

APPROPRIATIONS AND REVENUE SOURCES
INVESTMENTS

CAK
(LOCAL)

GENERAL STATEMENT	<p>This policy serves to satisfy the statutory requirements of Government Code Chapter 2256 Public Funds Investment Act (PFIA) to define and adopt a formal investment policy. This policy will be reviewed and adopted by resolution at least annually according to Section 2256.005(e).</p>
FUNDS INCLUDED	<p>This investment policy applies to all financial assets of all funds of the College District, at the present time and any funds to be created in the future, unless expressly prohibited by law or unless it is in contravention of any depository contract between the College District and any depository bank. Endowment, deferred compensation, and pension funds are excluded from this policy.</p>
COLLEGE INVESTMENT OFFICER	<p>The chief financial officer and controller of the College District, acting on behalf of the Board, are designated as the investment officers and are responsible for investment management decisions and activities. The Board is responsible for considering the quality and capability of staff, investment advisers, and consultants involved in investment management and procedures. All participants in the investment process shall seek to act responsibly as custodians of the public trust. Funds that are not immediately required to pay obligations of the College District may be invested according to the Board's approved policy.</p> <p>If the investment officer has a personal business relationship with an entity—or is related within the second degree by affinity or consanguinity to an individual—seeking to sell an investment to the College District, the investment officer must file a statement disclosing that personal business interest—or relationship—with the Texas Ethics Commission and the Board in accordance with Government Code 2256.005(i).</p> <p>An investment officer shall attend a training session not less than once each state fiscal biennium and may receive training from any independent source approved by the governing body of the state agency. Additionally, the investment officers shall attend an investment training session not less than once in a two-year period, which begins on the first day of that local government's fiscal year and consists of the two consecutive fiscal years after that date, and shall receive not less than ten hours of instruction relating to investment responsibilities under this subchapter from an independent source approved by the governing body of the local government or a designated investment committee advising the investment officers as provided for in the investment policy of the local government.</p>

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INVESTMENT OBJECTIVES	Funds of the College District will be invested in accordance with federal and state laws, this investment policy, and written administrative procedures. The College District will invest according to investment strategies for each fund as they are adopted by Board resolution in accordance with Section 2256.005(d).
GENERAL STATEMENT	
SAFETY AND MAINTENANCE OF ADEQUATE LIQUIDITY	The College District is concerned about the return of its principal; therefore, safety of principal is a primary objective in any investment transaction involving funds subject to the PFIA (Section 2256.005(b)(2)). The College District's investment portfolio must be structured in conformance with an asset/liability management plan, which provides for liquidity necessary to pay obligations as they become due.
DIVERSIFICATION	It will be the policy of the College District to diversify its portfolio to mitigate the risk of loss related to overconcentration of assets in a specific maturity, a specific issuer, or a specific class of investments. Investments of the College District for funds subject to the PFIA shall always be selected to provide for stability of income and reasonable liquidity (Section 2256.005 (b)(3)).
YIELD	It will be the objective of the College District to earn the maximum rate of return available on its investments within the policies imposed by its safety and liquidity objectives, investment strategies for each fund, and state and federal law governing investment of public funds (Section 2256.005 (b)(3)).
MATURITY	Portfolio maturities will be structured to meet the known financial obligations of the College District first and then to achieve the highest return of interest. When the College District has funds that will not be needed to meet current-year obligations, maturity restraints will be imposed based upon the investment strategy for each fund. The practice of the College District will be to impose a stated maximum maturity of any individual investment owned by the College District of ten years.
QUALITY AND CAPABILITY OF INVESTMENT MANAGEMENT	It is the College District's policy to provide training required by the PFIA, Section 2256.007 and periodic training in investments for the College District investment officers through courses and seminars offered by qualified organizations in order to ensure the quality, capability, and currency of the College District investment officers in making investment decisions. The investment officers shall attend at least one training session of at least ten hours relating to the officers' responsibility under the PFIA within six months after assuming duties and shall attend an investment training session not less than once every two years.

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METHOD USED TO
MONITOR MARKET
PRICE OF
INVESTMENTS

Market values of investments will be obtained from published sources of general circulation where possible. In the absence of published data, other sources including authorized financial institutions and brokers/dealers may be used. The investment portfolio shall be marked-to-market not less than quarterly.

INVESTMENT
STRATEGY

The College District's investment strategy for funds subject to the PFIA is designed to accomplish the objectives of safety of principal with liquidity and current income. Funds specifically excluded by law from the PFIA may be invested in a prudent manner according to the investment objectives appropriate to the nature of the funds. The strategies listed below are intended to accommodate the characteristics and intended uses of the varying types of College District funds and to comply fully with the PFIA.

