper due diligence. Due diligence, at a minimum, requires that the said investment officers shall obtain and consider the advice of the district's investment advisor, if any, and/or such other individuals as they may deem appropriate to consult before authorizing the purchase and/or sale of investments, and further requires that they shall at all times comply with the "Prudent Investor Rule" as set forth below. The Board will periodically review the compliance of the cash, treasury, and investment management practices with the district's Policy.

The Superintendent and other authorized persons acting in accordance with the Colorado statutes, the resolutions enacted by the Board, and this Policy, 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 shall be covered by the district's errors and omissions policy.

Prudence

The district staff and persons authorized to invest on the district's behalf shall be guided by the "Prudent Investor Rule" (C.R.S. § 15-1.1-101, et seq.), applicable state law regarding investment of public funds (including, without limitation, C.R.S. § 24-75-601, et seq.) and this Policy. Authorized persons who act within the guidelines of this Policy and exercise due diligence shall not be held personally responsible for assuring sufficient liquidity of investments to meet daily operational needs nor for losses due to financial entity failures where respective funds and securities are held, nor for an individual security's credit risk or market price changes. Deviations from these expectations shall be reported in a timely fashion to the Superintendent, and by the Superintendent to the Board, and appropriate action shall be taken to control adverse developments.

The district's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The district recognizes that no investment is totally without risk and that its investment activities are a matter of public record. Accordingly, the district recognizes that occasional measured losses may occur in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented and that the sale of a security is in the best long-term interest of the district.

Note regarding diversification:[DF2] The Board recognizes the general prudence of diversification of investments to minimize risk from concentration of investments by type, provider, or maturity. However, the Board also recognizes that diversification of investment type is a strategy and not an end in itself, and that particular discretion must be exercised when considering diversification within a conservatively-managed portfolio, to ensure that the use of alternative investment types does not result in reducing the safety of principal or impairing the essential liquidity of funds.

Ethics and Conflict 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 or be perceived as impairing their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Superintendent, and the Superintendent shall disclose to the Board, any material financial interest in financial institutions that conduct business with the district and they shall further disclose any material 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.

Objectives

Funds shall be invested in accordance with all applicable District policies, State statutes, and Federal regulations, and in a manner designed to accomplish the following objectives, which are listed in priority order:

1. Safety. Safety of principal is the foremost objective of the investment program. Investments of the district shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

2. Liquidity. The district's investment portfolio will remain sufficiently liquid to enable the district to meet all operating requirements which might be reasonably anticipated. The particular operating needs of each district fund shall be considered in determining investment maturities.

3. Return on investment. The district's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the district's investment risk constraints and the cash flow characteristics of the portfolio.

Investment Advisor[DF3] One or more investment advisors may be appointed by the Board to advise the district on its investment program. Any such advisor shall be a person from outside the Board or staff knowledgeable about eligible investments as described in this Policy, whom the Board has determined is familiar with investment strategies and activities of public entities, and with portfolio management, including without limitation such matters as custodial risk, interest rate risk, credit risk, issuer concentration risk, authorized bank depositories, portfolio performance, and other topics directly related to the investment program. At the Board's discretion, any investment advisor appointed by the Board may be a municipal advisor, broker/dealer or other professional authorized to execute investment transactions on behalf of the District.

Competitive Transactions[DF4] The best price or applicable yield to the district shall determine the purchase or sale of an investment when other factors are

equal. Return, diversification, and the type of investment shall be analyzed and incorporated into the selection of the appropriate investment prior to the solicitation of a purchase offer or sale bid. The investment officer shall endeavor to receive at least two quotes, if applicable, for any investment purchased or sold.

Selection of Banks and Savings and Loans as Depositories and Providers of General Banking Services The district shall utilize only 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.

Safekeeping and Custody

The district shall approve one or more banks to provide safekeeping and custodial services for the district. A district approved agreement shall be executed with each custodian bank. The district's safekeeping banks shall qualify as eligible public depositories as defined in C.R.S. § 11-10.5-103 and be a Federal Reserve member financial institution. The purchase and sale of securities and repurchase agreement transactions shall be settled on a delivery-versus-payment basis. All investment securities purchased by the District shall be delivered by either book entry and will be held in third-party safekeeping by the district approved custodian bank, its correspondent bank or the Depository Trust Company ("DTC").

