

Financial Policies

Administrative Regulation

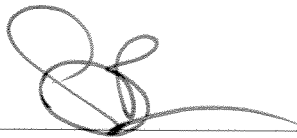
Effective Date: January 1, 2011

PURPOSE

The following financial management policies establish the framework for the City's overall fiscal planning and management. It is the intent of the City that these policies demonstrate to residents, the credit rating industry, municipal bond investors, auditors, and the State that the City is committed to sound financial management and fiscal integrity.

APPLICATION

This policy applies to all divisions of the municipal government of the City of Colorado Springs.

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke extending to the right.

Steve Bach, Mayor

2011

City of Colorado Springs

Financial Policies

Effective January 1, 2011

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Section 1 - Financial Management Overview

The City of Colorado Springs (“City”) is a Colorado home rule municipality operating under its City Charter. The City functions under the direction of an elected City Mayor and a nine-member City Council.

The following financial policies adopted by the Mayor of Colorado Springs, Colorado on September 23, 2011 establish the framework for the City’s overall fiscal planning and management. It is the intent of the City that these policies to demonstrate to residents, the credit rating industry, municipal bond investors, auditors, and the State that the City is committed to sound financial management and fiscal integrity. The goals of the City’s financial policies are:

- I. To support sustainable municipal services.
- II. To have a capital improvement program that adequately maintains and enhances the public’s assets over their useful life.
- III. To provide cost effective services to citizens and visitors.
- IV. To provide financial and other service information to enable citizens to assess the costs and results of City Services.
- V. To follow prudent and professional financial management practices to assure residents of the City of Colorado Springs and the financial community that our City government is well managed and in sound fiscal condition.

This document is intended to be an overview of various financial policies and is not meant to be a detailed procedures source or detailed department specific source. If the material in this document does not answer a specific question, please contact the Finance Department.

Detailed City department policies provide more specific direction on how to achieve identified goals and are the basis for consistent actions that move the community and organization toward sound financial management decisions.

Section 2 - General Financial Policy

I. Fund Accounting

A fund is a separate, self-balancing set of accounts used to account for resources that are segregated for specific purposes in accordance with special regulations, restrictions or limitations.

The separation of the City's activities into funds allows the City to maintain the appropriate (required) controls over expenditures for each activity and to report on specific activities to interested citizens.

Fund Types: All funds are classified into six (6) fund types. These fund types, and the purpose of each are:

- a. General Fund - To account for the administrative, police and fire protection, parks, recreation, community development, infrastructure and technology functions of the City. Principal sources of revenue consists of property taxes, franchise and occupancy taxes, sales and use taxes, licenses and permits, grants, charges for services, intergovernmental revenue, interest earnings, and operating transfers from other funds. Major expenditures are for personnel costs, materials and supplies, purchased services, capital outlay and transfers to other funds.
- b. Special Revenue Funds - To account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. One or more specific restricted or committed revenues should comprise a substantial portion of the fund's resources but may also include other restricted, committed, and assigned resources.
- c. Capital Projects Fund - To account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Outflows financed by proprietary funds and assets held in trust are excluded.
- d. Debt Service Fund - To account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.
- e. Enterprise Funds (also called Business or Proprietary Funds) - To account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user determination of revenues earned, expenses incurred, and/or net income as appropriate for capital maintenance, public policy, management control, accountability, or other purposes.
- f. Fiduciary Funds - To account for resources received and held by the City in a fiduciary capacity. Disbursements from these funds are made in accordance with the trust or other agreements or conditions of the trust for the particular source of funds.

II. Accounting and Auditing Policies

The City maintains a system for financial monitoring, control and reporting for all operations, funds and agencies in order to provide effective means to ensure that

overall City goals and objectives are met and to instill confidence in the City's partners and investors that the City is well-managed and fiscally sound.

The City maintains its accounting records and reports on its financial condition and results of operations in accordance with State and Federal law and regulations and generally accepted accounting principles in the United States (GAAP), which are set by the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB).

Annually, an independent firm of certified public accountants performs a financial and compliance audit of the City's financial statements. Their opinions are included in the City's Comprehensive Annual Financial Report (CAFR) and the Report on Compliance with the Single Audit Act of 1984.

III. Basis of Accounting and Reporting Focus

The term "basis of accounting" refers to when revenues, expenses, expenditures - and the related assets and liabilities – are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made. The following are the basis of accounting available for use by the City:

- a. Cash Basis – Transactions are recognized only when cash is received or disbursed.
- b. Accrual Basis – Transactions are recognized when the economic event occurs, regardless of whether or not cash is received or paid. Proprietary funds, which encompass the enterprise funds, use the accrual basis of accounting. These funds have an income measurement/capital maintenance focus. The accrual basis of accounting is used by private enterprises as well.
- c. Modified Accrual Basis – Expenditure transactions are recognized when incurred. Revenues are recognized when they are both measurable and available to finance the expenditures of the current period. Governmental funds, including general, special revenue, debt service, and capital projects, use the modified accrual basis of accounting. For a revenue to be recognized in a governmental fund, it must be "measurable" (the amount must be known or be reasonably estimated), and it must be "available" to finance the expenditures of the same fiscal period for which the revenue is recorded. "Available," in this case, means collectible in the current period or soon enough thereafter to be used to pay liabilities of the current period. For purposes of consistency, that time-frame shall be sixty (60) days which was set for purposes of Property tax revenues.

Reporting Focus (Budget vs. GAAP) - This concept is used to refer to the way transactions are recorded and reported for compliance with Colorado Budget Law as opposed to financial statement presentation in conformance with GAAP.

- a. Budget Basis - The City's monthly statement of revenues and expenditures are reported during the fiscal year on what is informally called a "budget basis." The

City's transactions are recorded throughout the year in accordance with the financial statement requirements as set forth within the Colorado Revised Statutes. By recording the transactions in general compliance with this law, the revenues and expenditures can be more easily monitored on a monthly basis to ensure compliance with the legal requirements as set forth within the Colorado Revised Statutes.

- b. GAAP - At the end of the fiscal year, adjustments are made to present the financial information in a format that is comparable to that used by other local government units around the country. The standards for this reporting are referred to as "generally accepted accounting principles" (or GAAP basis). The adjustments to convert the City's financial records from "budget basis" to "GAAP basis" are made to ensure that the City's financial statements are fairly and consistently presented in conformance with GAAP.

IV. Internal Control Structure

The City maintains an internal control structure consisting of the following three elements:

- a. Control Environment – an overall attitude and awareness of actions as they influence the City.
- b. Accounting System – an effective accounting system which results in identification and recording of all valid transactions, description on a timely basis of the type of transaction in sufficient detail to permit proper classification of the transaction for reporting purposes, recording of the transaction in the correct time period and proper presentation of all transactions and related disclosures in the financial statements.
- c. Control Procedures – proper authorization of transactions and activities, adequate segregation of duties, adequate documentation and records, adequate safeguards regarding access and use of assets and records, and independent checks on performance.

Funds are categorized by standard GAAP functional classifications; and the development of new funds, departments, programs and accounts shall be approved by the Finance Department.

Each fund in the City's budget will have an introductory statement of purpose which shall consist of the intent of the fund; sources of revenue and restricted revenues, if any; required reserves and justification for such reserves.

V. Financial Monitoring

The Budget Manager is charged with the primary responsibility for monitoring the fiscal implementation of the approved budget. In addition, the Budget Office and Finance

Department will work closely with other departments to apprise them of their financial status and of any potential issues that may affect their budgets. The Budget Office and the Finance Department may review fiscal issues affecting any part of the City organization. This activity supports the monitoring role and focuses on the protection of City assets and the legal, efficient, and effective use of City resources. Together the Budget Manager and the Finance Director will provide City Council with regular reports on the City's finances including a financial report containing budget versus actual revenue and expense information. These reports fulfill a requirement in City Charter §3-140.

Individual departments are responsible for monitoring and managing their resources to ensure that the legal and administrative appropriation to the department is not overspent and that all expenditures and uses of City resources are in conformity with City, State, and federal ordinances, statutes, policies, and regulations.

- a. Legal Appropriation - Each department is responsible for ensuring that expenditures do not exceed the legal appropriation level for their department within each fund, operating and capital expenditures combined.
- b. Revenues – Each department is responsible for monitoring revenues that are collected as a result of programs administered. If a significant change in the estimate for the current or future fiscal year's results, the department must contact the Budget Office to advise of the change.

VI. Audit

The Charter and Code of the City of Colorado Springs, State of Colorado statutes, and federal laws and regulations will be followed wherever they apply to the financial activities of the City. The source of historical financial information about the City will be the central accounting system as operated and maintained by the Finance Department. The source of all current and future budget information, including spending plans, revenues, and expenditures, is the annual budget document.

- a. Internal Audit - The City of Colorado Springs Office of the City Auditor evaluate the adequacy of financial controls, systems, records and organizational operations. They provide Council, management and employees objective analysis, appraisals and recommendations for improving systems and activities.
- b. External Audit - In accordance with City Charter §3-160, an annual external audit will be performed by an independent public accounting firm with the subsequent issuance of a financial report and opinion.
- c. Single Audit - Per OMB Circular A-133, all non-federal entities that expend \$500,000 or more in a year on federal awards, either as the grantee or the sub-grantee, shall have a single or program-specific audit conducted for that year in accordance with the provisions of the circular guidance. The single audit encompasses both the

entity's financial statements and the federal awards received by the entity; whereas a program-specific audit will audit one federal program and can only be used when the grantee receives grant awards only from one federal program. The city contracts with an external firm to conduct a single audit on an annual basis. The awarding agency may also specify additional audit requirements in the grant award letter or grant guidance.

Section 3 - Budget Policy

I. Overview

The annual budget is an operational plan which provides the Mayor and City Council with the financial information necessary to guide resource allocation to accomplish the goals and objectives of the City. The budget details how municipal services will be provided. The budget, along with the annual appropriation ordinance and any supplemental appropriations, provide the basis for the control of expenditures and set the financial guidelines for the City. The basic legal requirements and budget process are defined by the State Constitution and City Charter.

