

# Platte Canyon Water and Sanitation District

## Investment Policy

(Adopted by the Platte Canyon Water and Sanitation District Board of Directors on November 25, 2003, Revised August 1, 2016, April 27, 2018 and August 28, 2020)

### I. POLICY

It is the policy of the Platte Canyon Water and Sanitation District to invest public funds in a manner which will provide preservation of capital, meet the daily liquidity needs of the District, diversify the District's investments, conform to all cited state statutes governing the investment of public funds, and generate market rates of return. Funds of the District will be invested in accordance with this policy and CRS Section 24-75-601 as amended. This policy applies to investing the financial assets of all District funds, including the Government Fund, the Water and Sewer Activity Enterprise Fund and any future fund that may be established, unless specifically exempted from the provisions of this policy. This investment policy supercedes prior investment policies, or parts thereof.

### II. SCOPE

This investment policy governs all investment activities of the Platte Canyon Water and Sanitation District. The policy applies to all funds of the District including any new funds that may be created unless specifically exempted from the policy. All investment activities shall be performed in accordance with the investment policy.

### III. OBJECTIVES

The objectives of the District's investment program in order of their priority are:

A. Legality. All investments shall be made in accordance with CRS 24-75-601, CRS 32-4-544, CRS 32-1-1101(5), and any other Colorado Revised Statutes that may now, or in the future, address the investment of public funds.

B. Safety. All investments shall be made so as to ensure the preservation of capital and minimize credit risk and interest rate risk.

1. Credit Risk is the risk of loss due to a failure of a security issuer or banker. To minimize credit risk the District shall:

- Limit investments to those designated under the authorized investment section herein and to those investments having a credit rating at least equal to that specified in CRS 24-75-601.

- Pre-qualifying financial institutions, broker/dealers, and intermediaries with which the District does business.
  - Diversifying the investment portfolio to minimize potential losses.
2. Interest Rate Risk is the risk that market value of securities will fall due to changes in market interest rates. To minimize interest rate risk the District shall:
- Structure the investment portfolio so that investments mature in a manner to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities prior to maturity.
  - Invest operating funds in shorter term instruments.
- C. Liquidity. The investment portfolio shall remain sufficiently liquid to meet all operating and capital expenditure requirements that may be reasonably anticipated. The portfolio shall be structured so that investments mature concurrent with cash needs to meet anticipated demands. Furthermore, the portfolio shall consist largely of investments with active secondary or resale markets.
- D. Yield. The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account investment risk constraints and liquidity needs. Return on investment is of secondary importance to the safety and liquidity objectives described above.

#### IV. DELEGATION OF AUTHORITY

Authority to manage the investment portfolio of the Platte Canyon Water and Sanitation District is granted by the Board of Directors to the District manager. The District manager with the approval of the Board of Directors shall establish written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures shall include a list of employees and/or agents who are authorized to purchase, sell, and wire securities or funds; procedures for safekeeping of securities; delivery versus payment requirements; investment accounting requirements; and wire transfer agreement requirements. No person may engage in an investment transaction except as provided under the terms of this policy adopted by the Board of Directors and procedures established by the District manager and approved by the Board of Directors.

V. PRUDENCE

The standard of prudence to be used in managing the District's investment program shall be that of the "prudent person standard" and it shall be applied in the context of managing the overall portfolio. Investments shall be made with the judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in management of their own investment affairs, not for speculation, but for investment, considering the safety of their capital as well as the probable income to be derived from such investments.

Authorized investment officials acting in accordance with the investment policy, written procedures, and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion to the Board of Directors and appropriate action is taken to control adverse developments.

Notwithstanding any other provision contained herein to the contrary, no authorized investment official shall be liable for an error of judgment or mistake of law or for any loss suffered by the District in connection with the investment of District funds, except a loss resulting from willful misfeasance, bad faith, gross negligence, or a willful and wanton disregard of an authorized investment official's obligations and duties under this Policy.

To the extent permitted by law, the District shall indemnify, defend and hold harmless each authorized investment official from and against any and all claims, causes of action, demands, and liability of whatsoever kind or nature that an investment official sustains or incurs as a result of or in connection with the investment of District funds; provided, the investment official has acted in good faith and in compliance with the standards established by this Investment Policy and by law for the investment of public funds.

The District shall obtain and retain in force public officials liability and commercial crime insurance policies in amounts to be determined by the District Board of Directors.

