

STATEMENT OF INVESTMENT PROCEDURE

The Board of Education of Thompson School District R2-J is charged with the responsibility to prudently and properly manage any and all funds of the District. Because these funds may be called upon, it is essential that absolute maturity horizons are identifiable for the purpose of liquidity. Moreover, these funds must be fully collateralized and appropriately authorized. The following Statement of Investment Procedure addresses the methods, procedures and practices which must be exercised to ensure effective and sound fiscal management.

SCOPE

These procedures shall apply to the investment of all financial assets and all funds of Thompson School District R2-J, Loveland, Colorado (hereinafter referred to as the "District") over which it exercises financial control. In order to effectively make use of the District's cash resources, all monies shall be pooled into one investment account and accounted for separately. The investment income derived from this account shall be distributed to the various District funds as directed by the Board of Education in accordance with the District's internal procedures.

OBJECTIVES

The District's principal investment objectives are:

- Preservation of capital and the protection of investment principal.
- Maintenance of sufficient liquidity to meet anticipated disbursements and cash flows.
- Diversification to avoid incurring unreasonable risks regarding securities owned.
- Attainment of a market rate of return equal to or higher than the performance measure established by the District's Director of Financial Services.
- Conformance with all federal, state and other legal requirements.

DELEGATION OF AUTHORITY

The ultimate responsibility and authority for investment transactions involving the District resides with the Executive Director of Business Services (hereinafter referred to as the "Director") who has been designated by the Board of Education as the investment officer. The Director may appoint other members of the District staff to assist him (her) in the cash management and investment function. Persons who are authorized to transact business and wire funds on behalf of the District are listed in Appendix I to this policy.

The Director shall be responsible for all investment decisions and activities, and shall establish written administrative procedures for the operation of the District's investment program consistent with these Investment Procedures. The District Superintendent may elect to appoint a Cash Management Advisory Board to monitor the District's investment policy. The investment officer, acting in good faith within these procedures, shall not be held personally liable for specific investment transactions.

The Board of Education may in their discretion, upon recommendation by the Director, appoint one or more Investment Advisors, registered with the Securities and Exchange Commission under the Investment Advisors Act of 1940, to assist the Director in the management of a portion(s) of the District's funds. To be eligible for consideration, an Investment Advisor shall demonstrate to the Director knowledge and experience in managing public funds. An appointed

Investment Advisor may be granted limited investment discretion within the guidelines of these Investment Procedures with regard to the District's assets placed under its management.

PRUDENCE

The standard of prudence to be used for managing the District's assets is the "prudent investor" rule which states, "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment considering the probable safety of their capital as well as the probable income to be derived."

ELIGIBLE INVESTMENTS

All investments will be made in accordance with the Colorado Revised Statutes (CRS) as follows: CRS 8-10.5-101, et seq. Public Deposit Protection Act; CRS 8-47-101, et seq. Savings and Loan Association Public Deposit Protection Act; CRS 8-60-101, et seq. U.S. Agency Obligations; CRS 22-32-107, et seq. Duties-Treasurer-School Board; CRS 22-40-105, et seq. Depositories-School Districts; CRS 24-75-601, et seq. Funds-Legal Investments for Governmental Units; and CRS 24-75-101, et seq. Local Governments -Local Government Pooling.

The District will limit its investments to the following types of securities and transactions:

- U.S. Treasury Obligations (T-Bills, T-Notes, T-Bonds)
- U.S. Treasury Strips (Book-entry U.S. Treasury securities whose coupon has been removed)
- Federal Agencies and Instrumentalities - the following only: Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corporation (FHLMC) and Farm Credit Bank of Wichita.
- Repurchase Agreements on the above securities, collateralized at a minimum of 102 percent of the purchase price of the Repurchase Agreement, with accrued interest accumulated on the collateral included in the calculation.
- Repurchase Agreements on mortgage backed securities authorized under CRS 24-75-601 (even though these securities are not authorized for outright purchase by the District), provided that the Repurchase Agreement shall be collateralized at a minimum of 103 percent of the purchase price and the collateral is market-to-the-market on a bi-weekly basis.
- Time Certificates of Deposit or savings accounts in state or national banks headquartered in Colorado which are state approved depositories (as evidenced by a certificate issued by the State Banking Board) and are insured by the FDIC. Certificates of deposit which exceed the FDIC insured amount shall be collateralized in accordance with the Colorado Public Deposit Protection Act.
- Time Certificates of Deposit or savings accounts in state or federally chartered savings and loans with headquarters in Colorado which are insured by the FSLIC. Deposits which exceed the FSLIC insured amount shall be collateralized in accordance with the Colorado Public Deposit Protection Act.
- Colorado Local Government Liquid Asset Trust (COLOTRUST) or any other investment pool for local governments which conforms to state law.

OTHER INVESTMENTS

It is the intent of the District that the foregoing list of authorized securities be strictly interpreted. The Board recognizes that CRS 24-75-601, Funds-Legal Investments for

Governmental Units as amended, authorizes investments additional to those listed under Eligible Investments. The Director may consider other CRS authorized investments as specific situations arise. The Director shall pre-approve all such investments as specific situations arise.

The Director shall pre-approve all such investments in writing and documentation of this approval shall appear as an appendix to this Statement of Investment Procedure.

The Board of Education acknowledges that securities other than those listed above may be owned by the District at the time this policy is adopted. Any new investment transactions shall be made in accordance with the guidelines of this Statement.