II. Budget Philosophy

The City is committed to developing a sound financial plan for the operations and capital improvements that meet the City's Strategic Plan goals. The City provides a wide variety of services to residents and visitors. It is the responsibility of the Mayor and City Council to adopt a budget and manage the available resources to best meet the service needs for the overall good of the community. To achieve this, the City:

- a. Utilizes conservative growth and revenue forecasts;
- b. Prepares plans for operations and capital improvements;
- c. Allows staff to manage the operating and capital budgets, with City Council approving the allocations for both;
- d. Adopts financial policies;
- d. Establishes budgets for all funds based on adopted policies;
- e. Appropriates the budget in accordance with the City Charter and State Constitution; and
- f. Develops a budget that minimizes adverse impacts to the community.

III. Budget Preparation Process

The City identifies important community outcomes and develops a financial and service delivery plan to achieve those outcomes. City Council allocates funding based on

current priorities and results, and does not simply increase the prior year's budget. Each year, the Budget Office prepares a forecast for the following year's budget. In May, the Budget Office prepares a budget manual with the Mayor's budget objectives and guidelines for developing the following year's budget for the departments use. In June and July, departments develop revenue and expense projections for the following year and submit them to the Budget Office. In July, departments present their budget to the Budget Review Committee for review and analysis. Not later than the first Monday in October, the Mayor submits a preliminary budget to City Council for review. In October, the citizens of Colorado Springs provide their feedback on the proposed budget and City Council holds work sessions on each department's proposed budget. In November, City Council may amend the Mayor's proposed budget. In December, City Council approves the budget and appropriations ordinances. The Mayor may then veto specific lines of the budget. The City Council can override the Mayor's vetoes with six votes. By December 31st City Council must adopt the following year's budget.

IV. State Statutory Requirements

The State Statute indicates that no later than October 15 of each year, the budget shall be submitted to the governing body. As a result, the Mayor presents the recommended budget for the ensuing fiscal year to City Council no later than October 15th of each year.

V. Colorado Springs City Charter Requirements

a. Budget Fiscal Year - Colorado Springs City Charter§7-10.

The fiscal year of the City shall commence on the first day of January and end on the last day of December of each year.” (1909; 1977)

b. Mayor's Powers and Duties - Colorado Springs City Charter§3-70 (e).

Every ordinance finally passed by the Council shall be presented to the Mayor within forty-eight hours thereafter for final adoption. If the Mayor approves such ordinance, he or she shall finally adopt it by signing it within five days after receiving it. If the Mayor disapproves, the ordinance shall be returned to the Council within five days with the Mayor's objections in writing. If then six (6) of the members vote to pass the same over the Mayor's veto, it shall become a finally adopted ordinance, notwithstanding the objections of the Mayor. If the Mayor does not return the ordinance with written objections within the time specified, it shall become finally adopted as if the Mayor had approved it. (2010)

(1) In any ordinance appropriating funds, the Mayor may disapprove specific line items without disapproving the entire ordinance. After disapproval of specific line items, the ordinance shall be returned to Council to complete the over-ride process as outlined above as to each line item vetoed. (2010)

(2) Notwithstanding the foregoing subsections, the Mayor shall not have power to disapprove by veto the following listed types of ordinances, this limitation applying only to the following specifically identified ordinances: an ordinance accomplishing any quasi-judicial act; an ordinance approving bonds to be issued by any City enterprise; an ordinance pertaining to Article VI, "Utilities," of this Charter; an ordinance submitting a Charter amendment to a vote of the qualified electors; or an ordinance proposing a Charter convention. (2010)

- c. *Specific Powers and Duties of the Mayor* – Colorado Springs City Charter §4-40 (i).
(i) On or before the first Monday in October in each year, the Mayor shall furnish to the Council estimates in writing of the probable expenses to be incurred in the several departments of the City for the ensuing fiscal year, specifying in detail probable expenditures, including a statement of the salaries of all administrative officers and employees, and certify the amount of money to be raised by taxation during the ensuing fiscal year to make payment of interest, sinking fund, and principal of bonded indebtedness and also the estimated amount of revenue from all sources other than tax levy. At the same time or on such later date in each year as shall be fixed by the Council, the Mayor shall prepare and present to the Council the annual budget for the ensuing fiscal year, which shall include interest and sinking fund on the bonded debt. The budget so prepared shall be in such detail as to the aggregate sum and the items thereof allowed to each department, office, board, or commission as the Mayor may deem advisable except such as are fixed by law. (2010)

- d. *City Council Duties - Strategic Plan* - Colorado Springs City Charter §3-10(b).

To provide for the future of the City, Council shall maintain a strategic plan that prioritizes goals for the City and establishes measurable outcomes. The strategic plan shall include the Comprehensive Plan and a five-year capital improvements plan for municipal needs. The plan process shall consider public input. City Council shall provide the plan and goals to the City Manager for development of the municipal administrative budget. (Refer to the Capital Improvements Program Policy)

- e. *Budget Process* - Colorado Springs City Charter §7-30.

The City Council shall, upon receipt of the budget, adopt the budget with or without amendment. In amending the budget, the City Council may add or increase programs or amounts and may delete or decrease any programs or amounts, except amounts required by law or for debt service on general obligation bonds or for estimated cash deficit provided, however, that no amendment to the budget shall increase the authorized expenditures to an amount greater than the total of estimated income. (1909; 1977)

In adopting the budget, the City Council shall also estimate and declare the amount of money necessary to be raised by tax levy. The estimate shall take into account the amounts available from other sources to meet the expenses of the City for the

ensuing fiscal year. The budget and estimate as finally adopted shall be signed by the Mayor and City Clerk and filed with the Chief Financial Officer. (1909; 1977) (Ed. note: Formerly section 41)

The budget shall include all stipends and other expenses of City Council and the salary of the Mayor and the budget shall declare the amount of money necessary to fund the budget. Subject to any pre-existing bond covenants, the City Council's budget shall be apportioned among the City's general fund, its Utilities funds and its health system fund as a reflection of City Council's direct responsibilities for all municipal and Utilities matters as well as City Council's general supervision and control of health system matters based upon such reasonable allocation methodology as City Council may determine. (2005; 2010)

A public hearing is held on the fourth Thursday in October of each fiscal year to allow public comment upon the proposed budget.

f. Appropriations - Colorado Springs City Charter Section 7-50.

Upon the basis of the budget as adopted and filed, the several sums shall forthwith be appropriated by ordinance to the several purposes therein named for the ensuing fiscal year. Said ordinance shall be adopted not later than the thirty-first day of December in each year, and shall be entitled "The Annual Appropriation Ordinance." (1909; 1977) (Ed. note: Formerly Section 43)

VI. Colorado Springs City Code Requirements

City Code §1.5 Financial Management Procedures details required financial management procedures. This section defines appropriation, budget, department, and special fund. It outlines procedures for the creation of accounts, amendments to the appropriation and tax levy ordinance, transfers of funds within departments or special funds, transfers of funds between departments or special funds, transfer of funds from contingency account, special projects abandonment or partial abandonment, special projects transfer of funds, special projects non-lapse of appropriations, and filing of inventories.

All appropriations not spent or encumbered at the end of the fiscal year lapse into the fund balance applicable to the specific fund, except for:

- a. Capital Projects – appropriations for capital projects, which do not lapse until the project is completed and/or closed out;
- b. Grant Funds – appropriations for federal or State grants which do not lapse until the expiration of the grant.

The annual operating budget will normally provide for adequate funding of City retirement systems, adequate maintenance and/or replacement of capital plant and equipment, and adequate maintenance of an insurance fund, providing for self-

insurance or using other acceptable insurance methods. If adequate funding cannot be budgeted, these differences shall be disclosed.

The budget includes appropriations for debt service payments and reserve requirements for all outstanding debt and for debt anticipated to be issued within the ensuing budget year.

Section 4 - Debt Policy

I. Overview

The City recognizes the primary purpose of facilities is to support provision of services to its residents. The City must balance debt financing and "pay-as-you-go" methods to meet the capital needs of the community. The City realizes failure to meet the demands of growth may inhibit its continued economic viability but also realizes too much debt has detrimental effects. Historically, the City's total bonded indebtedness as a percentage of total general obligation debt limits has been minimal. As of 2011, the City has no general obligation debt.

The City uses lease purchase financing for several purposes which include the acquisition of real property and the replacement of equipment and vehicles. Lease purchases decrease the impact of the cost to a department by spreading the costs over several years, and are subject to annual appropriation by City Council.

II. Colorado Springs City Charter Requirements Debt Limitations – Colorado Springs City Charter Section 7-80.

- a. No bonds or other evidences of indebtedness, payable in whole or in part from the proceeds of ad valorem property taxes or to which the full faith and credit of the City are pledged in writing or otherwise shall be issued, except in pursuance of an ordinance authorizing the same, and unless the question of the issuance of the bonds shall at any special or general municipal election be submitted to a vote of the qualified electors of the City and approved by a majority of those voting on the question. However, City Council pursuant to ordinance and without election may:
 - Issue local improvement district bonds;
 - Borrow money or issue bonds for the purpose of acquiring, constructing, extending or improving water, electric, gas, sewer, or other public utilities or income-producing projects provided, further, that said borrowing shall be repaid and said bonds shall be made payable solely out of the net revenue derived from the operation of the utility, utilities, or other income-producing projects, or any or all thereof. Net revenue shall mean gross revenue less all operation and maintenance expenses of the project for which the money has been borrowed or bonds issued.