VI. ETHICS AND CONFLICTS OF INTEREST

District officers and employees and authorized agents involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which should impair their ability to make impartial investment decisions. Officials, employees, and agents shall disclose to the Board of Directors any personal financial interests that may be related to the investment portfolio.

## VII. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

### A. Authorized Security Dealers (Broker/Dealers)

The District shall maintain a list of broker/dealers and financial institutions which are approved for investment purposes, and securities shall be purchased only from those authorized firms. To be designated as an authorized firm a security dealer must meet the following criteria:

1. Be designated as a Primary Dealer by the Market Reports Division of the Federal Reserve Bank.
2. Be a member of the National Association of Securities Dealers.
3. Be licensed to do business in the State of Colorado.
4. Have an office in the Denver metropolitan area.
5. Provide audited financial statements for the latest three years.
6. Complete a dealer questionnaire supplied by the District.
7. Execute a securities services agreement with the District.

## VIII. INVESTMENT PARAMETERS

### A. Portfolio Matching of Assets and Liabilities

To the extent possible, the District will attempt to match its investments with anticipated cash flow requirements. Investment maturities shall not exceed the limits specified under the investment profiles listed below and no maturity shall exceed ten (10) years.

### B. Diversification

It is the policy of the District to diversify its investment portfolio. Investments shall be diversified to eliminate risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of securities. Diversification of investments shall be reviewed periodically by the Board of Directors.

### C. Sale of Investments Prior to Maturity

In general, security investments made by the District are to be held to maturity. However, investments may be sold prior to their maturity date if the District

Manager determines that it is the best interest of the District to do so. Sales prior to maturity may also be made for financial management purposes.

Sale of securities that would result in a loss of principle must be approved by the Board of Directors prior to the sale.

## IX. AUTHORIZED AND SUITABLE INVESTMENTS

All investments for the District shall be made in accordance with Colorado Revised Statutes (CRS) as follows: CRS 11-10.5-101, et seq., Public Deposit Protection Act; CRS 11-47-1101, et seq., Savings and Loan Association Public Deposit Protection Act.; CRS 24-75-610, et seq., Funds – Legal Investments for Governmental Units; CRS 24-75-603, et seq., Depositories; and CRS 24-75-701 and 702, et seq., Local Governments – Local Government Pooling. Any revisions or extensions of the Colorado Revised Statutes will be assumed to be a part of this investment policy immediately upon enactment.

The current categories of securities and specific limitations for the Platte Canyon Water and Sanitation District are as described below. With respect to portfolio composition, the District Manager is authorized to divert from the stated percentage limitations by a maximum of ten percent (10%). The total amount of investments with maturing terms in excess of five (5) years is limited to a maximum of 25% of the District's investment portfolio.

### A. U.S. Government Securities

#### 1. Authority to Purchase

The District manager may invest in direct obligations of the U.S. Government including:

- Treasury Bills
- Treasury Notes
- Treasury Bonds

#### 2. Portfolio Composition

The investment portfolio may be comprised of one hundred percent (100%) direct government obligations.

#### 3. Maturity Limitations

The maximum length of time to maturity for any direct investment in U.S. Government obligations is ten (10) years.

B. U.S. Government Agency Securities

1. Authority to Purchase

The District manager may invest in obligations in which the principal and interest are backed by the full faith and credit of the U.S. Government and issued through U.S. government agencies. Such securities include:

- Government National Mortgage Association (GNMA)

2. Portfolio Composition

No more than thirty percent (30%) of the investment portfolio may be invested in U.S. government agency securities. In addition to the foregoing limitation, the total of all investments in U.S. Government Agency Securities and U.S. Government Instrumentalities shall not exceed fifty percent (50%) of the District's investment portfolio.

3. Maturity Limitations

The maximum stated maturity for an investment in a U.S. government agency security is ten (10) years from the date of purchase.

C. U.S. Government Instrumentalities

1. Authority to Purchase

The District manager is authorized to invest in U.S. Government Instrumentalities including debentures, discount notes, and callable bonds. These securities include obligations of:

- Federal National Mortgage Association (FNMA)
- Federal Farm Credit Bank (FFCB)
- Federal Home Loan Bank or its District Banks (FHLB)
- Federal Home Loan Mortgage Corporation (FHLMC)
- Federal Home Loan Mortgage Corporation participation certificates

2. Portfolio Composition

A maximum of forty-five percent (45%) of the investment portfolio may be invested in federal instrumentalities. A maximum of twenty percent (20%) of the portfolio may be invested in any one issuer. In addition to the foregoing limitations, the total of all investments in U.S. Government Agency Securities and U.S. Government Instrumentalities shall not exceed fifty percent (50%) of the District's investment portfolio.