OPERATING FUNDS

Investment strategy for operating funds is to ensure that anticipated cash flows are matched with adequate safety of principal and liquidity. This may be accomplished by purchasing high quality, short-to-medium-term securities either directly or through the use of short-term investment funds designed to accomplish the same objective. Examples of such funds would be money market funds, the state treasury's Texpool fund, the Common Fund short-term cash funds, or other similar short-term funds.

DEBT SERVICE
FUNDS

Investment strategies for debt service funds have as the primary objective the safety of principal and assurance of investment liquidity adequate to cover the debt service obligation on the required payment date. This may be accomplished by purchasing high quality securities either directly or through the use of investment funds designed to accomplish the same objective. Any fixed income security or money market vehicle authorized by this policy is suitable for the debt service fund provided that it matures on or prior to the obligation date.

SPECIAL PROJECT
FUNDS

Investment strategies for special projects or special purpose fund portfolios will have as their primary objective to ensure that anticipated cash flows are matched with safety of principal and adequate investment liquidity. This may be accomplished by purchasing high quality securities with maturities appropriate to the purposes of the project fund either directly or through the use of short-term investment funds designed to accomplish the same objective. Investment of bond funds also requires adherence to bond covenants specific to individual issues.

RESERVE FUNDS

Reserve funds generally do not have a need for liquidity. Therefore, strategies for reserve funds shall have as the primary objective the ability to generate a dependable revenue stream from securities, which have a low degree of credit risk. Securities should be of high quality and, except as may be required by the bond or-

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dinance specific to an individual issue, be of short- to intermediate-term maturity with stated final maturities not exceeding ten years.

INVESTMENT TYPES
AUTHORIZED
INVESTMENTS

The College District investment officer shall use any or all of the following authorized investment instruments consistent with governing law for funds subject to the PFIA (Government Code 2256).

Except as provided by Government Code 2256.009(b), the following are authorized investments:

1. Obligations of the United States or its agencies and instrumentalities.
2. Direct obligations of this state or its agencies and instrumentalities.
3. Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States.
4. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of this state or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or by the explicit full faith and credit of the United States.
5. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than AA or its equivalent.
6. Certificates of deposit (CDs) if issued by a depository institution with its main office or a branch office in Texas and are:
 - a. Guaranteed or insured by the FDIC or its successor;
 - b. Secured by obligations that are described by Section 2256.009(a) of the PFIA, including mortgage-backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates but excluding those mortgage-backed securities of the nature described by Section 2256.009(b) of the PFIA; or
 - c. Secured in any other manner and amount provided by law for deposits of the College District.

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7. In addition, the following CD type is authorized provided that the following conditions are met:
 - a. The funds are invested through a depository institution or broker that has its main office or a branch office in Texas and is selected from a list adopted by the College District as required by Section 2256.025.
 - b. The broker or the depository institution selected by the College District arranges for funds to be deposited in one or more federally insured depository institutions, wherever located, for the account of the College District.
 - c. The full principal and interest amount of each CD is insured by the United States or an instrumentality of the United States.
 - d. The selected depository institution, an entity described by Section 2257.041(d), or a clearing broker/dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the various certificates issued for and held in the account of the College District.

8. A fully collateralized repurchase agreement, as defined in the PFIA, if it:
 - a. Has a defined termination date;
 - b. Is secured by a combination of cash and obligations described by Section 2256.009(a) (1) of the PFIA;
 - c. Requires the securities being purchased by the College District or cash held by the College District to be pledged to the College District, held in the College District's name, and deposited at the time the investment is made with the College District or with a third party selected and approved by the College District; and
 - d. Is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state.

Notwithstanding any law, the term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered.

Money received by the College District under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized in-

vestments acquired must mature not later than the expiration date stated in the reverse security repurchase agreement.

9. A bankers' acceptance if it:
 - a. Has a stated maturity of 270 days or fewer from the date of its issuance;
 - b. Will be, in accordance with its terms, liquidated in full at maturity;
 - c. Is eligible for collateral for borrowing from a Federal Reserve Bank; and
 - d. Is accepted by a bank organized and existing under the laws of the United States or any state if the short-term obligations of the bank, or of a bank holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or an equivalent rating by at least one nationally recognized credit rating agency.
10. Commercial paper is an authorized investment under this subchapter if the commercial paper:
 - a. Has a stated maturity of 270 days or fewer from the date of its issuance; and
 - b. Is rated not less than A-1 or P-1 or an equivalent rating by at least two nationally recognized credit rating agencies or by 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.
11. Mutual funds and money market mutual funds with limitations described below:
 - a. A no-load money market mutual fund is authorized if it:
 - (1) Is regulated by the Securities and Exchange Commission;
 - (2) Has a dollar-weighted average stated maturity of 90 days or fewer; and
 - (3) Includes in its investment objectives the maintenance of a stable net asset value of \$1 for each share.
 - b. A no-load mutual fund is authorized if it:

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- (1) Is registered with the Securities and Exchange Commission;
 - (2) Has an average weighted maturity of less than two years;
 - (3) Is invested exclusively in obligations approved by this subchapter;
 - (4) Is continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent; and
 - (5) Conforms to the requirements set forth in Sections 2256.016(b) and (c) relating to the eligibility of investment pools to receive and invest funds of investing entities.
- c. Relative to mutual funds and money market mutual funds, the College District may not:
- (1) Invest in the aggregate more than 80 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in money market mutual funds or mutual funds, either separately or collectively;
 - (2) Invest in the aggregate more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in mutual funds;
 - (3) Invest any portion of bond proceeds, reserves, and funds held for debt service in mutual funds; or
 - (4) Invest its funds or funds under its control, including bond proceeds and reserves and other funds held for debt service, in any one mutual fund or money market mutual fund in an amount that exceeds ten percent of the total assets of the mutual fund or money market mutual fund.

ELIGIBLE
INVESTMENT
POOLS

As discussed in the PFIA, Section 2256.016–2256.019, the Board by resolution may authorize investment in a particular pool. An investment pool shall invest the funds it receives from entities in authorized investments permitted by the PFIA. An investment pool may invest its funds in money market mutual funds to the extent permitted by and consistent with this subchapter and the investment policies and objectives adopted by the investment pool.

The following guidelines shall apply:

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1. To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must furnish to the investment officer or other authorized representative of the entity the yield and expense ratio of the pool, including a statement regarding how yield is calculated.
2. To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, a public funds investment pool created to function as a money market mutual fund must mark its portfolio to a market daily, and, to the extent reasonably possible, stabilize at a \$1 net asset value. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005, portfolio holdings shall be sold as necessary to maintain the ratio between 0.995 and 1.005. In addition to the requirements of its investment policy and any other forms of reporting, a public funds investment pool created to function as a money market mutual fund shall report yield to its investors in accordance with regulations of the federal Securities and Exchange Commission applicable to reporting by money market funds.
3. If the investment pool operates an Internet website, the information in a disclosure instrument or report described in Subsections (b), (c)(2), and (f) in Section 2256.016, Government Code must be posted on the website.
4. To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must make available to the College District an annual audited financial statement of the investment pool in which the entity has funds invested.
5. If an investment pool offers fee breakpoints based on fund balances invested, the investment pool in advertising investment rates must include either all levels of return based on the breakpoints provided or state the lowest possible level of return based on the smallest level of funds invested.
6. A public funds investment pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.

Institutions of higher education are permitted the following additional investments under Section 2256.020 of the Act:

1. Cash management and fixed income funds sponsored by organizations exempt from federal income taxation under Sec-

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tion 501 (f), Internal Revenue Code of 1986 (26 U.S.C. Section 501 (f));

2. Negotiable CDs issued by a bank that has a CD rating of at least 1 or the equivalent by a nationally recognized credit rating agency or that is associated with a holding company having a commercial paper rating of at least A-1, P-1, or the equivalent by a nationally recognized credit rating agency; and
3. Corporate bonds, debentures, or similar debt obligations rated by a nationally recognized investment rating firm in one of the two highest long-term rating categories, without regard to gradations within those categories.

PROHIBITED
INVESTMENTS
UNDER SECTION
2256.009(B) OF THE
ACT

The College District investment officer has no authority to use any of the following investment instruments for funds subject to the PFIA:

1. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
2. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
3. Collateralized mortgage obligations that have a stated final maturity date of greater than ten years; or
4. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

CREDIT
DOWNGRADE
PROVISION

An investment that requires a minimum rating does not qualify as an authorized investment during the period the investment does not have the minimum rating. The College District shall take all prudent measures that are consistent with its investment policy to liquidate an investment that does not have the minimum rating.

INVESTMENT
RESPONSIBILITY AND
CONTROL

The College District investment officer shall invest College District funds with any or all of the following institutions or groups consistent with federal and state law and the current depository bank contract:

AUTHORIZED
BROKERS /
DEALERS AND
FINANCIAL
INSTITUTIONS

1. Depository bank;
2. Other state or national banks that are insured by the FDIC;
3. Public funds investment pools;
4. Registered securities brokers, dealers, and money managers;

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5. Mutual fund companies; and
6. Organizations exempt under Internal Revenue Code 501(f).