- b. The City shall not become indebted for any purpose or in any manner to an amount which, including existing indebtedness, shall exceed 10% of the assessed valuation of the taxable property within the City as shown by the last preceding assessment for City purposes provided; however, that in determining the amount of indebtedness, there shall not be included within the computation of indebtedness local improvement district bonds, revenue bonds, or general obligation bonds or other evidences of indebtedness issued for the acquisition, construction, extension, or improvement of water facilities or supplies, or both. (1909; 1922; 1951; 1965; 1977) (Ed. note: Formerly section 47)

III. Security and Exchange Commission (SEC) Rule 15c2-12 “Municipal Securities Disclosure” Requirements

As a means reasonably designed to prevent fraudulent, deceptive, or manipulative acts or practices, it shall be unlawful for any participating underwriter (broker, dealer, or municipal securities dealer) to act as an underwriter in a primary offering of municipal securities with an aggregate principal amount of \$1 million or more unless the participating underwriter complies with SEC Rule 15c2-12 requirements or is exempted from the provisions of the Rule.

The City is committed to providing timely and consistent dissemination of financial information with SEC regulatory requirements. It is imperative that disclosure be accomplished in a timely fashion in accordance SEC required SEC Rule 15c2-12 compliance and the City’s Disclosure Dissemination Agent Agreement (DDAA).

This disclosure policy confirms the City’s commitment to fair disclosure. Its goal is to develop and maintain guidelines for presenting related financial reports and events to interested third parties, financial institutions and the general public.

This policy covers all City employees and elected officials of The City of Colorado Springs. It covers disclosure documents filed with the SEC, statements made in the City’s CAFR, and any unaudited interim reports.

IV. Establishment of a Disclosure Working Group

Through authority of the Finance Department of the City, the City has authorized the establishment of a Disclosure Working Group (DWG) consisting of the Finance Director, Mayor and City Attorney. As a Group, the DWG will decide when material developments justify release and meet as conditions dictate.

The role of the DWG is to systematically review filings, reports and other public statements to determine whether any updating or correcting of information is appropriate. The DWG will review and update, if necessary, the disclosure policy on an annual basis. The DWG will react quickly to negative developments and events that affect the City and notify SEC, when appropriate.

The City's primary spokesperson related to Audited Financial Statements, other financial reports, and events is the Finance Director. The City Mayor and City Attorney are designated alternative spokespersons and will be fully apprised of City's financial developments. Others within the City or its agencies may, from time to time, be designated by the Finance Director as spokespersons on behalf of the City and respond to specific inquiries. It is essential that the DWG be fully apprised of all material developments of the City in order to evaluate, discuss those events and determine the appropriateness and timing for release.

The City or its designated agent must provide continuing disclosure documents and related information to the Municipal Securities Rulemaking Board's EMMA (a regulator) website @ <http://dataport.emma.msrb.org>.

Section 5 – Cash Management Policy

I. Scope

The City recognizes that effective cash management is an integral component of sound financial management. Therefore it is the policy of the City that funds deemed idle, based on projected cash flow shall be invested in a manner that seeks to maximize their productivity until such time as they are needed for the operation of the City. (Refer to Section 6 – Investment Policy)

II. Cash Deposits and Receipts

- a. Departments collecting cash receipts, whether in cash or other forms of payment, must turn in such receipts to the Finance Department on a daily basis together with records required to verify accuracy of such collections.
- b. Departments authorized to make deposits should promptly submit bank deposit receipts and daily cash reports to the Finance Department to verify the accuracy of collections.
- c. The Finance Department will set forth general cash handling procedures to be followed for all City departments. Departments may have more restrictive policies but will not have less restrictive policies as set forth from the Finance Department.

Section 6 - Investments

I. Investment Policy – Operating and Reserve Accounts

Existing Colorado State Statutes provide home rule municipalities with legal authority to promulgate and implement local standards for cash and investment management operations. City Code 1.6.102 states that we will invest in securities in a manner authorized by Colorado statutes and as directed by City Council. The purpose of the

City's Investment Policy is to establish the investment scope, objectives, delegation of authority, standards of prudence, reporting requirements, internal controls, eligible investments and transactions, diversification requirements, risk tolerance, and safekeeping and custodial procedures for the investment of the funds of the City of Colorado Springs.

The Investment Policy was adopted by the City Council of the City of Colorado Springs by resolution on September 28, 1993. It was revised on November 8, 1994, February 27, 1996; October 8, 1996; October 26, 1999; February 12, 2002; March 9, 2004; May 24, 2005; July 11, 2006; April 24, 2007; June 24, 2008; May 26, 2009, May 25, 2010, and November 22, 2011. It replaces any previous investment guidelines formulated by members of City staff. The Investment Policy as adopted by City Council is attached as Appendix A.

II. Cemetery Endowment Fund Investment Policy

City Code §1.6.102(B):

The City Treasurer may establish other trusts or accounts to invest assets of the cemetery endowment fund, assets of the C.D. Smith fund and other nontax funds in investments other than those listed in Colorado statutes. These funds shall be subject to the standards of the City investment policy as approved by City Council and investment guidelines established by the City Treasurer for each trust fund or account.

The Cemetery Endowment Investment Policy was last adopted by the City Council of the City of Colorado Springs by resolution No. 166-10 on September 28, 2010. The purpose of the Cemetery Endowment Fund is to provide perpetual maintenance of the cemeteries under the jurisdiction of the City. The type of investment assets held by the Fund shall vary from time to time in response to changes in the economy and prospects for achieving the Endowment's objectives commensurate with prudent risk.

III. Investment Advisory Committee

City Council created the Investment Advisory Committee for the City of Colorado Springs by Resolution No. 157-91 on September 24, 0991. The Investment Advisory Committee shall advise City Staff and as deemed necessary make recommendations to the City Council as to the investment policies and procedures of the City. The citizen members shall be selected for their skills in investment and finance. However, this Committee is not responsible for advice for investment of the Utilities Fund or Memorial Hospital as those operations have existing Boards or Commissions for this purpose.

Section 7 – Fund Balance Policy

I. Overview

The City's Fund Balance is the accumulated difference between assets and liabilities within governmental funds. A sufficient fund balance allows the City to meet its contractual obligations, provide funds for new and existing programs established by City Council, mitigate negative revenue implications of federal or state budget actions, mitigate economic downturns, fund disaster or emergency costs, provide funds for cash flow timing discrepancies and fund non-recurring expenses identified as necessary by City Council.

II. Governmental Fund Balance Type Definitions

The Governmental Accounting Standards Board (GASB) issued Statement Number 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*" effective for periods after June 15, 2010. The objective of this Statement was to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes limitations on the purposes for which Fund Balance can be used.

- a. *Non-spendable Fund Balance* – Some assets reported in governmental funds may be inherently non-spendable from the vantage point of the current period.
 - Assets that will never convert to cash such as; prepaid items or inventories,
 - Assets that will not convert to cash soon enough to affect the current period such as; non-financial assets held for resale,
 - Resources that must be maintained intact pursuant to legal or contractual requirements such as; capital of a revolving loan fund
- b. *Restricted Fund Balance* – This represents the portion of fund balance that is subject to externally enforceable legal restrictions. Such restrictions are typically imposed by parties altogether outside the City such as creditors, grantors, contributors or other governments. Restrictions can also arise when the authorization to raise revenues is conditioned upon the revenue being used for a particular purpose.
- c. *Committed Fund Balance* – This represents the portion of fund balance whose use is constrained by limitations that the City imposes on itself by City Council through enacting ordinances and resolutions.
 - Requires action by City Council to commit fund balance
 - Formal City Council action is necessary to impose, remove or modify a constraint reflected in the committed fund balance

- d. Assigned Fund Balance – This describes the portion of fund balance that reflects the City’s intended use of resources. This authority rests with the Mayor and is delegated to staff. Specifically, City staff is able to assign funds through the use of Purchase Orders, Contracts and memo encumbrances. Interest earned on fund balances (excluding gift trust funds) is assigned to be used by that fund unless otherwise specified in Council or voter documentation.

III. General Fund Unrestricted Fund Balance

A top priority goal of the Mayor is to improve the long-term fiscal health of the City. Revenue projections are conservative and authorized expenditures are closely monitored. In stable economic times, the combination of these two strategies leads to revenue collections higher than actual expenditures.

Net revenue (actual revenue collections less actual expenditures) is available to first fund the Taxpayer’s Bill of Rights (TABOR) reserve for emergencies required under Article X, §20 of the Colorado State Constitution and then to the designated reserves. Year-end balances in the undesignated reserves may be used as a funding source in the next budget year.

The City’s policy is to accumulate adequate reserves to protect the City during economic downturns or large scale emergencies. The City also maintains reserves that are required by law or contract and that serve a specific purpose. These types of reserves are considered restricted and are not available for other uses. Within specific funds, additional reserves may be maintained according to adopted policies.

The Government Finance Officers Association (GFOA) is a professional association of state and local finance officers in the US and Canada whose members are dedicated to the sound management of government financial resources. GFOA recommends that “governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund.”¹

The GFOA recommended, at a minimum, that general-purpose governments, regardless of size, incorporate in its financial policies that unrestricted fund balance in their general fund be no less than two months of regular general fund operating revenues or regular General Fund operating expenditures.

The City’s goal target range for General Fund Reserve – Unrestricted Fund Balance is 16.67 % to 25% of the following year’s expenditure budget. The target for the unrestricted General Fund balance would exclude the TABOR emergency reserves but include other categories of fund balance that are committed, assigned or unassigned.

The City’s Unrestricted Fund Balance as of December 31, 2010 was 13.4% of the 2011 expenditure budget. The City’s goal is to reach 16.7% no later than fiscal year 2012 and

¹ “Appropriate Level of Unrestricted Fund Balance in the General Fund (2002 and 2009)(BUDGET and CAFR), Government Finance Officers Association

18.7% no later than 2014 according to the following schedule. It is the City’s goal to increase the fund balance to 25%, however, we realize that will take time barring an unexpected robust increase in sales and use tax revenue.