3. Maturity Limitations

The maximum length to maturity for an investment in any U.S. Government Instrumentality is ten (10) years.

D. Interest Bearing Time Certificates of Deposits

1. Authority to Purchase

The District manager may invest in interest bearing time certificates of deposit or savings accounts in state or federal banks and state or federal savings and loan associations which meet the following criteria:

- a. The institution is a member of the Federal Deposit Insurance Corporation.
- b. The institution is designated as an eligible public depository pursuant to CRS 11-10.5-105.
- c. The institution shall provide collateral for all funds in excess of those funds insured by the Federal Deposit Insurance Corporation pursuant to CRS 11-10.5-106 through CRS 11-10.5-112.

2. Portfolio Composition

A maximum of fifty percent (50%) of the District's investment portfolio may be invested in certificates of deposit and savings accounts.

- a. Individual certificates of deposit and total investment in certificates of deposit at any single institution, including all branches of one institution, shall be limited to a maximum of \$100,000 or the current level of FDIC insurance. Said limitation may be exceeded by \$150,000 for those individual institutions that have received a green, three star rating and are designated a "Blue Ribbon Bank" by Veribanc, Inc. in its most recent quarterly Colorado bank and thrift institution rating report. However, the amount of District deposits exceeding the current level of FDIC insurance coverage, at any given time, shall be limited to a maximum of \$600,000.
- b. The amount of certificates of deposit that may be obtained through the Certificate of Deposit Account Registry Service (CDARS) may not exceed 10% of the District's investment portfolio.

3. Maturity Limitations

The maximum length to maturity for an investment in a certificate of deposit is ten (10) years.

E. Local Government Investment Pools (LGIPs)

1. Authority to Purchase

The District manager may invest in local government investment pools organized and operated in compliance with CRS 24-75-701 with prior Board of Directors approval of each LGIP.

2. Portfolio Composition

A maximum of fifty percent (50%) of the District's investment portfolio may be invested in LGIPs. A maximum of thirty-five percent (35%) of the portfolio may be invested in any one LGIP. The Board of Directors recognize that there may be circumstances in which it is deemed necessary and beneficial for investment in LGIP's to exceed the maximum of 50%. Such circumstances shall be ratified by the Board of Directors at the meeting following the exceedance of the threshold.

3. Maturity Limitations

Maturity limitations for the LGIP must be in compliance with Federal Securities Regulation 2A-7.

F. Money Market Mutual Funds

1. Authority to Purchase

The District manager may invest in no-load fixed income money market mutual funds authorized under CRS 25-75-601.1(k) with prior approval of each fund by the Board of Directors.

2. Portfolio Composition

A maximum of twenty-five percent (25%) of the District's investment portfolio may be invested in approved fixed income money market mutual funds.

X. INTERNAL CONTROLS

The District manager with the approval of the Board of Directors shall establish and maintain investment procedures and 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 subject to annual review by an external auditor.

Internal controls and investment procedures shall include but not necessarily be limited to the following:

A. Delivery Versus Payment

All securities purchased or sold will be transferred when possible only under the delivery versus payment method to ensure that funds or securities are not released until all criteria relating to a specific transaction are met. Securities will be held within the District's Treasury Direct Account or by a third party custodian as evidenced by safekeeping receipts.

