

STATEMENT OF INVESTMENT POLICY

Colorado Springs School District 11 (hereinafter referred to as the "District") is the largest school district in Colorado Springs and El Paso County. A seven-member board of education, members of which are elected on an at-large basis for four-year terms, governs the District.

The District manages a portfolio comprised of operating funds and debt reserve funds. Because these funds may be called upon at any time, it is essential that the District maintain strict maturity horizons for the purpose of liquidity control. Moreover, these funds must be fully collateralized when necessary and all investments must be appropriately authorized. The purpose of this Statement of Investment Policy is to establish for investments the investment scope, objectives, delegation of authority, standards and safekeeping and custodial procedures necessary for the prudent investment of the District's funds.

The District's Statement of Investment Procedure and the Colorado Springs School District 11 Board of Education (the Board) policy on Investments were originally adopted by resolution of the Board on May 10, 1995 and subsequently amended. The documents were combined into one Statement of Investment Policy on June 27, 2001 and subsequently amended. This document replaces all previous investment policies and investment procedures pertaining to the District's cash and investment management program.

Scope

This Statement of Investment Policy (the Policy) will apply to the investment of certain funds of the District over which it exercises financial control, including but not limited to bond reserve funds. Expendable and non-expendable trust funds are excluded from the provisions of this Policy which relate to specific maturity limits. The restrictions of this Policy do not apply directly to public funds held or invested as part of any pension plan, full or supplemental retirement plan, or deferral compensation plan; however, the procedures set forth in this Investment policy will be followed in connection with such investments except to the extent they are inconsistent with the plan.

In order to effectively make use of the District's cash resources, all cash may be pooled into one investment account and accounted for separately. The investment income derived from this account will be distributed to the various District funds in accordance with procedures adopted by the Treasurer conforming to CRS 22-45-101 through 22-45-113.

Investment Objectives

All District funds allocated to a specific use but temporarily not needed shall be invested in accordance with all applicable District policies and codes, Colorado statutes, and Federal regulations, and in a manner designed to accomplish the following objectives, which are listed in priority order:

- Preservation of capital and protection of investment principal.
- Maintenance of sufficient liquidity to meet disbursements.
- Satisfaction of cash flow requirements.
- Diversification to avoid incurring unreasonable risks regarding maturities and creditworthiness of securities owned.
- Attainment of a market rate of return equal to or higher than the performance measure established by the District.

Delegation of Authority

The ultimate responsibility for investment transactions involving District funds has been delegated by the Board to the District's Chief Financial Officer, subject to certain powers and authorities reserved to the Board herein. The Chief Financial Officer may appoint other investment officers for the District to assist with the cash management and investment decisions and investment activities.

The Deputy Treasurer will supervise, subject to the review of the District's internal investment committee, all cash management and investment decisions and investment activities of the District. The Deputy Treasurer will also be responsible for ensuring that sufficient liquidity exists so that the District's operations can be maintained in the event of adverse market conditions. In order to facilitate the smooth operation of the District's cash management and investment decisions and investment activities, the Deputy Treasurer will establish written administrative procedures for the operation of the District's investment program consistent with this Policy.

For purposes of banking and/or investment related activities, the Superintendent or his designee will be authorized to designate and change authorized signatories and alternate authorized signatories who will be empowered to direct the investment of the District's funds. The Superintendent or his designee may also determine the District's designee who will be the representative to act on the District's behalf and who will receive notices on behalf of the District, including but not limited to COLOTRUST activities and decisions. Such designation will be made in writing and the Chief Financial Officer will maintain a record of such action.

The Deputy Treasurer's cash management and investment decisions and investment activities will be subject to review by the District's investment committee. The Superintendent will appoint four members of the five-member investment committee; the District's Chief Financial Officer will serve as the fifth member of the investment committee. The committee will meet no less than quarterly to monitor the District's investment program.

Authorized investment personnel will not be held personally liable for any loss of District funds resulting from investment of such funds, provided that such personnel comply with the requirements for personnel not to be held personally liable, as set forth below.