15.0%	By December 31,2011
16.7%	By December 31,2012
17.7%	By December 31,2013
18.7%	By December 31,2014

IV. The Taxpayer’s Bill of Rights City Charter§7-90(e) – Emergency Reserves

For use in declared emergencies only, the City shall reserve in 1991 one percent (1%) or more, in 1992 two percent (2%) or more, and in all later years three percent (3%) or more of fiscal year spending. An unused reserve shall apply to the next year's reserve. (1991) “Emergency” excludes economic conditions, revenue shortfalls, or City salary or fringe benefit increases.

V. Other Funds

- a. Enterprise and some Special Revenue Funds - These reserves provide for unexpected revenue losses or unanticipated expenditures during the year. A portion of these reserves may be appropriated as part of the annual budget and may be utilized at the end of the fiscal year if necessary.
- b. Internal Services Funds – Internal Services Funds are expressly designed to function on a cost-reimbursement basis and should not accumulate a significant reserve. A small reserve is appropriate to allow for differences in timing of revenues and expenditures.
- c. Self Insured Fund Reserves- As required by the State of Colorado Self Insurer’s Reserve Trust Agreement, the City maintains a Fund Balance reserve for Liability and Workers Compensation.

VI. Debt Reserves

Debt reserves are established to protect bond holders from payment defaults. Adequate debt reserves are essential in maintaining good bond ratings and the marketability of bonds. The amount of debt reserves are established by bond ordinance for each fund in association with each bond issuance. At times, it may be desirable to use bond insurance rather than debt reserves. This is usually based on the recommendation from our Financial Advisor.

VII. Use of Fund Balances

Available fund balances shall not be used for ongoing operating expenditures.

VIII. Order of Funds Applied

For Special Revenue Funds, the order of use of funds will be from least constrained to most constrained (i.e., unassigned, assigned, committed, restricted and then nonspendable). This order applies to establishing the 2011 beginning balances as well.

All other funds will use the default order specified in GASB 54 (i.e., nonspendable, restricted, committed, assigned and unassigned). This order applies to establishing the 2011 beginning balances as well.

In the event that an expenditure can be considered restricted or unrestricted and both funds have available amounts, the funds will be first applied against the most restrictive fund balance classification.

In order to ensure the City properly tracks fund balance classifications, a budget tracking spreadsheet will be used to record all resolutions or ordinances approved by City Council with a Governmental Fund impact. The classification of funding (i.e., nonspendable, committed, restricted, assigned or unassigned) will be indicated at the top of the spreadsheet. This spreadsheet will be used to prepare fund balances for financial reporting in accordance with GASB 54.

Section 8 - Capital Improvement Program Policy

I. Overview

The City has a significant investment in its streets, facilities, parks, natural areas and other capital improvements. In past years, the City Council and the residents of Colorado Springs through their actions have demonstrated a firm commitment to and investment in City capital projects.

II. City Charter Requirement §4-40(b)(1), - Five Year Capital Improvement Program (CIP) Plan

The strategic plan shall include the Comprehensive Plan and a five year capital improvements plan for municipal needs.

III. Funding Sources and Requirements

- a. All City capital improvements will be constructed and expenditures incurred for the purpose as approved by City Council, with funds rolled over from year to year until a project is deemed complete.
- b. The City will use a variety of different sources to fund capital projects, with an emphasis on the “pay-as-you-go” philosophy.

- c. Funding for operating and maintenance costs for approved capital projects must be identified at the time projects are approved.

IV. Transfer of Funds

Funds cannot be transferred from one active CIP project to another without City Council's approval.

Section 9 - Revenue Policy

The City shall strive to maintain a balanced and diversified revenue structure to protect the City from fluctuations in any one source due to changes in local economic conditions which adversely impact that source.

Revenue estimates will be conservative and based upon trend analysis, economic conditions and other factors. Estimates will be established by the Budget Office and reviewed by the Mayor, Chief of Staff, and Budget Strategy Team.

Non-recurring revenues and other financing sources will not be used to finance ongoing operations with the exception of the use of approved grants or the use of Fund Balance in accordance with fund balance policies.

Federal aid, state aid, gifts, and grants will be accepted only after an assessment is made of potential cost implications.

- a. Grants will be spent for the purposes intended and will not be relied on for basic general fund services.
- b. The City will review grants for operating programs on an individual basis to determine suitability of accepting the grants from a sustainable long-term financial perspective.
- c. The City will vigorously pursue grants for capital projects that fit long-range community improvement goals.
- d. All potential grants will be carefully examined for matching requirements; both dollar and level-of-effort matches.

The City will review its fees and other charges for services annually to ensure that revenues are meeting intended program goals and are keeping pace with inflation, other cost increases and any applicable competitive rate. The City will evaluate cost recovery and align fees with cost recovery goals.

Enterprise and Internal Service operations will be self-supporting.

Section 10 - Expenditure Policy

The City will pursue goals of efficiency and effectiveness by balancing short-term and long-term community needs.

Current operating expenditures will be funded with current operating revenues, approved grants, or the use of Fund Balance in accordance with fund balance policies. The Budget Office and Finance Department will monitor revenues and expenditures during the year to provide an opportunity for actions to be taken to bring expenditures in line with revenues received.

The City will undertake periodic reviews of City programs for both efficiency and effectiveness. Privatization and contracting with other governmental agencies will be evaluated as alternatives to services delivery. Programs that are determined to be inefficient and/or ineffective shall be reduced in scope and eliminated.

Section 11 - Grants Policy

Grants will follow all regulations included in the grant contract. City Departments and staff that occupy positions of responsibility with respect to grant activity have specific roles and responsibilities that they shall perform and uphold both ethically and in the best interests of the City. The City Council has sole responsibility for approving grant awards, through Resolution or Ordinance.

I. Conflict of Interest

No employee or official of the City shall have any interest, financial or otherwise, direct or indirect, or have any arrangement concerning prospective employment that will, or may be reasonably expected to, bias the design, conduct, or reporting of a grant funded project on which he or she is working.

It shall be the responsibility of the Grant Administrator for each particular grant-funded project to ensure that in the use of project funds, officials or employees of the City and nongovernmental recipients or sub-recipients shall avoid any action that might result in, or create the appearance of:

- a. Using his or her official position for private gain
- b. Giving preferential treatment to any person or organization
- c. Losing complete independence or impartiality

- d. Making an official decision outside official channels
- e. Affecting adversely public confidence in the grant funded program in particular and the City in general

II. Accounting and Reporting

- a. The accounting system will separate revenues and expenditures by funding source for all grants. The accounting system will break down revenues and expenditures for each individual grant via the project system and supporting documentation will be maintained in the financial system for all grant expenditures, as is required of all expenditures.
- b. The accounting system has a project system that tracks all revenues and expenditures by the specific grant or project by line item or by broad category as may be included in a grant application budget. Grant Administrators will reconcile on a regular basis to ensure all revenues and expenditures are being appropriately coded to the correct grant. Project system reports can be run to accommodate different grant time periods that may differ from calendar year reporting.
- c. Federal grant funds will not be commingled with funds from other Federal grants or other local match money. When applicable, any matching funds for a grant will be tracked by the department who is responsible for the grant and will only include items that directly correlate to an approved activity identified in the grant proposal.
- d. Capital assets are tracked through the fixed asset system and, if a grant has purchased a capital asset, this will be noted in the fixed asset system.
- e. Only allowable costs will be allocated to a grant.
- f. Grants will only be budgeted when a grant award letter or statement of grant award has been received. If this is prior to adoption of the budget, it will be included in that year's budget. If it is mid-year, a budget amendment will be requested by the department and approved by City Council resolution or ordinance.
- g. City departments are responsible for all aspects of the grant process including planning for grant acquisition, preparation and submitting grant proposals, preparing Resolution requests to accept funds, developing grant implementation plans, managing grant programs, preparing and submitting reports to grantors, and properly closing out grant projects. Department staff and Finance staff will maintain

a close working relationship with respect to any grant activity to ensure a clear understanding of the project status.

III. Documentation

All grant expenses must comply with the terms set forth in the grant application, grant award letter, city procurement policies and the guidelines in the Office of Management and Budget (OMB) Circular A-87, Cost Principles for State, Local and Indian Tribe Governments. The March 2006 Supplemental to OMB Circular A-133 also provides compliance information based on the Federal granting agency. City procurement policies are located on the City's intranet, under City Contracts.

- a. Documentation for all expenditures must be retained by the department for audit purposes and should include:
 - i. Timesheets signed by the employee and approved by their supervisor for all payroll expenses
 - ii. Purchasing documents for expenditures (if necessary based on dollar amount of purchase)
 - iii. City, state or governmental agreement number
 - iv. Formal bids for all purchases over \$50,000
 - v. Detailed receipts or invoices
 - vi. General Ledger showing expenditure activity
 - vii. Some grants may require the check number and payment date for payments issued through accounts payable
- b. The City's Finance Department, with the assistance of specific grantee City departments, shall maintain the following information
 - i. Identify, through a project and account structure, all federal awards received and expended and the federal programs under which they were received. All awards should be identifiable by the Catalog of Federal Domestic Assistance (CFDA) title and number, award number, award year, name of federal agency, and the name of the pass-through agency (if applicable).

- ii. Maintain internal control over federal programs that provides reasonable assurance that the grantee is managing the award in compliance with the laws, regulations, and the provisions of the contract or grant agreement.
 - iii. Comply with laws, regulations and the provisions of contract or grant agreements related to each grant award.
 - iv. Prepare required financial statements, including financial statements that reflect the entity's financial position, results of operations or changes in net assets, and where appropriate, cash flows for the fiscal year audited. In addition, a schedule of federal assistance will be prepared for the external auditors which include all federal grants.
- c. Grant documents should be read carefully to ensure compliance with all grant requirements. Additional documentation may be required under the terms and conditions of the specific grant award to include, but not limited to, procurement justification, grant reconciliation frequency, cash match calculation and tracking, and records retention.
 - d. Grant administrators are responsible for confirming that the information in the financial system is accurate as outlined above.

