

APPROPRIATIONS AND REVENUE SOURCES
INVESTMENTS

CAK
(LOCAL)

Primary Objectives

The primary objectives of the College District's investment policy are:

1. Preservation of capital and protection of principal;
2. Safety of funds and investments;
3. Maintenance of sufficient liquidity;
4. Diversification to avoid unreasonable or avoidable risks; and
5. Yield.

Standard of Care

The College District's portfolio shall be designed and managed in accordance with the following prudent person standard of care.

Investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital as well as the probable income to be derived.

This prudent person standard shall apply to the management of all College District funds.

Investment Management

In accordance with Government Code 2256.005(b)(3), the quality and capability of investment management for College District funds shall be in accordance with the standard of care, investment training, and other requirements set forth in Government Code Chapter 2256. The Board may choose to utilize an investment adviser as an investment officer for the College District.

Liquidity and Diversity

To meet the investment objectives of the College District, the maturity of investments shall be targeted to coincide with the cash flow needs of the College District.

The investment portfolio shall be diversified to reduce the risk of loss of investment income from overconcentration of assets in a specific issue, a specific issue size, or a specific class of securities.

Nevertheless, the College District recognizes that in a diversified portfolio, occasional measured losses are inevitable and must be considered within the context of the overall portfolio's investment return. Also, it is intended that investments in all funds shall be managed in such a way that any market price losses resulting from interest rate volatility shall be offset by income received from the balance of the portfolio over a reasonable period of time as determined by the Board.

APPROPRIATIONS AND REVENUE SOURCES
INVESTMENTS

CAK
(LOCAL)

Monitoring Market Value

The investment officer shall monitor the investment portfolio and shall keep the Board informed of significant changes in the market value of the College District's investment portfolio through monthly and quarterly reporting. Information sources shall be independent and may include financial/investment publications and electronic media, available software for tracking investments, depository banks, commercial or investment banks, and financial advisers. Reports shall be provided to the Board monthly.

Monitoring Rating Changes

In accordance with Government Code 2256.005(b), the investment officer shall develop a procedure to monitor changes in investment ratings and to liquidate investments that do not maintain satisfactory ratings as conditions warrant.

Monitoring of mergers and acquisitions is required for brokered certificate of deposit securities to ensure Federal Deposit Insurance Corporation (FDIC) coverage. Immediate liquidation is required if a merger has reduced the FDIC coverage.

Authorized Investments

The College District's investment authority is derived from the Public Funds Investment Act (Government Code 2256) and described further in statute and CAK(LEGAL) under Authorized Investments.

The Board authorizes investment of College District funds, including bond proceeds and pledged revenue to the extent allowed by law, in only the following investment types, consistent with the strategies and maturities defined in this policy. Changes require Board approval and amendment. They include:

1. Obligations of the U.S. Government, its agencies, or instrumentalities excluding all mortgage-backed securities.
2. Fully collateralized repurchase agreements and reverse repurchase agreements having a defined termination date and secured by any obligation of the United States, its agencies, or its instrumentalities, to include certain mortgage-backed securities of a U.S. agency. The repurchase and reverse repurchase agreement transactions are to be placed only with primary government securities dealers or state or national banks doing business in the state of Texas. Repurchase agreements are to be collateralized at 102 percent daily.
3. FDIC insured or collateralized depository certificates of deposit issued by state or national banks domiciled in the state of Texas and insured by the FDIC or its successor. The certificates must be styled in the name of the College District. Collateral for time and demand deposits shall be in accordance with this policy.

