INVESTMENT POLICY

I. Scope

This investment policy applies to all financial assets of the Chariho Regional School District (hereafter referred to as the District). These funds include all monies in the following:

General Fund
Debt Service Funds
Special Revenue Funds
Capital Project Funds
Enterprise Funds

As well as any new funds created by the governing body unless specifically exempted.

II. Objectives

Safety of principal is the foremost objective of the District's investment operations. Each transaction shall seek to ensure that capital losses are avoided either from security defaults or erosion of market value. To obtain this objective, the fund will incorporate internal safeguards to promote diversification and liquidity of funds. (See appendix for specific guidelines).

The investment portfolio of the District shall be designed to attain a market rate of return equal to the average return of 3 month U.S. Treasury Bills. This index is considered a benchmark for limited risk investment transactions and comprises a minimum standard for portfolio performance. The portfolio shall seek to augment this rate of return through transactions which are wholly consistent with the budgetary, economic and cash flow cycles which influence the portfolio.

III. Delegation of Authority

The responsibility for conducting investment transactions resides with the District Treasurer. All transfers of invested funds to new accounts shall require the authorization of the Treasurer and the Director of Administration. The Treasurer shall also be responsible for establishing and documenting, in writing, a system of internal operations and controls governing the District's investment transactions. These internal controls are subject to review by independent auditors.

IV. Prudence

The standard of prudence to be applied by the investment officer shall be the "prudent investor" rule which states "Investments shall be made with judgment and care, under circumstance then prevailing which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment considering probable safety of capital or well as probable income to be derived," which simply means that under varying economic conditions the portfolio will be adjusted to ensure safety of principal.

V. Instruments

Funds of the District may be invested in the following instruments:

* U.S. Treasury Bills
* Short term obligations of U.S. Government agencies
* Federally Insured or collateralized certificates of deposit
* Repurchase agreements collateralized by U.S. Treasury securities
* State investment pools
* Money market mutual funds whose portfolios consist of U.S. Government securities

The portion of total funds invested in these particular instruments is limited as stated in the appendix.

VI. Collateralization and Use of Agent

A. The collateralization of certificates of deposit or repurchase contracts must be in an amount at least 102% in market value to the amount of the deposit. FDIC insurance can be utilized to offset the collateral. Collateral must be of similar maturity as collateralized instrument. When consistent with general market practice, the Treasurer shall ensure that the value of the collateral also includes the amount of interest to be earned on the deposit.

B. When advised that the combined value of collateral and insurance is currently less than principal, the financial institution must agree to add collateral sufficient to eliminate the shortfall within 48 hours.

C. The financial institution must agree to deliver the collateral or confirmation to the Treasurer before the deposit is made to the institution.

D. The District shall enter into an agreement with each holder of collateral which, among other items, specifies that the holder is taking possession of the securities exclusively as collateral for the District; that the securities are free of any holder's claims against the financial institution with which the deposit is made; that any future claims against such financial institution are subordinate to the District's claim; and that written confirmation of delivery shall be provided to the District.

E. The District shall enter into a master agreement with each financial institution with which it makes certificate of deposit investments or repurchase agreements. The agreement shall stipulate the nature of the relationship and, among other items, specify that the collateral provided is for the exclusive benefit of the District and that all certificate of deposit investments are made in accordance with the master agreement. For each particular certificate of deposit investment or repurchase agreement, the institution shall provide confirmation to the District that the deposit is being made in accordance with the master agreement. The agreement shall also provide that each institution annually supply the District with a certificate of insurance, documenting its coverage for negligence, fraud or other illegal activity on the part of its employees.

F. Collateral shall consist of the physical securities, except in the case when the physical securities do not exist and then a book of entry will suffice.

VII. Ethics and Public Trust

All participants in the investment process shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism and integrity worthy of the public trust. Investment officials shall avoid any transaction that might impair public confidence of the District to effectively manage the portfolio.

Additionally, all participants in the investment process shall refrain from personal business activity that could conflict with proper execution of investment program or could impair their ability to make impartial decisions.

The District Treasurer shall disclose to the Director of Administration any financial interests in institutions which they conduct business activity and the Treasurer shall further disclose any personal financial/investment positions that could be related to the performance of the District's portfolio.

VIII. Reporting

On a quarterly basis, the Treasurer shall submit to the Director of Administration an investment report identifying by type of investment its interest rate and terms, and the name of the institution where the funds are invested.

On an annual basis, all investment transactions and performance shall be summarized in conjunction with the District's annual independent audit.

IX. State Laws and Regulations

All investment transactions by the District shall comply with any and all State Laws and Regulations governing the investment of public funds.

A P P E N D I X

I. Diversification and Liquidity

In order to safeguard principal, the portfolio shall at all times be encouraged to be comprised of at least three (3) separate investment instruments; with no one instrument holding more than 50% of total fund principal.

Furthermore, to ensure liquidity, at least 30% of the invested funds shall be in instruments which can be redeemed by the District on demand within one (1) business day.