IV. Audit

Per OMB Circular A-133 all non-federal entities that expend \$500,000 or more in a year on Federal awards, either as the grantee or the sub-grantee, shall have a single or program-specific audit conducted for that year in accordance with the provisions of the circular guidance. The single audit encompasses both the entity's financial statements and the Federal awards received by the entity; whereas a program-specific audit will audit one Federal program and can only be used when the grantee receives grant awards only from one Federal program. The city contracts with an external firm to conduct a single audit on an annual basis. The awarding agency may also specify additional audit requirements in the grant award letter or grant guidance.

The Finance Department, with the assistance of the specific grantee City departments, shall follow up and take corrective action on all audit findings.

Section 12 – Capitalization Policy

We will capitalize all infrastructure with a cost of \$500,000 or more and \$5,000 or more for all other assets, except capital leases. We will capitalize all capital leases even

though individual assets purchased via this avenue may fall below this cost acquisition threshold. Items that fall below the thresholds stated here are subject to staff judgment as to capitalization. Refer to the Finance Fixed Asset Policy for more detail.

Section 13 - Identify Theft Prevention Policy

In 2008, Congress directed the Federal Trade Commission (FTC) and other agencies to develop regulations requiring “creditors” and “financial institutions” to address the risk of identity theft. The resulting Red Flag Rules requires all such entities that have “covered accounts” to develop and implement written identify theft prevention programs.

The FTC defined “creditors” as businesses or organizations that regularly defer payment for goods or services and bill customers later. This includes nearly any organization extending credit, whether by granting loans, making credit decisions, etc.

Pursuant to the FTC enforcement policy of the Identify Theft Red Flags Rule, the City of Colorado Springs will evaluate risk factors to develop and implement a policy designed to help identify, detect, and respond to patterns, practices, or specific activities – known as “red flags” – that could indicate identify theft during 2011.

Investment Policy

RESOLUTION NO. 212 - 11

A RESOLUTION APPROVING THE CITY'S UPDATED INVESTMENT POLICY

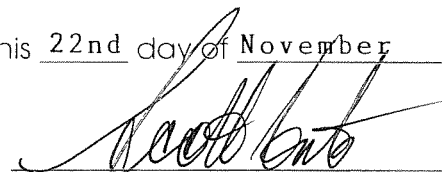
WHEREAS, the City of Colorado Springs has previously approved Investment Policies related to the investments of the City and the Cemetery Endowment Fund; and

WHEREAS, the City has modified the Investment Policies for City investments and the Cemetery Endowment Fund to the City Council for approval;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF COLORADO SPRINGS:

That the attached Investment Policies are hereby approved.

DATED at Colorado Springs, Colorado, this 22nd day of November 2011.



Scott Hente, Council President

ATTEST:



Cindy N. Conway, Interim City Clerk

City of Colorado Springs

Investment Policy November 22, 2011

The City of Colorado Springs ("the City") is a Colorado home rule municipality operating under its City Charter. The City functions under the direction of an elected Mayor. Existing Colorado State Statutes provide home rule municipalities with legal authority to promulgate and implement local standards for cash and investment management operations. The purpose of this Investment Policy is to establish the investment scope, objectives, delegation of authority, standards of prudence, reporting requirements, internal controls, eligible investments and transactions, diversification requirements, risk tolerance, and safekeeping and custodial procedures for the investment of the funds of the City of Colorado Springs.

This Investment Policy was adopted by the City Council of the City of Colorado Springs by resolution on September 28, 1993. It was revised on November 8, 1994, February 27, 1996; October 8, 1996; October 26, 1999; February 12, 2002; March 9, 2004; May 24, 2005; July 11, 2006; April 24, 2007; June 24, 2008; May 26, 2009; May 25, 2010; and November 22, 2011. It replaces any previous investment guidelines formulated by members of City staff.

SCOPE

The provisions of this Investment Policy (the "Policy") shall apply to all investable funds of the City of Colorado Springs (the "Portfolio"). Operating accounts, Reserve accounts and Bond Ordinance accounts shall be subject to the standards of this Policy, but may be managed by persons not under this Policy, and each manager of these funds shall establish guidelines pertaining to the following areas: delegation of authority, authorized securities and transactions, portfolio maturities and liquidity requirements, reporting and the selection of broker/dealers and custodians. Utility funds, hospital funds, endowment funds, and moneys held in bank checking accounts for operating purposes shall be excluded from the provisions of this Policy. This Policy shall not restrict ability of the City to invest funds according to the limitations imposed by bond resolutions or indentures of trust adopted by the City for the funds held by a trustee under bond resolutions.

All excess cash, except for cash in certain restricted and special accounts, 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 average balances relative to the total pooled balance. Interest earnings shall be distributed to the individual funds not less than annually.

OBJECTIVES

The Portfolio shall be invested in accordance with all applicable City policies, State statutes, and Federal regulations, and in a manner designed to accomplish the following objectives, which are listed in priority order:

- Preservation of capital and protection of investment principal.

- Maintenance of sufficient liquidity to meet anticipated cash flows.
- Diversification to avoid incurring unreasonable market risks.
- Attainment of a market rate of return.

DELEGATION OF AUTHORITY

The City Council establishes investment policy (City Code 1.6.102). The Mayor is charged with direct control of the City revenues (Article VII, City Charter). The City's Chief Financial Officer is responsible for the investment and custody of the City's investable funds, as well as the City's internal procedures affecting those funds. The Chief Financial Officer and designees shall implement the policies promulgated by City Council (City Code 1.2.602).

The following cites from the Code of the City of Colorado Springs shall apply:

Chapter 1: Administration, Personnel and Finance

Article 2: Officers of the City

Part 6: Powers and Duties of the Chief Financial Officer

1-2-602: The Chief Financial Officer shall receive all monies belonging to the City, shall determine depositories and accounts and invest surplus cash in accord with approved policies.

Article 6: City Funds

Part 1: General Provisions

1-6-102 (A): Authorized by State Statutes: Any monies of the City which are not presently required in the conduct of its respective affairs may be invested in securities in a manner authorized by Colorado statutes and as directed by City Council.

The Chief Financial Officer shall develop written administrative procedures and internal controls, consistent with this Policy, for the operation of the City's investment program. Such procedures shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of the City.

The Chief Financial Officer may delegate the authority to conduct investment transactions and manage the operation of the investment portfolio to the Controller and other specifically authorized staff members. The Chief Financial Officer shall maintain a list of persons authorized to transact securities business for the City of Colorado Springs. No person may engage in an investment transaction except as expressly provided under the terms of this Policy.

The City Council has adopted Resolution 157-91, establishing the City Investment Advisory Committee. This committee, chaired by the City's Chief Financial Officer, meets semi-annually to make recommendations to City staff and the City Council regarding the investment policies and procedures of the City. Members of this committee are appointed by City Council and may include up to two City Council members. The Chief Financial Officer shall attend meetings of the Investment Advisory Committee.

The City may engage the support services of outside professionals in regard to its investment program, so long as it can be clearly demonstrated that these services produce a net financial advantage or necessary financial protection of the City's financial resources.

PRUDENCE

The standard of prudence to be used for managing the City's assets shall be CRS 15-1-304, Standard for Investments which in general states that investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of the property of another, not for speculation, but for investment considering the probable safety of their capital as well as the probable income to be derived.

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

The Chief Financial Officer and authorized investment personnel acting in accordance with 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 the deviations from expectations are reported in a timely fashion to the Mayor and appropriate action is taken to control adverse developments.

ETHICS AND CONFLICTS OF INTEREST

Elected officials 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 or create the appearance of an impairment of their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Mayor any material financial interests they have in financial institutions that conduct business with the City and they shall subordinate their personal investment transactions to those of the City.

In addition, all covered persons (defined as officials, appointees, administrative officers, employees, independent contractors and volunteers) shall annually complete the City's requirement for ethics training, per City Code § 1.3.107.

AUTHORIZED SECURITIES AND TRANSACTIONS

Subject to the limitations of this Policy, all investments and depositories authorized by the following state statutes shall be allowed by the City: Colorado Revised Statutes: 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. 24-75-601 *et seq.*, Depositories; and C.R.S. 24-75-702, Local governments – authority to pool surplus funds. Any revisions or extensions of these sections of the C.R.S. will be assumed to be part of this Policy immediately upon being enacted. However, in the event that amendments to these statutes conflict with

this Policy and past City investment practices, the City may delay adherence to the new requirements when it is deemed in the best interest of the City to do so and the existing Policy shall govern the City's investments. In such instances, after consultation with the City's investment adviser, the City Attorney, and the Investment Advisory Committee, a recommended course of action will be presented to City Council for approval.

Maturity restrictions shall be calculated from settlement date to maturity date. For investment securities that can be redeemed prior to maturity (i.e. bonds with a put option), the redemption date will be considered the effective maturity date for the bonds.

Portfolio percentage restrictions by security type and issuer are applicable only on the date of purchase of the investment and are applicable to the total Portfolio. While each individual portfolio shall be managed within these limits, the Chief Financial Officer may authorize an individual portfolio to exceed the limits subject to the overall limits within the Portfolio. The Portfolio will be limited to an aggregate exposure of 50% for the following investment types: Municipal Bonds, Corporate Bonds, Commercial Paper, Time Certificates of Deposit and Banker's Acceptances.