The District may engage the support services of outside professionals, so long as it can be demonstrated that these services produce a net financial advantage or necessary financial protection of the District's resources. Financial advisors may be engaged to assist the District in certain areas, including but not limited to debt issuance, portfolio management, special legal representation, third-party custodial services, and appraisal by independent rating services.

Authorization to Transact Investments

The following persons (Investment Officers) are authorized to transact investment business and wire funds on behalf of the District:

- Deputy Superintendent/Chief Financial Officer-Deputy Treasurer
- Executive Director of Financial Services
- Finance Accounting Manager, Fiscal Services

Checks and Balances

The following guidelines have been established to enhance the integrity of the District's internal procedures for investing the District's funds and accounting for those investments.

The Deputy Treasurer and others designated in writing by the Chief Financial Officer as Investment Officers will be authorized to transact investment business on behalf of the District. All trade confirmations will be sent directly to Fiscal Services where transaction details will be compared and verified. The Deputy Treasurer will ensure that an Investment Officer reviews all investment transactions subsequent to execution. All journal entries will be approved by the party not conducting the transaction and entered into the general ledger by the District's clerical staff. The Deputy Treasurer and all Investment Officers are expressly prohibited from entering journal entry transactions regarding investments into the District's general ledger.

Prudence - Standards for Investments

In acquiring, investing, reinvesting, exchanging, retaining, selling, and managing funds and financial investments for the benefit of the District, fiduciaries will be required to consider the responsibilities which are attached to such offices and the size, nature, and needs of the funds and financial investments entrusted to their care and will exercise the judgment and care, under the circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of the funds and financial investments 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 capital. Within the limitations of the foregoing standard, fiduciaries are authorized to acquire and retain those forms of funds and financial investments as authorized by the District in this Statement of Investment Policy, which men of prudence, discretion, and intelligence would acquire or retain for the account of another (C.R.S. 15-1-304).

The District's overall investment program will be designed and managed with a degree of professionalism that is worthy of the public trust. The District recognizes that no investment is totally free from risk and that the investment activities of the District are a matter of public record. Accordingly, the District recognizes that occasional measured losses may be desirable in a diversified portfolio, actively managed and will 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.

Authorized investment personnel who, in the good faith performance of their duties, comply with the standards established in part 6 of C.R.S. Title 24, Article 75 for the investment of public funds in securities and this Statement of Investment Policy will not be personally liable for any loss of District funds resulting from such investment.

Ethics and Conflicts of Interest

Officers and employees involved in the investment process will refrain from 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 will disclose to the Chief Financial Officer any material financial interest in financial institutions that conduct business with the District, and they will further disclose any large personal financial/investment positions that could be related to the performance of the District's portfolio. Employees and officers will subordinate their personal investment transactions to those of the District particularly with regard to the timing of purchases and sales.

Eligible Investments

All investments will be made in accordance with the Colorado Revised Statutes (CRS) 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 extensions of these sections of the C.R.S. will be assumed to be part of these procedures immediately upon being enacted.

Designated Investment Officers may invest District funds only in one or more eligible investments, as described below. If Designated Investment Officers desire to invest in a security or other vehicle not set forth on the list of eligible investments, that investment must be approved by the Board before the investment may be made, provided that such investment complies with applicable statutes.

The following types of securities and transactions will be considered eligible investments:

1. Treasury Obligations (T-Bills, T-Notes, T-Bonds) with a maximum maturity of five years from the date of trade settlement.
2. Treasury Strips (book-entry U.S. Treasury securities whose coupons have been removed and have a maximum maturity of five years from the date of trade settlement.)
3. Federal Instrumentality Securities: debentures, discount notes, callable securities, step-up bonds, and stripped principal or coupons issued by the following only: Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corporation (FHLMC), and Federal Farm Credit Bank (FFCB) with a maximum maturity of five years from the date of trade settlement. (Mortgage-backed securities and collateralized mortgage obligations are not considered to have defined maturities and are excluded from this approved securities list.) Subordinated debt shall not be purchased.