APPROPRIATIONS AND REVENUE SOURCES
INVESTMENTS

CAK
(LOCAL)

4. Fully insured share certificates of credit unions in Texas insured by the National Credit Union Share Insurance Fund.
5. AAA-rated, SEC-registered money market mutual funds, which strive to maintain a \$1 net asset value (NAV). The fund must be rated AAA or its equivalent by at least one nationally recognized investment rating firm.
6. Texas local government investment pools that are continuously rated no lower than AAA, AAA-m, or an equivalent by at least one nationally recognized rating service. The fund must strive to maintain a \$1 NAV with a weighted average maturity no greater than 60 days.
7. Commercial paper rated not less than A-1 or P-1 or an equivalent rating by at least:
 - a. Two nationally recognized credit rating agencies; or
 - b. One nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state.
8. Obligations of any U.S. state or subdivision or institution of higher learning rated "A" or better by a nationally recognized credit rating agency.
9. Fully insured or collateralized interest-bearing accounts in any financial institution doing business in Texas, to include spread product fully insured by the FDIC or its successor.
10. Fully insured brokered certificate of deposit securities of any bank in the U.S. and insured by the FDIC.

Competitive Bidding

All transactions (trades, purchases, and sales) shall be handled through a documented competitive bidding process. The investment officer shall maintain a log of investment transactions and shall be required to obtain at least three bids/offers from Board-authorized brokers/dealers when purchasing or selling securities. New issue agencies will be compared to comparable market securities before award.

Collateralization

Pledged Collateral

Collateralization is required on all bank time and demand deposits over the applicable FDIC insurance coverage. All securities pledged to the College District for these deposits shall be held by an independent third-party institution outside the holding company of the pledging bank with written confirmation.

APPROPRIATIONS AND REVENUE SOURCES
INVESTMENTS

CAK
(LOCAL)

To anticipate market changes and provide a level of additional security for all funds, the market value of the collateral will be maintained at 102 percent of total principal and accrued interest. The depository will be responsible for monitoring and maintaining the collateral and margins at all times. The custodian will provide monthly reports detailing the collateral. Collateral will be pledged under the terms of a written depository agreement addressing acceptance, substitution, and valuation of collateral, executed under the terms of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA). The agreement shall be approved by resolution of the bank's board or loan committee.

Acceptable collateral shall include only:

- Obligations of the United States, its agencies, or instrumentalities including mortgage-backed securities and CMO, which pass the Federal Reserve bank test;
- Direct obligations of the state of Texas, its agencies, or instrumentalities; or
- Other state and local government bonds or obligations rated not less than "A" or its equivalent.

Repurchase
Agreements Owned
Collateral

Collateral under a repurchase agreement is owned by the College District. It will be held by an independent third-party safekeeping agent approved by the College District under an executed Master Repurchase Agreement. Collateral with a market value totaling 102 percent of the principal and accrued interest is required, and the counterparty is responsible for the monitoring and maintaining of collateral and margins at all times.

Ethics Disclosure

Prior to handling investments on behalf of the College District, a broker/dealer or a qualified representative of a business organization must submit required written documents in accordance with law.

Representatives of brokers/dealers shall be registered with the Texas State Securities Board and must have membership in the Securities Investor Protection Corporation (SIPC), and be in good standing with the Financial Industry Regulatory Authority (FINRA).

The Board-designated investment officers, the College President, the vice president of finance and administration, the controller, and the Board must disclose personal business and certain family relationships with any entity seeking to sell investments, and a copy of each such disclosure statement must be filed with the governing body of the investing entity and the Texas Ethics Commission.

APPROPRIATIONS AND REVENUE SOURCES
INVESTMENTS

CAK
(LOCAL)

Safekeeping

To protect against potential fraud and embezzlement, the securities of the College District shall be secured through a third-party safekeeping relationship and delivery-versus-payment procedures as designated by the College District. The safekeeping will be under an executed safekeeping agreement.

Portfolio Reports

A monthly and quarterly management portfolio report shall be prepared by the investment officers relating to investments of the College District in accordance with statute. The report must:

1. Describe in detail the investment position of the entity on the date of the report;
2. Be prepared jointly by all investment officers of the entity;
3. Be prepared jointly and signed by the investment officers;
4. Contain a summary statement of each pooled fund group (sub portfolio) that states the:
 - a. Beginning market value for the reporting period;
 - b. Additions and changes to the market value during the period;
 - c. Ending market value for the period; and
 - d. Fully accrued interest for the reporting period.
5. State the book value and market value of each separately invested asset at the beginning and ending of the reporting period by the type of asset and fund invested;
6. State the stated maturity date of each separately invested asset that has a maturity date;
7. State the account, fund, or pooled group fund for which each individual investment was acquired; and
8. State the compliance of the investment portfolio as it relates to:
 - a. The investment strategy expressed in the investment policy; and
 - b. Other relevant provisions of the investment policy.