B. Third-Party Safekeeping and Custodial Agreements



1. The District manager shall maintain a list of commercial banks that are authorized to provide depository, custodial, and other banking services for the District. To be eligible a bank must meet the following criteria:
  - Be a member of the Federal Deposit Insurance Corporation
  - Must qualify as a depository of public funds in the State of Colorado as defined in CRS 24-75-603 and as evidenced by a certificate issued by the State Banking Board
  - Must be covered by the Public Deposit Protection Act.
  - Must execute a safekeeping agreement with the District.
2. Investment securities purchased for the District will be delivered by either book entry or physical delivery and held in the District's Treasury Direct Account at the Federal Reserve Bank or in third party safekeeping by a Federal Reserve member financial institution approved as a District custodial bank. The District shall approve one or more financial institutions to provide safekeeping and custodial services for the District. The Board of Directors shall execute a written Safekeeping Agreement with each custodial bank prior to using the banks safekeeping services.
3. It is the intent of the District that purchased securities be perfected in the name of the District.
4. All book entry securities owned by the District shall be evidenced by a safekeeping receipt or the equivalent, issued to the District by the custodian bank stating that the securities are held in the Federal Reserve system in a "customer account/1030" or in a "trust account/1050" for the custodian bank which names the District as "customer".
5. All non-book entry (physical delivery) securities shall be held by the custodian bank's correspondent bank in New York or the bank's account with the Deposit Trust Corporation (DTC) and the custodian bank shall issue a safekeeping receipt or the equivalent to the District evidencing that the securities are held by the correspondent bank or the DTC for the District.

C. Other Investment Procedures and Internal Controls

Investment procedures and internal controls shall include, but not be limited to:

- separation of functions including transaction authority.
- delegation of authority to staff members and investment advisors.

- written confirmation of telephone, fax, or electronic transactions.
- guidelines for purchasing and selling securities with broker/dealers.

## XI. REPORTING

An investment report shall be submitted to the Board of Directors on a monthly basis. An investment transaction report shall include a list of all investments that have matured and a list of all investments purchased during the month. The list shall contain at least the following information:

- Date security purchased
- Date security matures
- Principal amount invested
- Face interest rate of security
- Amount paid for security
- Amount of interest paid or received
- Effective yield of investment

In addition to the transaction report, a summary monthly report of all District investments shall be prepared. This report shall include the following information:

- Name of institution or type of investment
- Date investment was purchased
- Date investment matures
- Effective yield
- Principal amount of investment
- Balance of investment at month end

The market value of the District's investment portfolio shall be calculated annually.

Authorized Investments	Description	Portfolio Composition (1)	Maturity Limitations (2)
U.S. Government Securities	<ul style="list-style-type: none"> <li>•Treasury Bills</li> <li>•Treasury Notes</li> <li>•Treasury Bonds</li> </ul> Full faith and credit of U.S. Government guarantee	100%	10
U.S. Government Agency Securities Issued by Federal Government Agencies	<ul style="list-style-type: none"> <li>•Government National Mortgage Association - GNMA</li> </ul> Full faith and credit U.S. Government guarantee	30%	10
U.S. Government Instrumentalities Issued by Government Sponsored Enterprises (usually federally chartered but privately-owned corporations)	<ul style="list-style-type: none"> <li>•Federal National Mortgage Association - FNMA</li> <li>•Federal Farm Credit Bank - FFCB</li> <li>•Federal Home Loan Bank - FHLB</li> <li>•Federal Home Loan Mortgage Corporation - FHLMC</li> <li>•Federak Home Loan Mortgage Corporation Participation Certificates</li> </ul> Not backed by the full faith and credit of U.S. government	45% 20% per issuer	10
Interest Bearing Time Certificates of Deposit	<ul style="list-style-type: none"> <li>•Certificates of Deposit</li> <li>•Savings Accounts</li> </ul> Deposits limited to current FDIC insurance coverage level (\$250,000) Deposit may > FDIC coverage level by \$150,000 if deemed a "Blue Ribbon Bank" Max deposits exceeding FDIC insurance coverage is limited to \$600,000 Certificate of Deposit Account Registry Service (CDARS)	50% 10%	10
Local Government Investment Pools (LGIPs)	<ul style="list-style-type: none"> <li>•COLOTRUST PRIME: may invest in U.S. Treasury securities, U.S. government agencies and instrumentalities, and repurchase agreements collateralized by U.S. Treasury securities, government agencies or instrumentalities, deposits permitted by CRS and certain money market funds.</li> <li>•COLOTRUST PLUS+, CSAFE Cash and Colorado CORE portfolios may also invest in the highest rated commercial paper.</li> </ul>	50% 35% per any one LGIP Board may ratify excess	N/A
Money Market Mutual Funds	<ul style="list-style-type: none"> <li>•No-load fixed income money market mutual funds</li> </ul> Requires prior approval of each fund by Board of Directors	25%	N/A

(1) District Manager is authorized to divert from stated % limitations by a maximum of 10%

(2) Total amount of investments with maturing terms in excess of 5 years is limited to a maximum of 25% of the District's investment portfolio

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