4A. Repurchase Agreements with a termination of one year or less. All repurchase agreement transactions entered into by the District with approved counter-parties are deemed to be purchases and sales of securities and are not loans. Any proposed repurchase agreement must meet all of the following criteria:

- Be determined as legal and valid for both parties;
- Collateral will be limited to those securities listed in items #1 - #3 above with a maximum maturity of 10 years;
- Securities must be marketable;
- Collateral will have a minimum market value (including accrued interest accumulated) of at least 102 percent of the dollar value of the transaction at all times;
- Repurchase agreements will be entered into only with dealers who: 1) are recognized as Primary Dealers reporting to the Federal Reserve Bank of New York or with financial firms that have a primary dealer within their holding company structure; and 2) have an executed, District approved Master Repurchase Agreement. Dealers who have an executed Master Repurchase Agreement with the District are listed in Annex I of the exhibit to this policy (see Exhibit DFA-DFAA-E);

- The title to or a perfected security interest in securities, along with any necessary transfer documents, must be transferred and actually delivered to, and will be held by, the District's third-party custodian bank acting as safekeeping agent. The market value of the collateral securities will be marked-to-the-market daily;
- For the purpose of this section, the term "collateral" will mean "purchased securities" under the terms of the District approved Master Repurchase Agreement.
- Repurchase Agreements will be entered into only with, counterparties who, if rated by Standard & Poor's or Moody's, are rated at least A-1/P-1 for short-term credit and A/A2 for long-term credit by at least one of these two rating agencies.

4B. Flexible/term repurchase agreements with an original termination of five years or less: all flexible repurchase agreement transactions entered into by the District with approved counter-parties are deemed to be purchases and sales of securities and are not loans. Any proposed flexible repurchase agreement must meet all of the following criteria:

- be determined as legal and valid for both parties;
- collateral will be limited to those securities listed in items #1 - #3 above with a maximum of 10 years;
- securities must be marketable;
- collateral will have a minimum market value (including accrued interest accumulated) of at least 102 percent of the dollar value of the transaction at all times;
- repurchase agreements will be entered into only with dealers who are recognized as Primary Dealers reporting to the Federal Reserve Bank of New York, or with financial firms that have a primary dealer within their holding company structure;
- repurchase agreements will be entered into only with counterparties who, if rated by Standard & Poor's or Moody's are rated at least A-1/P-1 for short-term credit and A/A2 for long-term credit by at least one of these two rating agencies;
- when entering into a multi-year flexible repurchase agreement for bond proceeds, the approved counter-party must agree to execute a master repurchase agreement with reference to the collateralized flex repurchase agreement request for quotations and inquiry document;
- the superintendent/designee will have the authority to negotiate the terms and conditions of the master repurchase agreement to include but not limited to the following items: Bond Market Association version and language, annexes, letter agreement terms and conditions, collateral requirements within the framework of those regulations, and other immaterial changes necessary to reach agreement with the counter-party;
- the title to, or a perfected security interest in securities, along with any necessary transfer documents, must be transferred and actually delivered to, and will be held by, the District's third-party custodian bank acting as safekeeping agent. The market value of the collateral securities will be marked-to-the-market weekly.

- for the purpose of this section, the term “collateral” will mean “purchased securities” under the terms of the District-approved master repurchase agreement.

5. Time Certificates of Deposit with a maximum maturity of five years or savings accounts in state or nationally chartered banks or savings banks headquartered in Colorado that are state approved depositories (as evidenced by a certificate issued by the State Banking Board) and are insured by the FDIC. Certificates of Deposit that exceed the FDIC insured amount will be collateralized in accordance with the Public Deposit Protection Act or the Savings and Loan Association 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 Deputy Treasurer will take steps on a routine basis to obtain copies from the bank of the periodic certification of collateral that is sent to the State Banking Board.

6. Local Government Investment Pools authorized under C.R.S. 24-75-70,02 that: 1) are "no-load" (i.e., no commission or fees will be charged on purchases or sales of shares); 2) maintain a constant daily net asset value per share of \$1.00; 3) limit assets of the fund to those securities authorized by state statute; 4) have a maximum stated maturity in accordance with Rule 2a-7 of the Investment Company Act 1940; and 5) have a rating of AAAM by Standard & Poor's or Aaa by Moody's or AAA/ V1+ by Fitch.