The district's custodian will be required to furnish the district a regular report of safekeeping activity, including a list of month-end holdings.

Eligible Investments

All investments shall be made in accordance with Colorado statutes, as follows: C.R.S. § 11-10.5-101, et seq. Public Deposit Protection Act; C.R.S. § 11-47-101, et seq. Savings and Loan Association Public Deposit Protection Act; C.R.S. § 24-75-601, et seq. Funds-Legal Investments; C.R.S. § 24-75-603, et seq. Depositories; C.R.S. § 22-40-105, et seq. Depositories; C.R.S. § 22-45-102, et seq. Accounts; C.R.S. § 22-45-103, et seq. Funds; and C.R.S. § 24-75-701, et seq. Investment Funds - Local Government Pooling. Any revisions or amendments to these sections of the Colorado statutes will be deemed to be part of this Policy immediately upon being enacted.

This Policy further restricts the investment of district funds to only those allowed by state statute and it is the intent of the district that this list be strictly interpreted. If it is found by any employee, Board member, auditor, or consultant that the district holds any investment that does not conform to the requirements of this Policy or with legal requirements, the same shall be disclosed as soon as practicable to the Board. Pursuant to CRS 24-75-601.3 (Remedial Actions), the district shall divest itself of such nonconforming investment within six (6) months of such disclosure.

The ratings requirements outlined in this section are those as published by Standard & Poor's ("S&P"), a Nationally Recognized Statistical Rating Organization ("NRSRO"). Securities purchased may be rated by Standard & Poor's, Moody's Investors Service, or Fitch Ratings, therefore, the ratings equivalents of those referenced by S&P are listed below:

LONG-TERM RATINGS		
Standard & Poor's	Moody's Investors Service	Fitch Ratings
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA−	Aa3	AA−
A+	A1	A+
A	A2	A
A−	A3	A−

SHORT-TERM RATINGS		
Standard & Poor's	Moody's Investors Service	Fitch Ratings
AAAm	Aaa	AAAmmf
AAAf	Aaa-bf	AAAf
A-1+	P-1	F1+
A-1	P-1	F1

Securities that have been downgraded below minimum ratings described herein will be sold. The Portfolio will be brought back into compliance with Policy guidelines as soon as is practical but in any event within six (6) months of such downgrade. All securities and transactions shall be affected within generally accepted procedures and modern

Eligible investments are as follows:[DF5]

1. **U.S. Treasury Obligations:** Any security with maturities not exceeding five years from the date of trade settlement issued by, fully guaranteed by, or for which the full credit of the United States Treasury is pledged for payment including, but not limited to, Treasury bills, Treasury notes, Treasury bonds and Treasury STRIPS. 100% of the Portfolio may be invested in U.S. Treasury Obligations.

2. **Federal Agency and Instrumentality Securities:** Any security with maturities not exceeding five years from the date of trade settlement issued by, fully guaranteed by, or for which the full credit of the following is pledged for payment: The federal farm credit bank, the federal land bank, a federal home loan bank, the federal home loan mortgage corporation, the federal

national mortgage association, the export-import bank, the Tennessee Valley Authority, the government national mortgage association, the world bank, or an entity or organization that is not listed in this paragraph but that is created by, or the creation of which is authorized by, legislation enacted by the United States congress and that is subject to control by the federal government that is at least as extensive as that which governs an entity or organization listed in this paragraph. Subordinated debt may not be purchased. The aggregate investment in Federal Agency and Instrumentality Securities shall not exceed 100% of the Portfolio, and no single issuer shall exceed 35% of the Portfolio.

3. **Corporate Bonds** with a maturity not exceeding three years from the date of trade settlement and issued by any corporation or bank organized and operating within or outside ("foreign") the United States. Such securities must be dollar-denominated and rated at least AA- or the equivalent at the time of purchase by at least two NRSROs. No more than 50% of the Portfolio may be invested in corporate debt, and no more than 5% may be invested in the obligations of any one issuer.