INVESTMENT DIVERSIFICATION

The District's objective is to diversify the investment instruments within the portfolio to avoid incurring unreasonable risk 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 and the securities markets.

The District may invest to the following maximum limits:

- 100% in U.S. Treasury Obligations, but not less than 50%
- 50% in qualified Certificates of Deposits.
- 50% in Federal Agencies or Instrumentalities.
- 100% in Repurchase Agreements collateralized by U.S. Treasury Obligations.
- Repurchase Agreements shall not exceed five year maturities without approval of the Board of Education.

INVESTMENT MATURITY AND LIQUIDITY

Investments shall be limited to maturities not exceeding five years. The District shall at all times maintain 20% of its total general fund investment portfolio in instruments maturing in 120 days or less.

OTHER INVESTMENT GUIDELINES

All investment transactions must be executed with brokers who are authorized in Appendix II of this Statement, and each transaction must be competitively transacted with at least two such dealers. In addition, a Master Repurchase Agreement must be executed between the District and an authorized dealer before any repurchase agreement shall be executed with that broker.

The purchase and sale of all securities shall be on a delivery versus payment basis (i.e., monies will not be released by the District until securities are received at the Federal Reserve Bank).

The District seeks an active, rather than passive, management of its portfolio assets. Assets may be sold as a loss only if the Director or the Investment Advisor feels that the sale of the security is in the best long term interest of the District.

SELECTION OF FINANCIAL INSTITUTIONS AND BROKER/DEALERS

The District shall maintain a list of authorized broker/dealers and financial institutions that 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 for authorization, a broker/dealer must be recognized as a Primary Dealer by the Federal Reserve Bank of New York. Broker/dealers not recognized as Primary Dealers may be considered by the District, provided

they furnish evidence to the District that they are in good standing with the NASD, are headquartered in the State of Colorado and that they provide the District with all of the information required by this section. Banks and Savings and Loan Associations must be members of the FDIC or FSLIC in order to be eligible for authorization. A Broker/Dealer Questionnaire that includes the most recent financial statements shall be maintained in Appendix II of this Investment Policy for each broker/dealer, bank or savings and loan that has been authorized by the District. Broker/dealers and other financial institutions will be selected on the basis of their expertise in cash management and their ability to service the District's account.

SELECTION OF BANKS AND SAVINGS AND LOANS

The District shall maintain a list of authorized banks and savings and loans which are approved to provide banking services or from whom the District may purchase Certificates of Deposit. To be eligible for authorization, a bank or savings and loan must meet the minimum credit criteria (described below) of a credit analysis provided by a commercially available bank rating service. Banks or savings and loans failing to meet the minimum criteria, or that, in the judgment of the Director, no longer offer adequate safety to the District, will be removed from the list. Although a bank or savings and loan is on the qualified list, it will still be required to pledge collateral on all deposits and investments, pursuant to state law.

The District shall utilize a commercially available bank rating service (Prudent Man Analysis, Inc.) to perform a credit analysis on banks and savings and loans. The bank rating guidelines will be calculated upon release of the preliminary reports of condition and reports on income from the Federal Reserve. Data obtained from the bank rating service will include factors covering the following: overall rating, liquidity policy, credit risk policy, interest rate policy, profitability and capital policy. Ratings will be done on a five point scale with one being excellent.

In order to meet the minimum credit criteria, a bank or savings and loan must meet each of the following credit rating requirements:

- The overall credit rating must be three or higher;
- The credit risk and capital policy rating must be three or higher, regardless of the overall credit rating; and
- The institution must qualify as a depository of public funds in Colorado as defined in CRS 22-40-105.

SAFEKEEPING

Investment securities purchased by the District, including the collateral on Repurchase Agreements, will be delivered by either book entry or physical delivery, and held in third party safekeeping by a Federal Reserve member financial institution designated as the District's depository. Designated depositories are listed in Appendix III. The trust department of an institution designated as a depository will be considered to be a third party for the purposes of safekeeping of securities.

Collateral pledged by banks and savings and loans on Time Certificates of Deposit that exceed insured amounts shall be held in third party safekeeping at one of the District's designated depositories.

It is the intent of the District that all securities be perfected in the name of the District.

REPORTING

An investment report shall be prepared, at least on a monthly basis, listing all of the investments held by the District, the current market valuation of investments, transaction summaries and performance results. The monthly investment report shall be submitted in a timely manner to the Board of Education. A record shall be maintained of all bids and offerings for securities transactions in order to insure that the District receives competitive pricing.

PERFORMANCE REVIEW

The Director shall review on a quarterly basis the portfolio's adherence to appropriate risk levels and to compare the portfolio's total return to the established investment objectives and goals.

The Director shall periodically establish a benchmark yield for the District's investments which shall be equal to the average yield on the U.S. Treasury security which most closely corresponds to the portfolio's actual weighted average maturity. 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.

ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall 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 shall disclose to the Director any material financial interests in financial institutions that conduct business within this District, and they shall further disclose any large personal financial/investment positions that could be related to the performance of this 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.

PROCEDURE REVISIONS

These Investment Procedures will be reviewed periodically by the Director and may be amended as conditions warrant by the Board of Education. The data contained in the Appendices to this document may be updated by the Director as necessary, provided the changes in no way affect the substance or intent of these Investment Procedures.

Revised August 16, 1989

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