QUALIFICATIONS
FOR APPROVAL OF
BROKERS /
DEALERS

In accordance with 2256.005(k), a written copy of this investment policy shall be presented to any person seeking to sell to the College District an authorized investment. The registered principal of the business organization seeking to sell an authorized investment shall execute a written instrument substantially to the effect that the registered principal has:

1. Received and thoroughly reviewed the investment policy of the College District; and
2. Acknowledged that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between the College District and the organization.

The investment officer may not buy any securities from a person who has not delivered to the College District an instrument in substantially the form provided above according to Section 2256.005(l).

DELIVERY VS.
PAYMENT

For funds subject to the PFIA, it will be the policy of the College District that all treasury bills, notes and bonds, and government agencies' securities shall be purchased using the Delivery vs. Payment (DVP) method through the Federal Reserve System. By so doing, College District funds are not released until the College District has received, through the Federal Reserve wire, the securities purchased.

CONTROLS AND
PROCEDURES

The investment officer shall establish a system of written internal controls, which shall be reviewed annually by independent auditors. The controls shall be designed to prevent loss of funds due to fraud, error, misrepresentation, unanticipated market changes, or imprudent actions. The College District shall establish procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the provisions of Section 2256.021. The internal controls are to be reviewed annually in conjunction with an external independent audit. This review will provide assurance of compliance with policies and procedures as specified by this policy. The College District, in conjunction with its annual financial audit, shall perform a compliance audit of management controls and adherence to the College District's established investment policy.

AUDIT CONTROL

The Board, at a minimum, will have an annual financial audit of all College District funds by an independent auditing firm, as well as a

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full compliance audit of management controls on investments every other year as required by state law and adherence to the entity's established investment policies in accordance with Government Code 2256.005(m).

STANDARD OF
CARE

In accordance with Government Code 2256.006, 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 and the probable income to be derived. Investment of funds subject to the PFIA shall be governed by the following investment objectives, in order of priority: preservation and safety of principal, liquidity, and yield. Investment of funds not subject to the PFIA shall be governed by investment objectives appropriate to each fund.

In determining whether an investment officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

1. The investment of all funds, or funds under the College District's control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment; and
2. Whether the investment decision was consistent with the written investment policy of the College District.

The investment officer, acting in accordance with written policies and procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, provided that these deviations are reported in a timely manner and that appropriate action is taken to control adverse developments.

CHANGE IN THE
LAW

The College District is not required to liquidate investments that were authorized investments at the time of purchase (Government Code 2256.017).

INVESTMENT
REPORTING AND
PERFORMANCE
EVALUATION

QUARTERLY
REPORT

In accordance with Government Code 2256.023, not less than quarterly, the Board shall receive a written report of investment transactions for all funds for the preceding reporting period within a reasonable time after the end of the period. The report must:

1. Describe in detail the investment position of the College District on the date of the report;
2. Be prepared jointly by all investment officers of the College District;

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3. Be signed by each investment officer of the College District;
4. Contain a summary statement of each pooled fund group that states the:
 - a. Beginning market value for the reporting period;
 - b. Ending market value for the period; and
 - c. Fully accrued investment interest as of the quarter ending period.
5. State the book value and market value of each separately invested asset at the end of the reporting period by the type of asset and fund type invested;
6. State the maturity date of each separately invested asset that has a maturity date;
7. State the account or fund or pooled group fund in the College District for which each individual investment was acquired; and
8. State the compliance of the investment portfolio of the College District as it relates to:
 - a. The investment strategy expressed in the College District's investment policy; and
 - b. Relevant provisions of this chapter.

NOTIFICATION OF
INVESTMENT
CHANGES

The Board shall be notified of any significant changes in current investment methods and procedures prior to their implementation, regardless of whether they are authorized by this policy.

COLLATERAL AND
SAFEKEEPING

COLLATERAL AND
INSURANCE

The College District investment officer shall ensure that all College District depository funds subject to the PFIA are fully collateralized or insured consistent with federal and state law and the current bank depository contract in one or more of the following manners:

1. FDIC insurance coverage; and
2. Obligations of the United States or its agencies and instrumentalities.

SAFEKEEPING

All purchased securities subject to the PFIA shall be held in safekeeping by the College District, a College District account in a third-party financial institution, or with the Federal Reserve Bank.

All CDs, insured by the FDIC, purchased outside the depository bank shall be held in safekeeping by either the College District or a College District account in a third-party financial institution.

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All pledged securities by the depository bank shall be held in safe-keeping by the College District, a College District account in a third-party financial institution, or with a Federal Reserve Bank.