



AMERICAN ACADEMY  
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## Investment Policy

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*This policy was approved by the American Academy Board of Directors on August 20, 2019*

### **Purpose**

American Academy public funds shall be in a manner that will provide preservation of capital, meet the daily liquidity needs of American Academy, diversify American Academy investments, conform to all local and state statutes governing the investment of public funds, and generate market rates of return.

This Investment Policy addresses the methods, procedures and practices, which ensure effective and judicious fiscal and investment management of American Academy funds.

### **Scope**

This Investment Policy shall apply to all funds accounted for in American Academy's Annual Audit.

Cash shall be pooled for investment purposes. The investment income derived from the pooled investment account shall be allocated to the contributing funds based upon the proportion of the respective balances relative to the total pooled balance in the investment portfolio. Interest earnings shall be distributed to the individual American Academy funds on a monthly basis.

### **Investment Objectives**

American Academy principal investment objectives are:

- Preservation of capital and protection of investment principal.
- Maintenance of sufficient liquidity to meet anticipated cash flows.
- Attainment of a market rate of return.
- Diversification to avoid incurring unreasonable market risks.
- Conformance with all applicable American Academy policies, State statutes and Federal regulations.
- Maximization of funds available for investment.
- Maximization of investment earnings consistent with the objectives outlined in this section..

### **Delegation of Authority**

The Executive Director of Schools or designee is vested with responsibility for managing the American Academy investment program and for implementing this Investment Policy. No other persons may engage in investment transactions except as expressly provided under the terms of this Investment Policy.

The Executive Director of Schools or designee shall establish procedures that are designated to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of American Academy.

American Academy's Executive Director of Schools may engage the support services of outside investment advisors with respect to its investment program, so long as it can be demonstrated that these services produce a net financial advantage or necessary financial protection of American Academy financial resources. Such services may include engagement of financial advisors in conjunction with debt issuance, portfolio management, third party custodial services, and appraisals by independent rating services.

### **Prudence**

The standard of prudence to be used for managing American Academy investment program is the "prudent investor" standard applicable to a fiduciary, which states that a prudent investor "shall exercise the judgment and care, under circumstances then prevailing, which men of prudence, discretion, and intelligence exercise in the management of property of another, not in regard to speculation but in regard to the permanent disposition of funds, considering the probable income as well as probable safety of capital." (Colorado Revised Statutes 15-1-304, Standard for Investments.)

American Academy's overall investment program shall be designed and managed with a degree of professionalism that is worthy of public trust. American Academy recognizes that no investment is totally without risk and that its investment activities are a matter of public record. Accordingly, American Academy 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 American Academy.

The Executive Director of Schools and other authorized persons acting in accordance with established procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided appropriate action is taken to control adverse developments and any deviations from expectations are reported to the Board of Directors in a timely fashion..

### **Ethics and Conflict of Interest**

American Academy employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of American Academy's investment program or that could impair or create the appearance of an impairment of their ability to make impartial investment decisions. Employees shall disclose to the Executive Director of Schools any material financial interest they have in financial institutions that conduct business with American Academy, and they shall subordinate their personal investment transactions to those of American Academy.

### **Authorized Securities and Transactions**

All investments will be made in accordance with the Colorado Revised Statutes as follows: C.R.S. 11-10.5-101, et seq. Public Deposit Protection Act; C.R.S. 24-75-702, local governments – authority to pool surplus funds. Any revisions or extensions of these sections of the statutes will be assumed to be part of this Investment Policy immediately upon being enacted.

This Investment Policy further restricts the investment of American Academy funds to the following types of securities and transactions:

- 1) U.S. Treasury Obligations: Treasury bills, Treasury notes, Treasury bonds and Treasury STRIPS with maturities not exceeding five years from the date of trade settlement.
- 2) Federal Instrumentality Securities: Debentures, discount notes, callable securities, step-up securities and stripped principal or coupons with maturities not exceeding five years from the date of trade settlement issued by the following only: Federal National Mortgage Association (FNMA), Federal Farm Credit Banks (FFCB), Federal Agricultural Mortgage Corporation (FAMCA), Federal Home Loan Banks (FHLB), Federal Home Loan Mortgage Corporation (FHLMC), and Private Export Funding Company (PEFCO).

