

## ***Superintendent File: DFA-R***

### **CASH MANAGEMENT AND INVESTMENT REGULATION**

#### **District's Policy**

It is the policy of the District that all district funds allocated to a specific use but temporarily not needed shall be invested by the Chief Financial Officer and/or Director of Finance as designated by the Superintendent in accordance with state law and in a manner designed to accomplish the following objectives:

1. ensure the safety of funds;
2. ensure that adequate funds are available at all times to meet the financial obligations of the District when due;
3. ensure a market rate of return on the funds available for investment throughout the budget cycle; and
4. ensure that all funds are deposited and invested in accordance with state law.

#### **Scope**

The District is a corporate entity in the State of Colorado governed by a seven member Board. This Cash Management and Investment Regulation 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 Regulation 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.

#### **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 investment 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. To attain this objective, diversification is required to reduce overall portfolio risk while attaining market rates of return.
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.

### **Delegation of Authority**

Per Board Policy DFA, the Superintendent designates the Chief Financial Officer and Director of Finance as the chief 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 Regulation.

The Superintendent and other authorized persons acting in accordance with the Colorado statutes, the resolutions enacted by the Board, and the written Cash Management and Investment Policy and Regulation, 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.

The Superintendent, and/or his/her designee, 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 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 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.

**Security/Investment Maturity and Liquidity**

Securities and investments shall be limited to maturities not to exceed five years unless explicitly stated differently for specific types of securities listed below.

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

**Eligible Investments**

All investments shall be made in accordance with 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 Revised Statutes will be assumed to be part of this Policy immediately upon being enacted.

This Policy further restricts the investment of District funds to the following securities and it is the intent of the District that this list be strictly interpreted. If it is in the best interest of the District, to the extent permitted by law, the Superintendent can request from the Board of Education approval of an exception to the Policy.

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:

<b>LONG-TERM RATINGS</b>		
<b>Standard &amp; Poor's</b>	<b>Moody's Investors Service</b>	<b>Fitch Ratings</b>
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	AAAmf
AAAf	Aaa-bf	AAAf
A-1+	P-1	F1+
A-1	P-1	F1

Securities that have been downgraded below minimum ratings described herein may be sold or held at the District's discretion. The Portfolio will be brought back into compliance with Policy guidelines as soon as is practical. All securities and transactions shall be affected within generally accepted procedures and modern processes.

The diversification requirements shall apply to all of the District's funds and portfolios (the "Portfolio") in aggregate.

Eligible investments are as follows:

- 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 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:** General Obligation Bonds and 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 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 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 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 AAAs 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. Bankers Acceptances** with maturity not exceeding 180 days from the date of trade settlement and issued by and 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.

The District will strictly interpret the list of authorized securities identified in C.R.S. § 24-75-601.1.

### **Selection of Broker/Dealers and Financial Institutions Acting As Broker/Dealers**

The District shall purchase securities only from authorized broker/dealers. 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,
2. Qualify under Securities and Exchange Commission Rule 15c3-1 (Uniform Net Capital Rule).

Broker/dealers shall be selected on the basis of their expertise in public cash management and their ability to provide service to the District's account.

In the event that an external investment advisor is not used in the process of recommending a particular transaction in the Portfolio, authorized broker/dealers shall attest in writing that they have received a copy of this Policy.

If the District engages the services of an investment advisory firm to assist in the management of its Portfolio and to purchase and sell investment securities in accordance with this Policy, the firm shall be authorized to utilize its own approved list of broker/dealers.

### **Competitive Transactions**

All investment transactions shall be executed competitively with authorized broker/dealers. At least three broker/dealers shall be contacted for each transaction and their bid or offering prices shall be recorded. If the District is offered a security for which there is no other readily available competitive offering, quotations for comparable or alternative securities will be documented.

### **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 banks 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. 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 monthly report of safekeeping activity, including a list of month-end holdings.

**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.

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