

Financial Management**Investment of District Funds**

In achieving the District's investment objectives, District officials will be guided by the following criteria:

1. Legality - District funds will be invested only as permitted by the Constitution and Statutes of the State of Missouri as well as federal law and applicable federal regulations. Investments outside the legal requirements will not be permitted.
2. Safety - Safety of the District funds is the foremost objective of the District's investment program. Investments will be made in a manner that seeks to ensure the preservation of capital.
3. Liquidity - The District's investments will remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. Of necessity, District investments will consist largely of securities with active secondary or resale markets.
4. Yield - District investments will be designed with the objective of obtaining a market rate of return throughout budgetary and economic cycles. However, rate of return is less important than realizing the safety and liquidity objectives.

Permissible Investments

The following categories of investments are authorized for investment of District funds:

1. Time Deposits - Funds may be invested as provided in Board Policy and Regulation 3140 - Banking Services, and as authorized by the State Treasurer's Office.
2. Linked Deposits - Funds deposited can be invested at a minimum rate of 2% and must be 100% collateralized with approved securities.
3. United States Securities

U.S. Government Agency Coupons and Zero Coupon Securities - Bullet coupon bonds with no embedded options and with final maturities of five (5) years or less.

U. S. Government Agency Discount Notes - Purchased at a discount with maximum maturities of one (1) year.

U. S. Government Agency Step-Up Securities - The coupon rate is fixed for an initial term. At a coupon date, the coupon rate rises to a new, higher fixed term. This provision is restricted to securities with final maturities of five (5) years or less.

U. S. Government Agency Collateral Securities - Restricted to securities callable at par only with final maturities of five (5) years or less.

U. S. Government Agency Floating Rate Securities - The coupon rate floats off one index and resets at least quarterly with final maturities of three (3) years or less.

U. S. Government Mortgage Backed Securities - Restricted to securities with stated final maturities of five (5) years or less.

4. Commercial Paper - Investments are limited to paper which has received the highest letter and numerical ranking (A1/P1) as provided by Standard & Poor's and Moody's. Issues are limited to corporations that are organized and operating in the United States and have a total commercial paper

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program in excess of \$500,000,000 and have long term debt ratings, if any, of "A" or better from Standard & Poor's and Moody's. Such purchases may not exceed 180 days to maturity.

5. Banker's Acceptances - Issuing banks for such bills of exchange or time drafts must have the highest letter and numerical rating by Standard and Poor's and Moody's. Such banks must be organized and operating in the United States. Banker's acceptance agreements may not have maturity dates exceeding 180 days.

6. Repurchase Agreements - Such agreements must be purchased through approved broker/dealers and may not be entered into for periods in excess of ninety (90) days. Approved broker/dealers must have a signed Public Securities Association Master Repurchase Agreement on file with the State Treasurer's Office. Overnight and open repurchase agreements must be collateralized at 101% with approved securities. Term repurchase agreements must be collateralized at 102% with approved securities. The market value of all repurchase agreement collateral will be reviewed at least weekly to determine collateral adequacy.

Prohibited Transactions

1. Leveraged Borrowing for Investment Purposes - Leveraging is prohibited whether through a reverse repurchase agreement or otherwise.

2. Use of "Structured Note" - (e.g. inverse floaters, leveraged floaters, and equity-linked securities) are not permitted. Investment in any instrument, which is commonly considered a "derivative" instrument (e.g. options, futures, swaps, caps, floors, and collars) is prohibited.

3. Contracting to sell securities not yet acquired in order to purchase other securities for purposes of speculation on developments or trends in the market is prohibited.

Collateralization

All deposits placed in financial institutions must be at least 100% collateralized with approved securities. All securities, which serve as collateral against the deposits of a depository institution must be safe-kept at a nonaffiliated custodial facility. Depository institutions pledging collateral against deposits must, in conjunction with the custodial agent, furnish the necessary custodial receipts.

Asset Allocation

District investment will be diversified to minimize the risk of loss resulting from over concentration of assets in specific maturity, specific issuer, or specific classes of securities. At a minimum District investments will fall within the following minimum and maximum allocations.

<u>INVESTMENT TYPE</u>	<u>MINIMUM ALLOCATIO</u>	<u>MAXIMUM ALLOCATION</u>
Time Deposits	0%	50%
U.S. Treasuries/Securities having principal and interest guaranteed with the U.S. Government	0%	95%
U.S. Government Agencies and Government sponsored Enterprises	0%	70%
U.S. Government Agency Callable Securities	0%	15%
U.S. Government Floating Rate Securities	0%	15%
Commercial Paper and Banker's Acceptance	0%	40%

Internal Controls

In keeping with the emphasis the Board has placed in ensuring the safety of public funds, the District will maintain and enhance its internal controls of funds. Every reasonable effort will be made to minimize the potential for loss of funds from fraud, employee error, misrepresentations by third parties, unanticipated changes in financial markets or imprudent actions by employees. Investments that are downgraded below the minimum acceptable rating levels will be reviewed for possible sale within a reasonable time period. At least quarterly, the District's investments will be revalued to reflect prevailing market prices.

Internal controls to achieve investment safety include, but are not limited to:

1. Separation of duties;
2. Separation of transaction authority from accounting and record keeping;
3. Custodial safekeeping;
4. Clear delegation of authority;
5. Written confirmation of telephone transactions;
6. Documentation of transaction strategies;
7. Monitoring of ethics and conflict of interest provisions provided in this policy/regulation.

Reporting

The Superintendent/designee will direct preparation of a report at least quarterly to the Board concerning the current status and performance of the District's investments. The quarterly investment report will include but not be limited to:

1. Investment type, issuer, maturity, par value, and dollar amount invested in all securities and monies held by the District.
2. Funds or investments managed by contracted parties.
3. Market value as of the date of the report and the source of valuation.
4. Citation of compliance with the District's investment policy/regulation or an explanation for noncompliance.
5. Statement of the ability or inability to meet expenditure requirements for six (6) months, as well as an explanation of why funds will not be available if that is the case.
6. Statement of the percentage of the District total investments which comprise each category of the investment set out herein.
7. Rating levels for commercial paper and bankers acceptances.

The quarterly investment report will be delivered at an open session of a regular meeting of the Board. A copy of the District investment policy/regulation will be provided to each outside manager of District investment funds. Commitment to compliance with this policy/regulation will be a precondition for initial placement of District funds. Adherence to District policies/regulations will be condition for continued retention as a manager of District funds