4. **Municipal Bonds and Certificates of Participation:** General Obligation Bonds, Revenue Obligation Bonds of state or local governments with maturities not exceeding five years from the date of trade settlement. Such obligations of Colorado (or any political subdivision, institution, department, agency, instrumentality, or authority of the state) shall be rated at least A- or the equivalent by at least two NRSROs. Such obligations of any other governmental entity shall be rated at least AA- or the equivalent by at least two NRSROs.

In addition, certificates of participation (COPs) or other security evidencing rights in payments to be made by a school district under a lease, lease-purchase agreement, or similar agreement if the security carries at least two ratings by NRSROs and each rating is at least A or the equivalent at the time of purchase.

The aggregate investment in Municipal Bonds shall not exceed 50% of the Portfolio, with no more than 5% of the Portfolio invested with a single issuer.

5. **Non-negotiable Time Certificates of Deposit ("Time CD")** with a maturity not exceeding one year in any FDIC insured state or national bank located in Colorado that is an eligible public depository as defined in C.R.S. § 11-10.5-103. Certificates of deposit that exceed FDIC insurance limits shall be collateralized as required by the Public Deposit Protection Act. No more than 5% of the Portfolio may be invested in Time CDs, and no single issuer shall exceed 2% of the Portfolio.

6. **Negotiable Certificates of Deposit ("Negotiable CD")** with a maturity not exceeding three years from the date of trade settlement and issued by any corporation or bank organized and operating within or outside the United

States. Negotiable CDs must be dollar-denominated and must, at the time of purchase, have either a) a long-term rating of at least AA- or the equivalent by at least two NRSROs, or b) short-term ratings of at least A-1 or the equivalent by two NRSROs. No more than 50% of the Portfolio may be invested in Negotiable CDs, and no single issuer shall exceed 5% of the Portfolio.

7. **Commercial Paper** with an original maturity of 270 days or less from the date of trade settlement, issued by any corporation or bank organized and operating within or outside the United States, and rated at least A-1 or the equivalent at the time of purchase by at least two NRSROs. No more than 50% of the Portfolio shall be invested in commercial paper at the time of purchase, and no more than 5% may be invested in the obligations of any one issuer.

8. **Local Government Investment Pools ("LGIPs")** organized pursuant to the provisions of Article 75, Title 24, Part 7 of C.R.S. 100% of the Portfolio may be invested in LGIPs. The LGIP portfolios must be rated either AAAm or AAAf by any NRSRO.

9. **Money Market Mutual Funds** registered under the Investment Company Act of 1940 that: 1) are "no load" (no commission or fee shall be charged on purchases or sales or shares); 2) seek a constant net asset value of $1.00 per share; 3) have a maximum stated maturity and weighted average maturity in accordance with Rule 2a-7 of the Investment Company Act of 1940; and 4) have a rating of AAAm or the equivalent by each NRSRO that rates that fund. 100% of the Portfolio may be invested in money market mutual funds.

10. **Repurchase Agreements** with a maturity date of five years or less collateralized by U.S. Treasury obligations or Federal Agency and Instrumentality securities as outlined herein. For the purpose of this section, the term collateral shall mean purchased securities under the terms of the Master Repurchase Agreement as modified by the district's Master Repurchase Agreement Annex. The purchased securities shall have a minimum market value including accrued interest of 102% of the dollar value of the transaction. Collateral shall be held in the district's third-party custodian bank as safekeeping agent, and the market value of the collateral securities shall be marked-to-the market daily.

Repurchase Agreements shall be entered into only with dealers that have executed a Master Repurchase Agreement with the district and are recognized as Primary Dealers by the Federal Reserve Bank of New York or with firms that have a Primary Dealer within their holding company structure. Approved Repurchase Agreement counterparties shall have a short-term credit rating of at least A-1 or the equivalent and a long-term credit rating of

at least A or the equivalent by each NRSRO that rates the firm. No more than 100% of the Portfolio may be invested in repurchase agreements.