Additionally, the activities of investment instruments shall coincide with projected cash flow needs. Investment units with the following maturities shall not exceed the specified limit of fund principal:

* 1-30 days	100%
* 31-90 days	80%
* 91-270 days	75%
* 271-365 days	50%
* 366-729 days	10%
* 730 + days	5%

The fund may not directly invest in instruments which have fixed maturities over 3 years.

Moreover, the portion of invested funds of the total portfolio shall not exceed the specified limit for each of the following investment instruments:

* U.S. Treasury bills	100%
* U.S. Govt. Agency Securities	100%
* Certificates of Deposit	100%
* Money Market Funds (R.I.)	100%
* State Investment Pools	75%
* Repurchase Agreements	50%

II. Internal Controls

A. PORTFOLIO MANAGEMENT

The Treasurer shall, at least once a week, review the status and position of the District's portfolio. Included in this review are the following steps:

1. Determine balance of general checking account.
2. Conduct a weekly cash flow analysis by projecting all anticipated expenses (payroll, a/p etc.). Among these weekly expenses the Treasurer shall at all times leave a minimum of one week's payroll in the general checking account to cover emergency situations.
3. After calculating expenses determine what funds, if any, are available for investment purposes.

4. Review current investment portfolio in terms of maturity, rate of return and liquidity and devise a strategy to comply with market conditions with constant consideration to rule of prudence.
5. Consult with the Director of Administration on the recommendations and alternatives for investment action.
6. The Treasurer will determine specific actions and implement.
7. All transactions shall be documented in writing by all involved parties. The Treasurer shall maintain a journal of investment transactions. Confirmation of all investment transactions from investment agents must be received in writing within three days of settlement date of such transactions.

B. CASH BUDGET AND CASH FLOW CYCLE

At the beginning of each fiscal year the Treasurer shall prepare a cash budget in order to determine a cash flow cycle for the upcoming year. A cash budget is a projection of expenditures and revenues by calendar month. This analysis will enable District officials to calculate the availability of funds for investment purposes during the fiscal year. This cash budget should consist of the following elements:

Revenues	Expenditures
Town's Appropriation	Education
Tuitions	Education
State Grants	Education
Federal Grants	Education
Housing Aid	Debt Service

C. INTEREST RATE FORECASTING

Perhaps the key factor in successfully managing an investment portfolio is the ability to accurately forecast the direction of interest rates. Interest rates, or the price of borrowing or lending money, are a heavy influence of market conditions and ultimately determine the behavior of investment managers as to the type of instruments as well as the maturity they opt to include in their portfolio.

The official charged with managing public funds can gauge the trend of interest rates by keying on the following indicators which affect economic conditions and the general business cycle.

* Federal Reserve's Discount Rate
* Federal funds rate
* Prime Rate of money center banks
* Three month U.S. Treasury bills
* Unemployment levels
* Gross National Product
* Leading Economic Indicators
* Consumer and Producer Price Index
* Oil prices ($/barrel of Texas crude)
* Gold prices ($/troy ounce)

* Foreign exchange rates
* Trade and Federal budget deficit/surplus

Obviously, none of these indicators can correctly forecast interest rates on an individual basis, however, if taken as a whole they can assist in such projections of future economic activity.

G L O S S A R Y

AGENT BANK - A federally insured intermediary under contract with the securities purchased by the District. Other responsibilities will be defined in agent-bank agreement.

BROKER/DEALER - A financial institution, other than a federally insured intermediary, engaged in the sale of U.S. Treasury obligations or other securities; such Broker/Dealer will be required to have insurance equal to principal investment.

CERTIFICATE OF DEPOSIT - A negotiable receipt from a federally insured intermediary for deposit of funds for a specified period of time at a specified rate of interest. A certificate of deposit ranges from 30 days to one year, and the minimum amount is generally $100,000.

COLLATERAL - Securities pledged to secure repayment of certificates of deposit and money market accounts.

REPURCHASE AGREEMENT - Consists of broker/dealer or bank selling U.S. Treasury securities for cash to the District and, at the same time, agreeing to buy them back on an established date and at an agreed-upon price, including interest. These short-term investments usually range from overnight to six months in term. repurchase agreements start at $100,000. Payment is made against the delivery of the securities. Delivery is required.

TREASURY BILLS - Short-term, direct obligations of the U.S. Government that are usually issued with maturities of three months, six months, or one year. Bills are offered in bearer form and are issued in the amounts of $10,000 and up, in multiples of $5,000. Bills do not bear a stated interest rate; the interest is calculated by taking the difference between the discount price paid at purchase and the face amount (par) collected at maturity.

TREASURY BOND/NOTES - Direct obligations of the U.S. Government to pay a specified rate of interest for a specified period of time on the face value (par) of the instrument. Interest is paid semi-annually, and the life of the notes is usually limited to ten years or under. Treasury notes with maturity through three years can usually be purchased in $5,000 denominations and require a $5,000 minimum purchase. Treasury obligations with a term longer than three years can usually be purchased in $1,000 denominations and require a $1,000 minimum purchase.

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