- 3) Repurchase Agreements: with a termination date of 180 days or less collateralized by U.S. Treasury obligations, Federal Agency securities or Federal Instrumentality securities listed in 1. and 2. above with a final maturity not exceeding ten years. 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 by American Academy's third-party custodian bank, and the market value of the collateral securities shall be marked-to-the market daily. The financial institution that holds American Academy's securities for safekeeping is known as the "custodian" (Please see the "Safekeeping" section for additional information).
- 4) Commercial Paper: issued by domestic corporations with an original maturity of 270 days or less that is rated at least A-1, P-1 or the equivalent at the time of purchase by at least two NRSROs and rated not less by all NRSROs that rate the commercial paper. If the commercial paper issuer has senior debt outstanding, it must be rated at least AA-, Aa3 or the equivalent at the time of purchase by at least two NRSROs and rated not less by all NRSROs that rate the issuer. American Academy may invest up to 10% of the book value of its investment portfolio in these securities as long as the aggregate investment in commercial paper and corporate debt does not exceed 20% of American Academy investment portfolio, and no more than 10% of American Academy investment portfolio may be invested in the obligations of any one issuer.
- 5) Corporate Debt: with a maturity not exceeding three years from the date of trade settlement, issued by any corporation or bank organized and operating within the United States. The debt must be rated at least AA-, Aa3 or the equivalent by at least two NRSROs, and rated not less by any NRSRO that rates it. American Academy may invest up to 20% of the book value of its investment portfolio in these securities as long as the aggregate investment in commercial paper and corporate debt does not exceed 20% of the American Academy investment portfolio, and no more than 10% in the American Academy investment portfolio may be invested in the obligations of any one issuer.
- 6) Certificates of Deposit (CD): with a maturity not exceeding five years 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. Negotiable CD's with a maturity not to exceed five years and principal investment (plus on year's accrued interest) not to exceed the FDIC insured limit at the time of purchase.
- 7) Local Government Investment Pools: authorized under C.R.S. 24-75-702 that: a) are "no-load" (no commission or fee shall be charged on purchases or sales of shares); b) have a constant net asset value of \$1.00 per share; c) limit assets of the pool to those authorized by state statute; d) have a maximum stated maturity and weighted average maturity in accordance with S.E.C. Rule 2a-7 of the Investment Company Act of 1940; and e) have a rating of AAA or the equivalent by one or more NRSROs.
- 8) Municipal Bonds: with a maturity not exceeding five years from the date of trade settlement, issued by any state in the United States, the District of Columbia, or any territorial possession of the United States or of any political subdivision, institution, department, agency, instrumentality, or authority of any of such governmental entities. A general obligation debt must be rated at least AA by at least two NRSROs. A revenue obligation debt must be rated at least AA by at least two NRSROs. American Academy may invest up to 20% of American Academy investment portfolio, and no more than 10% of the American Academy investment portfolio may be invested in the obligations of any one issuer.

The foregoing list of authorized securities and transactions shall be strictly interpreted. Any deviation from this list must be pre-approved by the Board of Directors.

American Academy may, from time to time issue bonds, the proceeds of which must be invested to meet specific cash flow requirements. In such circumstances and notwithstanding the paragraph immediately above, the reinvestment of debt issuance or related reserve funds may, upon the advice of Bond Council or financial advisors, deviate from the provisions of this Investment Policy with the written approval of the Executive Director of Schools or designee.

### **Investment Diversifications**

American Academy shall diversify its investments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. Nevertheless, the asset allocation in the investment portfolio should be flexible depending upon the outlook for the economy, the securities markets and American Academy's anticipated cash flow needs.

### **Investment Maturity and Liquidity**

The investment portfolio shall remain sufficiently liquid to meet all cash requirements that may be reasonably anticipated. To the extent possible, investments shall be matched with anticipated cash flows and known future liabilities. Investments shall be limited to maturities not exceeding five years from the date of trade settlement.

### **Selection of Broker/Dealers**

The Executive Director of Schools or designee shall maintain a list of broker/dealers approved for investment purposes, and it shall be the policy of American Academy 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 its holding company structure,
- 2) Report voluntarily to the Federal Reserve Bank of New York,
- 3) Qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (Uniform Net Capital Rule).

The Executive Director of Schools or designee will select broker/dealers on the basis of their expertise in public cash management and their ability to provide service to American Academy's account. Each authorized broker/dealer shall be required to submit and annually update a American Academy approved Broker/Dealer Information Request form that includes the firm's most recent financial statements.

American Academy may purchase commercial paper from the direct issuers even though they are not on the approved broker/dealer list as long as they meet the criteria outlined in item 5 of the Authorized Securities and Transactions section of this Investment Policy.

### **Competitive Transactions**

All investment transactions shall be conducted 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 American Academy is offered a security for which there is no other readily available competitive offering, quotations for comparable or alternative securities will be documented.

### **Safekeeping and Custody**

The Executive Director of Schools or designee shall approve one or more banks to provide safekeeping and custodial services for the American Academy. An American Academy approved safekeeping agreement shall be executed with each custodian bank. Each financial institution that holds American Academy securities in safekeeping is known as a "custodian" bank. The American Academy safekeeping banks shall qualify as eligible public depositories as defined in C.R.S. 11-10.5-103.

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 American Academy. Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

All investment securities, except non-negotiable Certificates of Deposit, Local Government Investment Pools and Money Market Mutual Funds, purchased by the American Academy will be delivered by either book entry or physical delivery and will be held in third-party safekeeping by the American Academy approved custodian bank, its correspondent bank or the Depository Trust Company (DTC).

All Fed wireable book entry securities shall be evidenced by a safekeeping receipt or a customer confirmation issued to the American Academy by the custodian bank stating that the securities are held in the Federal Reserve system in a Customer Account for the custodian bank which will name the American Academy as "customer".

All Depository Trust Company (DTC) eligible securities shall be held in the custodian bank's DTC participant account and the custodian bank shall issue a safekeeping receipt evidencing that the securities are held for the American Academy as "customer".

The American Academy custodian will be required to furnish the American Academy a monthly report of safekeeping activity, including a list of month-end holdings.

### **Performance Benchmarks**

The investment portfolio shall be designed to attain a market rate of return throughout budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities, and cash flow requirements. The performance of the investment portfolio shall be compared to the average yield on the U.S. Treasury security that most closely corresponds to the investment portfolio's weighted average effective maturity. When comparing the performance of the investment portfolio, all fees involved with managing it shall be included in the computation of its rate of return net of fees.

### **Reporting**

The Executive Director of Schools or designee will submit, at minimum, a quarterly report to the Board of Directors listing the investments held by the American Academy, book and market values of the investments and performance results. The report shall include a summary of investment earnings during the period.

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### **POLICY HISTORY**

*Original:* approved by the BOD on August 20, 2019