The City has further defined the eligible types of securities and transactions as follows:

1. U.S. Treasury Obligations: Treasury Bills, Treasury Notes, Treasury Bonds and Treasury Strips or those for which the full faith and credit of the United States are pledged for the payment of principal and interest with maturities not exceeding five years from the date of trade settlement. 100% of the Portfolio may be invested in U.S. Treasury Obligations.
2. Federal Instrumentality Securities: Federal agency or United States government sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises, and with maturities not exceeding five years from the date of trade settlement. The total investment in any one issuer shall not exceed 35% of the City's portfolio and no more than 85% of the City's portfolio may be invested in Federal Instrumentality Securities. Subordinated debt may not be purchased.
3. Time Certificates of Deposit with maturities not exceeding one year, in FDIC insured state or nationally chartered banks or savings banks. Certificates of Deposit (CD) exceeding the FDIC insured amount shall be collateralized in accordance with the Colorado Public Deposit Protection Act and may be purchased only from banks having a Highline Banking Data Services Rating of 30 or better at the time of purchase, or in the judgment of the Chief Financial Officer offering adequate safety to the City. No more than 5% of the Portfolio can be invested in time certificates of deposit (non-negotiable CDs). No more than 2% of the Portfolio may be invested in CDs of a single institution.
4. Corporate Bonds of any United States dollar denominated corporation organized and operating within the United States with a net worth in excess of \$250 million. The debt must be rated at least AA- or the equivalent by at least two NRSROs. Maximum maturities of such securities shall not exceed three years from the date of trade settlement. No more than 35% of the Portfolio may be invested in corporate bonds and no more than 5% may be invested with a single corporation.

5. Municipal Bonds: General and Revenue obligations of any state in the United States or any political subdivision, institution, or authority of such a governmental entity. Municipal bonds must be rated one of the two highest categories or the equivalent by two NRSROs with maturities not exceeding three years.

For short term or variable rate instruments ("Short Term Municipal Bonds"), the securities must be rated "A-1", "P1" or higher, or the equivalent, by a NRSRO.

On a combined basis, no more than 20% of the Portfolio may be invested in Municipal Bonds and Short Term Municipal Bonds and no more than 5% of the portfolio may be invested with a single issuer. The maximum maturity shall be limited to three years.

For Pre-Refunded Municipal Bonds ("Pre-Refunded Municipal Bonds") which are secured by an escrow of U.S. treasury securities or State and Local Government Series securities, no more than 40% of the Portfolio may be invested in Pre-Refunded Municipal Bonds and no more than 5% may be invested with a single issuer.

6. Commercial Paper with maturities not exceeding 270 days from the date of trade settlement that is rated at least A-1 or the equivalent at the time of purchase by at least two NRSROs. If the commercial paper issuer has senior debt outstanding, the senior debt must be rated by each service that publishes a rating on the issuer of at least A or the equivalent. Furthermore, the issuer's commercial paper program's size shall exceed \$200 million. Commercial paper may not exceed 30% of the Portfolio and no more than 5% may be invested with a single issuer.
7. Eligible Bankers Acceptances with maturities not exceeding 180 days from the date of trade settlement and issued by FDIC insured state or national banks with combined capital and surplus of at least \$250 million. Bankers Acceptances ("BA") shall be rated at least A-1 or the equivalent at the time of purchase by at least two NRSROs. If the issuing bank has senior long-term debt, it shall be rated at the time of purchase A or the equivalent. No more than 20% of the Portfolio may be invested in BAs and no more than 5% may be invested with a single institution.
8. Repurchase Agreements with maturities of 180 days or less collateralized by U.S. Treasury Obligations and Federal Instrumentality Securities listed in Items 1 and 2 above with the maturity of the collateral not exceeding 10 years. For the purpose of this section, the term collateral shall mean purchased securities under the terms of the City approved Master Repurchase Agreement. 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 City's 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 who have executed a City approved Master Repurchase Agreement with the City and who are recognized as Primary Dealers by the Federal Reserve Bank of New York, or have a Primary Dealer within their holding company structure. Repurchase Agreement counterparties, if rated, 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. The Chief Financial Officer shall maintain a copy of the City's approved Master Repurchase

Agreement along with a list of the broker/dealers who have an executed Master Repurchase Agreement with the City.

The City may utilize Tri-party Repurchase Agreements provided that the City is satisfied that it has a perfected interest in the securities used as collateral and that the City has a properly executed Tri-party Agreement with both the counterparty and custodian bank.

No more than 50% of the Portfolio may be invested in repurchase agreements and no more than 10% may be invested with a single counterparty.

9. Local Government Investment Pools ("LGIP") authorized under C.R.S. 24-75-702, that 1) are "no-load" (i.e. no commission or fee shall be charged on purchases or sales of shares); 2) have a constant net asset value per share of \$1.00; 3) limit assets of the fund to securities authorized by state statute; 4) have a maximum stated maturity and weighted average maturity in accordance with Rule 2a-7 of the Investment Company Act of 1940; and 5) have a rating of AAAM or the equivalent.

A maximum of 100% of the Portfolio may be invested in LGIPs with a single LGIP constituting no more that 50% of the Portfolio.

10. Money Market Mutual Funds registered under the Investment Company Act of 1940 and are authorized under C.R.S. 24-75-601 that 1) are "no-load" (i.e. no commission or fee shall be charged on purchases or sales of shares); 2) have a constant net asset value per share of \$1.00; 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.

A maximum of 100% of the Portfolio may be invested in money market funds with a single fund constituting no more that 50% of the Portfolio.

11. Obligations of the City of Colorado Springs: General obligation bonds, revenue bonds, certificate of participation or other debt securities issued by or guaranteed wholly, partially or morally by the City of Colorado Springs, Colorado, or its departments.

Securities that have been downgraded below minimum ratings described herein may be sold or held at the City's discretion. The Portfolio will be brought back into compliance with Investment Policy guidelines as soon as is practical.

It is the intent of the City that the foregoing list of authorized securities be strictly interpreted. Any deviation from this list must be preapproved by the Chief Financial Officer in writing.

The City recognizes that bond proceeds may, from time to time, be subject to the provisions of the Internal Revenue Code, Federal Arbitrage Regulations, as amended. Due to the legal complexities of arbitrage law and the necessary immunization of yield levels to correspond to anticipated cash flow schedules, the reinvestment of such debt issuance may, upon the advice of Bond Counsel or financial advisors, deviate from the maturity limitation provisions of this Policy with written approval of the Chief Financial Officer.

PORTFOLIO MATURITIES AND LIQUIDITY

To the extent possible, investments shall be matched with anticipated cash flow requirements and known future liabilities. Unless matched to a specific cash flow requirement, the City will not invest in securities maturing more than five years from the date of trade settlement. The City shall maintain at least 5% of its Operating Account portfolio in instruments maturing in 30 days or less. The duration of the Portfolio shall at no time exceed three years.

SELECTION OF BROKER/DEALERS

The Chief Financial Officer shall maintain a list of broker/dealers approved for investment purposes, and it shall be the policy of the City 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 their holding company structure;
2. report voluntarily to the Federal Reserve Bank of New York, or
3. qualify under Securities and Exchange Commission (SEC) Rule 15c-3 (Uniform Net Capital Rule).

Broker/dealers will be selected by the Chief Financial Officer on the basis of their expertise in public cash management and their ability to provide services for the City's account. Approved broker/dealers and the firms they represent shall be licensed to do business in the State of Colorado and as such are subject to the provisions of the Colorado Revised Statutes, including but not limited to C.R.S. 24-75-601.

The City may engage the services of one or more professional investment advisory firms to assist in the management of the Portfolio. Such investment advisors may purchase and sell investment securities in accordance with this Policy and may utilize their own approved list of broker/dealers. Such approved broker/dealer list shall comply with the criteria listed above and shall be provided to the City on an annual basis.

In the event that the City does not utilize an external investment advisor, each authorized broker/dealer shall be required to submit and annually update a City approved Broker/Dealer Information Request form which includes the firm's most recent financial statements. The City's Chief Financial Officer shall maintain each approved firm's most recent Broker/Dealer Information Request form. Such broker/dealers must attest in writing that they have received a copy of this policy.

The City may purchase Commercial Paper from direct issuers even though they are not on the approved broker/dealer list as long as they meet the criteria outlined in Item 6 of the Authorized Securities and Transactions section of this Policy.

COMPETITIVE TRANSACTIONS

Each investment transaction shall be competitively transacted with authorized broker/dealers. At least three broker/dealers shall be contacted for each transaction and their bid and offering prices shall be documented.

If the City is offered a security for which there is no other readily available competitive offering, then the City will document quotations for comparable or alternative securities.

SELECTION OF BANKS

The Chief Financial Officer shall maintain a list of banks approved to provide depository and other banking services for the City. To be eligible for authorization, a bank must be a member of the FDIC, shall qualify as a depository of public funds in the State of Colorado as defined in CRS 24-75-603 et seq. as evidenced by a certificate issued by the State Banking Board and shall have a Highline Banking Data Services Peer Group Rating of 30 or better on a scale of zero to 99 with 99 being the highest quality for the most recent reporting quarter before the time of selection, or in the judgment of the Chief Financial Officer offer adequate safety to the City.

SAFEKEEPING AND CUSTODY

The Chief Financial Officer shall select one or more banks to provide safekeeping and custodial services for the City. A City approved Safekeeping Agreement shall be executed with each custodian bank prior to utilizing that bank's safekeeping services. To be eligible for designation as the City's safekeeping and custodian bank, a financial institution shall qualify as a depository of public funds in the State of Colorado as defined in CRS 24-75-603 et seq., be a Federal Reserve member financial institution and have a Highline Banking Data Services Peer Group Rating of 20 or better on a scale of zero to 99 with 99 being the highest quality for the most recent reporting quarter before the time of selection, or in the judgment of the Chief Financial Officer offer adequate safety to the City.

Custodian banks will be selected on the basis of their ability to provide services for the City's account and the competitive pricing of their safekeeping related services.

The purchase and sale of securities and repurchase agreement transactions shall be settled on a delivery versus payment basis. It is the intent of the City that all securities be perfected in the name of the City. Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

All investment securities purchased by the City will be delivered by either book entry or physical delivery and will be held in third-party safekeeping by a City approved custodian bank, its correspondent bank or its Depository Trust Company (DTC) participant account.