11. **Banker's Acceptances** with maturities not exceeding 180 days from the date of trade settlement and issued by an FDIC insured state or national bank with combined capital and surplus of at least $250 million. Banker's Acceptances shall, at the time of purchase, be rated at least A-1 or the equivalent by at least two NRSROs. No more than 50% of the Portfolio may be invested in Banker's Acceptances, and no more than 5% may be invested in the obligations of any one issuer.

Maximum Credit Exposure

The Portfolio will be limited to an aggregate exposure of 50% for the following investment types: Corporate Bonds, Banker's Acceptances, Commercial Paper, and Negotiable Certificates of Deposit.

Internal Controls[DF6]

The Superintendent is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the district are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. 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 Superintendent shall review the internal control structure with the Board in a regular Board meeting no less often than annually.

Without limiting the generality of the foregoing, the internal control structure shall, at a minimum, require that (1) all investment transactions (purchases, sales, deposits, or withdrawals), regardless of amount, must be approved in advance by two investment officers (e.g., the Superintendent and the ~~Business Services Director~~CFO/COO, or the designees of either). The investment officers shall either keep an audio recording of a telephone call or keep a written record, such as an email, of the investment advice made by any investment advisor to the district with respect to each particular investment, which audio recording or written record shall be retained permanently and may be reviewed by any Board member upon request. Notwithstanding the foregoing, such audio recording or written record shall not be required for transactions within accounts that are being managed by a third party provider in accordance with an investment strategy that is consistent with all legal requirements and which has been approved by the Board.

As part of each annual external financial audit of the district, an independent analysis by the external auditor shall be conducted to review internal controls, account activity and compliance with policies and procedures.

Reporting and Portfolio Performance Review

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). The Board shall be kept informed of investments and yields through regular reports. These reports, which shall be submitted in writing to the Board no less often than annually, shall be formatted in a manner that allows the Board to evaluate the success of its investment practices in light of its stated objectives. Additionally, the Superintendent shall expeditiously report to the Board any material exception to the investment policy or related event that could materially affect the value of the investment portfolio.

Policy Review and Revisions

This Policy shall be reviewed annually by the Superintendent or his/her designee and may be amended as conditions warrant.

Adopted: May 17, 1982
Revised: June 20, 2000, April 16, 2018, January 13, 2020, February 10, 2020

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 REFS. DBK, Budget Transfers

DG, Depository of Funds

SUMMARY OF ELIGIBLE INVESTMENTS

Complete investment requirements for each authorized security can be found in the Eligible Investments section, however, a summary of those authorized securities is outlined below.

The ratings requirements found in this summary grid of authorized securities are those as published by Standard & Poor's ("S&P").

Security Type	Maximum Portfolio %	Maximum Issuer %	Maturity Restrictions	Rating Requirements
U.S. Treasuries	100%	100%	5 years	N/A
Federal Agencies and Instrumentalities	100%	35%	5 years	AA- by 2 NRSROs

Corporate Bonds	50%	5%	3 years	AA- by 2 NRSROs
Municipal Bonds of a Colorado Issuer	50%*	5%*	5 years	A- by 2 NRSROs
Municipal Bonds of a Non-Colorado Issuer	50%*	5%*	5 years	AA- by 2 NRSROs
Municipal Bonds, School District Certificates of Participation	50%*	5%*	5 years	A- by 2 NRSROs
Time Certificates of Deposits ("Non-negotiable CDs")	5%	2%	1 year	N/A
Negotiable Certificates of Deposit	50%	5%	3 years	AA- or A-1 by 2 NRSROs
Commercial Paper	50%	5%	270 days	A-1 by 2 NRSROs
Local Government Investment Pools	100%	100%	N/A	AAAm or AAAf by any NRSRO
Money Market Mutual Funds	100%	100%	N/A	AAAm by any NRSRO
Repurchase Agreements	100%	100%	5 years	N/A
Banker's Acceptances	50%	5%	180 days	A-1 by 2 NRSROs

*The aggregate exposure to municipal bonds may not exceed 50% of the Portfolio, and no more than 5% may be invested with a single issuer.

The Portfolio shall be limited to an aggregate exposure of 50% for the following investment types: Corporate Bonds, Commercial Paper, Banker's Acceptances and Negotiable Certificates of Deposit.