Market values shall be obtained from an independent source.

Interest Rate Risk

To reduce exposure to changes in interest rates that could adversely affect the value of investments, the College District shall

APPROPRIATIONS AND REVENUE SOURCES
INVESTMENTS

CAK
(LOCAL)

use stated maturities and weighted-average-maturity limits for reporting purposes and maintain diversification.

Investment Training

Each member of the Board shall attend at least one investment training session or view the state-approved investment training video within six months after taking office or assuming duties.

The training must include education in investment controls, security risks, strategy risks, market risks, as well as compliance with the Texas Public Funds Investment Act.

In addition, the investment officers shall attend a training session of ten hours within 12 months of designation and not less than once in a fiscal two-year period. Instruction will relate to investment responsibilities and risk from an independent source approved by the Board.

Investment Authorization

The Board will designate, by resolution, the investment officers. The College President or designee shall serve as the investment officer of the College District and shall invest College District funds in accordance with the College District's Board-approved written investment policy and generally accepted accounting procedures.

Prior Authorized Investments

Authorized investment securities acquired under statute or College District policy that are no longer authorized are not required to be liquidated before the final stated maturity of the investment. However, proceeds must be reinvested under currently authorized policy.

Investment Strategy

All College District funds shall be invested in a manner consistent with the following ranked criteria:

1. Preservation of capital and protection of principal;
2. Safety of funds and investments;
3. Maintenance of sufficient liquidity;
4. Diversification to avoid unreasonable or avoidable risk; and
5. Yield.

Diversification and Suitability

The portfolio shall be designed with the protection of principal and maintenance of sufficient liquidity as the highest priority of the investment strategy. After consideration of safety and liquidity, the College District portfolio shall be directed towards achieving a competitive yield. The risk-return relationship shall be maintained and controlled through these investment parameters, operating requirements, and the guiding Board policies. Market and security risks

APPROPRIATIONS AND REVENUE SOURCES
INVESTMENTS

CAK
(LOCAL)

shall be minimized by adequate collateralization and delivery-versus-payment procedures, which shall be utilized at all times.

Market and credit risk shall be minimized by diversification. Diversification by market sector and security types, as well as maturity, will be used to protect the College District against market and credit risk as well as aiding in liquidity requirements. The portfolio shall be structured to benefit from anticipated market conditions and to achieve a reasonable yield.

Cash needs and cash expectations shall take priority in designing and structuring the portfolio. Income and expenditure history shall be developed and periodically updated to determine the liquidity needs of the College District. These cash flow needs shall be used to develop the maturity structure of the portfolio and shall be designed to ensure sufficient liquidity as needed. The maturities of the investments shall be distributed such that there will be a continuing stream of securities maturing at frequent intervals.

Maximum Maturities

The College District funds may be combined for investment purposes recognizing the unique needs and uses of the funds represented. The maximum maturity for College District funds is five years. The maximum weighted average maturity of the total portfolio is two years.

Authorized Brokers / Dealers

The investment officer will maintain a list of financial institutions and brokers/dealers authorized to do business with the College District. These firms will be selected according to credit worthiness and service. All brokers/dealers must provide the investment officer with:

1. FINRA registration;
2. Registration with the Texas State Securities Commission; and
3. Completed College District questionnaire.

All authorized brokers/dealers will be sent the investment policy and any changes made in the future.

In accordance with statute, a copy of the investment policy shall be presented to any pool in which the city participates for certification.

Review of Investment Policy

The Board shall review the investment policy and investment strategies not less than annually and, upon review, shall adopt a resolution that shall confirm the review and shall include any changes to the policy or strategies.

Annual Audit

In conjunction with the annual financial audit, the investment officers of the College District shall perform a compliance internal audit

of management controls on investments and adherence to the College District's established investment policies and state law.