7. Money Market Mutual Funds registered under the Investment Company Act of 1940 that: 1) are "no-load" (i.e., no commission or fees or 12b1 fees will be charged on purchases or sales of shares); 2) maintain a constant net asset value per of \$1.00_share; 3) limit assets of the fund to securities authorized by state statute; 4) have a maximum stated maturity in accordance with Rule 2 a-7 of the Investment Company Act of 1940; and 5) have a rating of AAAM by Standard & Poors or Aaa by Moody's or AAA/ V1+ by Fitch.

8. Bankers Acceptances with a maturity not exceeding 90 days issued by FDIC insured state or national banks with a combined capital and surplus of at least \$250 million, Bankers Acceptance shall be rated P-1 by Moody's A-1 by Standard & Poors or F-1 by Fitch by at least two services, and shall not be rated less by any service that rates them, at the time of purchase. If the issuing bank has senior long-term debt it shall be rated, at the time of purchase, A+ by Standard & Poors, A1 by Moody's or A+ by Fitch.

9. Prime Commercial Paper with an original maturity of 270 days or less that, at the time of purchase, is rated at least A-1 by Standard & Poors, P-1 by Moody's or F-1 by Fitch.

- At the time of purchase, the Commercial Paper must be rated by at least two of the above stated rating agencies at the above stated minimum credit rating.
- 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 as at least A1 by Moody's, A+ by Standard & Poor's, or A+ by Fitch.
- If a commercial paper issuer's ratings fall below the above described levels and the District already owns that issuer's commercial paper, then that issuer's commercial paper may be held to maturity. However, that issuer's commercial paper is no longer acceptable for future purchases until such time as its published ratings meet or exceed the above requirements. Furthermore, the size of the issuer's commercial paper program must be equal to or greater than \$250 million to be eligible for purchase.

Derivatives

Derivative securities are defined by the Statement of Financial Accounting Standards No. 119 (FASB 119) as securities whose price or yield is derived from another security or index.

Derivatives include, but are not limited to, floating rate securities based on some index such as federal funds, LIBOR, or US Treasury Auctions. They may also include “structural” securities that contain options, futures or interest rate swaps. Due to the complex nature of valuing and reporting derivatives, FASB 119 requires detailed disclosure of these investments. Derivative securities are not permissible investments under this Statement of Investment Policy except as specifically authorized herein.

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 markets, and the District's anticipated cash flow needs. At all times, at least 25% of the portfolio will be invested in some combination of U.S. Treasury securities, Federal Instrumentality securities, Repurchase Agreements or Local Government Investment Pools as defined in Eligible Investments, unless approved by the investment committee for no more than 60 days.

Investment Maturity and Liquidity Requirements

Investments will be limited to maturities not exceeding five years from date of trade settlement. The investment committee will establish the portfolio's weighted average maturity limitations and liquidity requirements periodically. A cash flow model will be established and maintained which provides liquidity requirements for at least the next 12 months.

In the case of callable securities, the first call date will be used as the maturity date for investment purposes in this section if, in the opinion of the Deputy Treasurer, there is little doubt that the security will be called prior to maturity. For accounting purposes, the final maturity date of the callable securities will be used as the maturity of the security in order to disclose the maximum maturity liability in the District's financial reports.

Selection of Broker/Dealers

The Deputy Treasurer will authorize, from among eligible firms, and maintain a list of broker/dealers approved to handle investments for the District, and it will be the policy of the District to purchase securities only from those authorized firms. To be eligible, a firm must meet at least one of the following criteria:

1. be recognized as a Primary Dealer by the Federal Reserve Bank of New York, or have a primary dealer within their holding company structure;
2. report voluntarily to the Federal Reserve Bank of New York; or
3. be approved by the District after a comprehensive credit and capitalization analysis indicates the firm is adequately financed to conduct public business.

The District will authorize broker/dealers based on their expertise in public cash management and their ability to provide service to the District's account. Each authorized broker/dealer will be required to submit and annually update a District-approved Broker/Dealer Information Request Form that includes the firm's most recent financial statements. The Deputy Treasurer will maintain a file of the most recent Broker/Dealer Information Request Forms submitted by each authorized firm.