Safekeeping receipts or customer confirmations shall be issued for each transaction and evidence that the securities are held for the City as "customer". The custodian also shall be required to furnish the City a list of holdings on at least a monthly basis.

PORTFOLIO PERFORMANCE

The investment and cash management 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.

REPORTING

The Chief Financial Officer shall prepare an annual report to the Mayor and the City Council on the investment earnings and performance results of the City's investment portfolio. The report shall include an overview of the investments held by the City and the current market value of the portfolio.

The Chief Financial Officer shall present to the Investment Advisory Committee, at least semi-annually, a review of the portfolio's adherence to appropriate risk levels and a comparison between the portfolio's total return and the established investment objectives and goals.

Monthly reports to the Chief Financial Officer will include the following information:

- monthly rate of return
- cumulative and annual performance compared to the performance benchmarks
- monthly allocation to the major asset classes
- a list of purchases and sales during the month
- a list of current issues held in the portfolio, along with the years to maturity for each.

Annual reports to the Chief Financial Officer will be in compliance with the Governmental Accounting Standards Board No. 40 and will include the following:

- weighted average maturity or duration in years
- credit ratings of the investments.

POLICY REVISIONS

This Investment Policy shall be reviewed annually by the Chief Financial Officer and the Investment Advisory Committee. This Policy may be amended by the City Council as conditions warrant.

AUTHORIZED INVESTMENT SUMMARY

Security Type	Maximum Portfolio %	Maximum Issuer %	Maturity Restrictions	Rating Restrictions
U.S. Treasuries	100%	100%	5 years	N/A
U.S. Agencies	85%	35%	5 years	N/A
Municipal Bonds	20%	5%	3 years	AA-
Pre-Refunded Municipal Bonds	40%	5%	3 years	AA-
Corporate Bonds	35%	5%	3 years	AA-
Commercial Paper	30%	5%	270 days	A-1
Time Deposit/CD	5%	2%	1 year	30+
Banker Acceptances	20%	5%	180 days	A-1
Repurchase Agreements	50%	10%	180 days	A-1
Local Government Investment Pool	100%	50%	N/A	AAAm
Money Market Funds	100%	50%	N/A	AAAm

Note: The Portfolio will be limited to an aggregate exposure of 50% for the following investment types: Municipal Bonds, Corporate Bonds, Commercial Paper, Time Certificates of Deposit and Bankers Acceptances.

STATEMENT OF INVESTMENT POLICY

City of Colorado Springs Cemetery Endowment Fund

Date Established: January 1995

Last Revised: November 2011

A. POLICY OVERVIEW

The City of Colorado Springs Cemetery Endowment Fund hereby establishes this Statement of Investment Policy ("IPS") for the investment of all funds comprising the Cemetery Endowment Fund ("Fund"). This IPS defines the investment policies and objectives for the management and oversight of the Fund per direction of the Finance Director.

The purpose of the Fund is to provide perpetual maintenance of the cemeteries under the jurisdiction of the City of Colorado Springs, Colorado. The type of investment assets held by the Fund shall vary from time to time in response to changes in the economy and prospects for achieving the Endowment's objectives commensurate with prudent risk. The guiding principles with respect to the investment of the Endowment are to preserve the ability of the Fund to meet its current and future spending requirements while minimizing risk of realized losses on principal assets.

B. ROLES AND RESPONSIBILITIES

Responsibility of the Finance Director

The Finance Director is responsible for developing the Fund's overall objectives and guidelines. Additionally, the Finance Director, with insight and assistance from the investment advisor and the Investment Advisory Committee, is responsible for developing the IPS, reviewing the IPS as required, and making changes, as necessary. The Finance Director is also responsible for selecting and monitoring the investment advisor, Endowment custodian and any other service providers necessary in the fulfillment of this policy and the Fund objectives. These responsibilities may be delegated by the Finance Director to staff within the Finance Department.

Responsibility of the Investment Advisor

The investment advisor is empowered by the Finance Director under a discretionary investment management agreement (IMA) to take full discretion to make certain decisions and take appropriate action regarding investment of Fund assets while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in the IPS. The specific responsibilities of the Investment Advisor include:

- Assisting in the development and on-going review of investment policy, asset allocation strategy and implementation;
- Selecting qualified investment managers;
- Communicating the investment policy guidelines and objectives to the investment managers;
- Monitoring and evaluating performance results to assure that policy guidelines are being met;
- Rebalancing or reallocating assets based on current market conditions within the Fund's policy guidelines;
- Discharging investment managers and engaging replacements;
- Ongoing communication with the Finance Director on matters of policy, manager research and investment education.

- Meeting with the Finance Director and Investment Advisory Committee on a semi-annual basis to present investment performance results, recap market conditions and discuss other investment issues; and,
- Taking any other appropriate actions.

Responsibility of the Custodian

A general Endowment custodian will be appointed by the Finance Director. With the exception of those investment vehicles that require the use of a separate custodian, such as the limited partnership vehicles, the Endowment custodian will maintain possession of securities owned by the Fund, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. Any custodian that serves in a capacity separate from, or in addition to, the general Endowment custodian, will not be appointed by the Finance Director, but will be vetted by the Investment Advisor as a part of the overall review of the specified investment vehicle. Any custodian will also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Fund accounts. Any custodian will provide at a minimum monthly reporting of assets and transactions and provide for any additional data requests.

C. INVESTMENT OBJECTIVE

The guiding principles with respect to the investment of the Fund are to preserve the ability of the Fund to meet its current and future spending requirements while minimizing risk of realized losses. Consistent with this goal the Fund's primary investment objectives will be: 1) Protection of principal and minimization of realized losses, 2) Annual income generation to meet the needs of the Cemetery Operations (currently \$250,000 per year, to be reviewed with Cemetery management quarterly) adjusted for inflation 3) Net return consistent with the provisions of the investment policy and the Fund's annual income requirements.

Additionally, the Fund will be invested according to the following general principles:

- Investments shall be made solely in the interest of and for the beneficiaries of the Fund;
- Investment of the Fund shall be diversified as to minimize the risk of large losses, unless under the circumstances it is prudent not to do so;
- Risk shall be evaluated in the context of the portfolio in its entirety with particular focus on how the various asset classes and investment strategies correlate to one another;
- Care will be taken to provide adequate liquidity to meet all current spending obligations of the Fund;
- Cash is to be employed productively at all times, by investment in short-term cash equivalents to provide safety, liquidity, and return.

D. ASSET ALLOCATION GUIDELINES

To achieve its investment objectives, the Fund will be allocated among a number of asset classes. These asset classes may be broadly defined to include fixed income, absolute return, global equity, long/short equity & special opportunities, and commodities. The purpose of allocating across these asset classes is to ensure the proper level of diversification within the Fund and improve the risk-adjusted efficiency of the investment portfolio. The investment vehicles used to gain exposure to the asset classes may include mutual funds, commingle trust funds, separate accounts, limited partnerships, and offshore exempted companies. Certain vehicles may provide liquidity constraints that must be managed in the overall context of meeting the Fund's return and income requirements. To that end, any investment vehicles that provide for less than daily liquidity (liquidity restricted investments) shall be limited to not more than 25% of the overall Fund allocation. In the event that the Fund's overall allocation to liquidity restricted investments becomes greater than 25%, the

investment advisor will notify the Finance Director and steps will be taken to reduce the overall allocation to approved levels. Full Asset class descriptions are provided in Appendix A to this policy.

<u>Asset Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Global Fixed Income	35%	57.5%	70%
Absolute Return	0%	0%	15%
L/S & Special Opportunities	0%	0%	15%
Global Equity	15%	37.5%	50%
Commodities	0%	5%	10%

E. REBALANCING OF FUND ASSETS

The asset allocation exposures will be closely monitored with the understanding that the various asset classes may perform differently and that the relative attractiveness of asset classes may vary over time. The Fund's allocation will be reviewed and adjusted as warranted to assure that allocations remain within their respective guidelines and consistent with the long-term objective of the Fund. If an asset class is outside the allowable range, the investment advisor will take appropriate action to redeploy assets. In any investment rebalancing situation the investment advisor will move to reallocate within guidelines as soon as possible after consideration for costs and other investment related factors. In certain circumstances, and only with approval from the Finance Director, the Fund may be allocated outside the ranges provided in the Guidelines.

E. INVESTMENT PERFORMANCE REVIEW AND EVALUATION

Performance reports generated by the investment advisor shall be compiled semi-annually and presented to the Finance Director and Investment Advisory Committee for review. The investment performance of the total Fund, as well as the asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The Committee recognizes the long term nature of the Fund's objectives and the variability of market returns. Periodic underperformance relative to any criteria outlined in this IPS will not necessitate the termination of an investment option.

As referenced above, the Fund's total account performance objective is to preserve the ability of the Fund to meet its current and future spending requirements while minimizing risk of realized losses. To that end, managers have been selected based on their perceived ability to meet and or exceed predetermined benchmarks. The total return of the Fund will be measured against a passive policy index of comparable risk comprised as follows:

Policy Index: 5% US 90 Day T-Bill, 52.5% Barclays US Aggregate Bond Index, 37.5% S&P 500 Index, 5% S&P GSCI Index.