In the event that an external investment advisor is not used in the process of recommending a particular transaction in the District's portfolio, any authorized broker/dealer from whom a competitive bid is obtained for the transaction will attest in writing that he/she has received a copy of this policy. A list of authorized broker/dealers is included in Annex II in the exhibit to this policy (see DFA-DFAA-E)

The District may purchase commercial paper from direct issuers even though they are not on the approved broker/dealer list as long as they meet the criteria outlined in item #9 of the Eligible Investments section of this Statement of Investment Policy.

Competitive Transactions

Each investment transaction shall be competitively transacted with authorized broker/dealers. At least three broker/dealers shall be contacted for each transaction and their bid and offering prices shall be recorded.

If the District is offered a security for which there is no other readily available competitive offering, then quotations on comparable or alternative securities will be recorded.

Selection of Banks as Depositories and Providers of General Banking Services

The Deputy Treasurer will authorize, from eligible firms, and maintain a list of banks approved to provide depository and other banking services for the District. To be eligible, a bank must be a member of the FDIC and shall qualify as a depository of public funds in the State of Colorado as defined in CRS 24-75-603 et seq. as evidenced by a certificate issued by the State Banking Board.

Safekeeping and Custody

The Deputy Treasurer shall select one or more banks to provide safekeeping and custodial services for the District. A 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 services for the District's account and the competitive pricing of their safekeeping related services.

The purchase and sale of securities and repurchase agreement transactions shall be settled on a delivery versus payment basis. Ownership of all securities shall be perfected in the name of the District. Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

All investment securities, except Time Certificates of Deposit, Local Government Investment Pools and Money Market Funds will be delivered by either book entry or physical delivery and will be held in third-party safekeeping by the District's custodian bank, its correspondent bank or its Depository Trust Company (DTC) participant account.

All Fed wireable book entry securities shall be held in the Federal Reserve System in a customer account for the custodian bank which will name the District as "customer."

All DTC eligible securities shall be held in the custodian bank's DTC participant account and the custodian bank shall provide evidence that the securities are held for the District as "customer."

All non-book entry (physical delivery) securities shall be held by the custodian bank or its correspondent bank and the custodian bank shall provide evidence that the securities are held for the District as "customer."

Reporting Requirements

Accounting and reporting of the District will conform to C.R.S. 22-45-101 through 22-45-113. On a quarterly basis, an investment report will be prepared and submitted to the Board listing the investments held by the District, the current market valuation of the investments and performance results. The report will include a summary of investment earnings during the period. A record will be maintained by the District of all bids and offerings for security transactions in order to ensure that the District receives competitive pricing.

Reports prepared by outside advisors will be sent to the Board Treasurer, the District's Deputy Treasurer and the District's Chief Financial Officer. The reports will be sent to these three offices under separate cover on a monthly basis.

In conjunction with the Comprehensive Annual Financial Report (CAFR) reporting requirements promulgated in GASB 31, the District will report all investments at fair value. To the extent that this reporting method creates the recognition of an unrealized gain on portfolio holdings, the Board and Administration hereby designates the portion of fund equity attributable to the unrealized gain as "Designated for Investment Gains" in order to prevent the spending of unavailable resources. Conversely, to the extent that this reporting method creates the recognition of an unrealized loss on portfolio holdings, the Board and Administration hereby authorizes the recognition of additional fund equity for budgetary purposes which will allow for the spending of funds not recognized in CAFR fund equity yet available as a budgetary resource.

Performance Review

The investment committee will periodically establish a benchmark yield for the District investments. The current benchmark is defined as the yield on COLOTRUST. When comparing the performance of the District's portfolio, all fees and expenses involved with managing the portfolio should be included in the computation of the portfolio's rate of return.

Revisions to Procedures

This Statement of Investment Policy will be reviewed periodically by the investment committee, which shall always include the Board Treasurer as a member, and may be amended as conditions warrant by the Board. The Deputy Treasurer as necessary may update the data contained in the Annexes to this document (see Exhibit DFA-DFAA-E), provided the changes in no way affect the substance or intent of this Statement.

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CROSS REF.: DFA-DFAA-E, Exhibit to Policy DFA-DFAA, Statement of Investment Policy