Additionally, the investment advisor will provide the Finance Director and Investment Advisory Committee with the performance of each individual investment alternative against the performance of relevant index benchmarks and peer groups. The investment advisor shall track the investment vehicle's performance relative to the benchmark, and the degree to which variance in the vehicle's performance can be explained by variance in the performance of the benchmark. Initially, indices used for comparison purposes shall include the following:

INVESTMENT CATEGORY

Money Market
Intermediate Term Bonds
Treasury Inflation Protected Securities
US Large Capitalization Stocks—Blended Style
US Large Capitalization Stocks—Growth Style
US Large Capitalization Stocks—Value Style
US Mid Capitalization Stocks—Blended Style
US Mid Capitalization Stocks—Growth Style
US Mid Capitalization Stocks—Value Style
US Small Capitalization Stocks—Blended Style
US Small Capitalization Stocks—Growth Style
US Small Capitalization Stocks—Value Style
Foreign Large Capitalization Stocks
Emerging Market Large Capitalization Stocks
Commodities
L/S & Special Opportunities - Alternative Investments
Absolute Return - Alternative Investments

RELEVANT BENCHMARKS

US 90 Day Treasury Bills
Barclays US Aggregate Bond Index
Barclays US TIPS Index
S&P 500 Index
Russell 1000 Growth Index
Russell 1000 Value Index
Russell Mid Cap Index
Russell Mid Cap Growth Index
Russell Mid Cap Value Index
Russell 2000 Index
Russell 2000 Growth Index
Russell 2000 Value Index
MSCI EAFE Index
MSCI Emerging Markets Free Index
S&P Goldman Commodities Index
S&P 500 Index
Barclays US Aggregate Bond Index

Notwithstanding this initial designation, the investment advisor may change indices used for comparison, if it is determined that a different index provides a more useful or appropriate benchmark for any designated investment vehicle.

In addition to net investment performance, the investment advisor will also review the investment products' risk characteristics in relation to that performance. Risk will be measured in various ways including, but not limited to:

- Standard deviation
- Risk/return ratios such as Sharp or Treynor Ratios
- Up market and down market performance
- Other statistical measures such as Beta, Alpha and Variance

The investment advisor will evaluate the fees, expenses and revenue sharing associated with the Fund's investment options. Care will be taken to minimize the fees and expenses and any applicable revenue sharing will belong to the Fund and, at the Fund's discretion, used solely to offset Fund related expense. The investment options will also be monitored on an ongoing basis for material changes such as personnel departures, research capability adjustments, organizational changes, or alterations in investment style, philosophy, or strategy, as well as adherence to stated guidelines.

G. INVESTMENT POLICY REVIEW

To assure continued relevance of the guidelines, objectives, financial status and capital market expectations as established in this statement of investment policy, the Committee, in consultation with the investment advisor, will review the policy no less frequently than annually.

APPENDICES

Appendix A. (Asset Class Definitions)

Fixed Income Asset Class

This is a broad asset class which can be defined as a class whereby the investable assets provide investors with fixed streams of income. Bonds are the most common example of a fixed income asset and may be issued by a wide range of entities including; corporations, state municipalities and sovereign nations. Fixed income securities are further classified by their credit risk and interest rate risk (duration), though currency and prepayment risks may apply to certain fixed income instruments.

The broad fixed income asset class can be further broken down into more specific sub-asset classes as follows:

- **Fixed Income Money Market** - Provide current income and a high degree of investment safety with little or no fluctuation of principal. The portfolio will primarily invest in high-quality money market obligations maturing in 397 days or less. This includes corporate obligations, U.S. Government and agency bonds, bills and notes, the obligations of foreign governments, and the obligations of U.S. banks and U.S. branches of foreign banks.
- **Low Duration Bond** - Provide capital appreciation and income through a diversified, actively managed fixed income portfolio. The expected duration for the portfolio will generally average 2.5 years, with durations of 1-3 years typical. Average credit quality will be investment grade. The fixed income portfolio will normally be comprised of money market instruments and U.S. Government and Agency bonds, mortgage-backed securities, and corporate bonds (including convertibles). Foreign holdings may be included though generally restricted, as well as corporate securities less than investment grade.
- **Total Return Bond** - Provide capital appreciation and income through a diversified, actively managed fixed income portfolio. The expected duration for the portfolio will generally average 5 years, with durations of 3-7 years typical. Average credit quality will be investment grade. The fixed income portfolio will normally be comprised of money market instruments and U.S. Government and Agency bonds, mortgage-backed securities, and corporate bonds (including convertibles). Foreign holdings may be included though generally restricted, as well as corporate securities less than investment grade.
- **Real Return / TIPS** - Provide current income without undue risk to principal through an actively-managed fixed income portfolio. Securities in the portfolio should be primarily invested in bonds that provide inflation protection (e.g. Treasury Inflation Protected Securities, or TIPS). Issuers may be the U.S. government, government agencies, or corporations of high credit quality. The portfolio may be invested in other types of bonds and money market instruments. Average credit quality for the portfolio is generally AA or better.
- **High Yield Bond** - Non-investment grade or high yield are terms applied to bonds rated below Baa3 on the Moody's[®] credit rating scale and below BBB- on the equivalent ratings systems from S&P[®] and

Fitch. The credit ratings are assigned based upon the issuer's ability to pay interest and principal. In the context of corporate bonds, high yield corporate bonds share many of the same features as investment grade corporate bonds. At the same time, they are typically issued with shorter maturities and are more likely to be callable so that if a company's financial condition improves it can take advantage of lower funding rates.

Absolute Return Asset Class

Absolute return investing is an investment philosophy focused on delivering positive returns across a broad range of market environments. This is accomplished by using a range of strategies that are generally focused on minimizing exposure to directional movements in equity or fixed income markets, often referred to as market risk or beta. Investment managers generally minimize beta in their strategies by using various hedging techniques, and this allows returns to be generated largely based on the manager's specific security selection skills. These returns are often referred to as alpha. Generally this asset class offers two primary strategies that focus on long/short equity and long/short fixed income investing. Within these long/short strategies, the manager takes a long position in stocks or bonds that they feel are undervalued while subsequently taking a short position in securities they feel are overvalued. To manage overall risk, or volatility, the managers tend to use low levels of leverage and maintain low levels of net (long positions minus short positions) exposure. The asset class is expected to provide mid-to-high single digit returns with volatility comparable to the broad aggregate fixed income market as measured by the Barclays Capital Aggregate Bond Index.

Long/Short Equity Asset Class

Investment options in this asset class seek to generate returns similar to the broad equity markets but with significantly less risk or volatility. The volatility reduction is typically achieved by utilizing investment strategies that seek to hedge out varying levels of directional exposure (beta) while focusing on individual security selection (alpha) to enhance returns. The asset class is expected to significantly outperform equity markets (long-only) in down markets and moderately lag in up markets. Within this asset class, strategies will generally focus on long/short equity investing but may also include investments in distressed debt or other securities on an opportunistic basis. In these strategies, the manager takes long positions in securities they feel are undervalued and subsequently takes short positions in securities they feel are overvalued. In contrast to traditional long-only strategies, the investment manager is given a great deal of flexibility in managing the net (long positions minus short positions) exposure of the portfolio. This flexibility allows the manager to appropriately position the portfolio based on the opportunities present in the marketplace at any given point in time.

Special Opportunity Asset Class

The Hyas Group generally includes both special opportunity and special situation investments under this broader asset classification. Special opportunity investments are created and defined by temporary cyclical dislocations (price declines/spikes) within a market that we believe create superior risk-adjusted returns on a forward looking basis. These dislocations are typically identified by comparing current valuations and market conditions against long-term historical averages and generally occur during periods of extreme market sentiment, both positive (short opportunities) and negative (long opportunities). Superior returns are expected as market sentiment and valuations revert to historical levels. By definition, these opportunities are temporary and require the purchase and sale of the underlying assets, typically within a short-to-intermediate time horizon.

Special situation investments typically defy conventional asset class definitions and may include investments in fringe asset classes, niche managers, industry specialists or thematic opportunities identified through our research efforts. In contrast to special opportunities, special situation investments may have longer-term investment horizons.

Recent examples of special opportunities have included the implementation of short REIT positions within client portfolios in 2007-2008 as well as long investments in distressed ABS securities, specifically RMBS securities, in 2008-2009. An example of special opportunity investments would include the utilization of healthcare sector specialists to

exploit favorable long-term demographic trends and extreme complexities of new drug discovery and changing health care legislation.

Global Equity Asset Class

This is a broad asset class where investable assets include publicly traded stocks across a broad range of markets and geographies. While the majority of this broader asset class generally consists of domestic (U.S.) equities, return and portfolio diversification enhancements can be achieved by including international equities within the equity portfolio.

The broad global equity asset class can be further broken down into more specific sub-asset classes as follows:

- **Domestic Equities** - Represents stock ownership in companies domiciled in the U.S. and whose prospects for earnings growth, overall business fundamentals and stock price fluctuations are heavily influenced by domestic economics and financial markets. The domestic equity market is further broken down by market capitalization. Large company equities are generally defined as companies with market capitalizations greater than \$10 billion. Mid company equities are defined as with market capitalizations between \$2 billion and \$10 billion. Small company equities are those with market capitalizations under \$2 billion.
- **Developed International Equities** - Represents stock ownership in companies domiciled outside the U.S. and in countries whose financial markets are reasonably established/developed. These companies generally have prospects for earnings growth, overall business fundamentals and stock price fluctuations that are more heavily influenced by their own local economy and financial markets. International equities are generally priced in foreign currencies and fluctuations in currency rates often have a meaningful impact on investor returns.
- **Emerging Market Equities** - Represents stock ownership in companies domiciled outside the U.S. and in countries whose financial markets are less established and generally viewed as still early on in their development. These companies generally have prospects for earnings growth, overall business fundamentals and stock price fluctuations that are more heavily influenced by their own local economy and financial markets. Emerging market equities are generally priced in foreign currencies and fluctuations in currency rates often have a meaningful impact on investor returns. This asset class is generally viewed to have significantly more political risk and markets tend to be less liquid.

Commodities Asset Class

Commodity investments represent financial interests in various natural resources/materials that are generally inputs into finished goods. Examples of popular commodities include foods, grains, oil and metals. While investors can invest directly (hard assets) in these commodities, most investors invest indirectly via financial instruments such as futures and exchange traded funds. Due to the lack of liquidity and high transaction costs associated with purchasing hard assets, general implementation is accomplished via passively managed exchange traded funds (ETFs).