

APPROPRIATIONS AND REVENUE SOURCES
INVESTMENTS

CAK
(LOCAL)

The College District shall invest all available funds in conformance with these legal and administrative guidelines.

Investment Authority

The President and other person(s) designated by Board resolution shall serve as the investment officer(s) of the College District and shall invest College District funds as directed by the Board and in accordance with the College District's written investment policy and generally accepted accounting procedures. All investment transactions except investment pool funds and mutual funds shall be settled on a delivery versus payment basis.

Authorized
Resolution

A trading resolution shall be established with this investment policy, authorizing the investment officer(s) or agent to engage in investment transactions on behalf of the College District. The trading resolution shall be used to establish brokerage and banking accounts in the performance of this policy. The persons authorized by the trading resolution to transact business for the College District are also authorized to approve wire transfers used in the process of investing.

Prudence

The standard of prudence to be used in the investment function shall be the "prudent person" standard and shall be applied in the context of managing the overall portfolio. This standard states:

"Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the expected income to be derived."

LIMITATION OF
PERSONAL
LIABILITY

The College President, investment officers, and those delegated investment authority under this policy, when acting in accordance with the written procedures and all applicable policies and in accordance with the Prudent Person Rule, shall be relieved of personal responsibility and liability in the management of the College District's portfolio provided that deviations from expectations for a specific security's credit risk or market price change or portfolio shifts are reported in a timely manner and that appropriate action is taken to control adverse market effects.

**Approved
Investment
Instruments**

From those investments authorized by law and described further in CAK(LEGAL) under Authorized Investments, the Board shall permit investment of College District funds, including bond proceeds and pledged revenue to the extent allowed by law, in only the following

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investment types, consistent with the strategies and maturities defined in this policy:

1. Obligations of, or guaranteed by, governmental entities, as permitted by Government Code 2256.009.
2. Certificates of Deposit and share certificates as permitted by Government Code 2256.010.
3. Fully collateralized repurchase agreements permitted by Government Code 2256.011.
4. A securities lending program as permitted by Government Code 2256.0115
5. Banker's acceptances as permitted by Government Code 2256.012.
6. Commercial paper as permitted by Government Code 2256.0013
7. No-load mutual funds, except for bond proceeds, and no-load money market mutual funds as permitted by Government Code 2256.014.
8. A guaranteed investment contract as investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.105
9. Public funds investment pools as permitted by Government Code 2256.016
10. Cash management and fixed income funds as permitted by Government Code 2256.020.
11. Negotiable certificates of deposits as permitted by Government Code 2256.020.
12. Corporate bond, debentures, or similar debt obligations as permitted by Government Code 2256.020.

Investments in collateralized mortgage obligations are strictly prohibited. In accordance with Texas state law, the following are not authorized investments:

1. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pay no interest;

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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 of greater than ten years; and
4. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Safety

The primary goal of the investment program is to ensure safety of principal, to maintain liquidity, and to maximize financial returns within current market conditions in accordance with this policy. Investments shall be made in a manner that ensures the preservation of capital in the overall portfolio, and offsets during a 12-month period any market price losses resulting from interest-rate fluctuations by income received from the balance of the portfolio. No individual investment transaction shall be undertaken that jeopardizes the total capital position of the overall portfolio.

**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.

**Liquidity and
Maturity**

Any internally created pool fund group of the College District shall have a maximum dollar weighted maturity of 180 days. The maximum allowable stated maturity of any other individual investment owned by the College District shall not exceed one year from the time of purchase. The Board may specifically authorize a longer maturity for a given investment, within legal limits.

The College District's investment portfolio shall have sufficient liquidity to meet anticipated cash flow requirements.

Diversity

The investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from overconcentration of assets in a specific class of investments, specific maturity, or specific issuer.

**Monitoring Market
Prices**

The investment officer(s) 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. Information sources may include financial/investment publications and elec-

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tronic media, available software for tracking investments, depository banks, commercial or investment banks, financial advisers, and representatives/advisers of investment pools or money market funds. Monitoring shall be done more often as economic conditions warrant by using appropriate reports, indices, or benchmarks for the type of investment.

Monitoring Rating Changes

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

Collateralization

Consistent with the requirements of state law, the College District requires all banks, savings banks, and credit union deposits to be federally insured or collateralized with eligible obligations. Financial institutions serving as College District depositories shall be required to sign an agreement with the College District in compliance with federal regulations. The agreement shall require compliance with the PFIA and this investment policy, establish an independent custodian for all pledged collateral, define the eligible collateral and the College District's rights to the collateral in case of default, bankruptcy, or closing, and establish a perfected security interest in compliance with federal and state regulations.

Allowable Collateral

For financial institution deposits, the eligible types of collateralization of deposits are defined by the "Public Funds Collateral Act" (Chapter 2257, Texas Government Code). The eligibility of specific issues may at times be restricted or prohibited, at the sole discretion of the College District.

For repurchase agreements, collateral underlying the repurchase agreement is limited to cash and U.S. government and agency obligations, which are eligible for wire transfer (i.e., book entry) to the College District's designated custodian through the Federal Reserve System.

Collateral Levels

Collateral is valued at current market plus interest accrued through the date of valuation.

Monitoring Collateral Adequacy

For financial institution deposits, the College District requires monthly reports with market values of pledged securities from all financial institutions with which the College District has collateralized deposits. The College District shall regularly monitor the adequacy of collateral.

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For repurchase agreements, regular monitoring by the College District of all collateral underlying repurchase agreements shall be required. More frequent monitoring may be necessary during periods of market volatility.

Collateral
Substitution

Collateralized deposits often require substitution of collateral. Any broker/dealer or financial institution requesting substitution must contact the investment officer(s) for approval and settlement. The substituted collateral's value will be calculated and substitution approved if its value is equal to or greater than the required value [see Collateral Levels]. The investment officer(s) shall give immediate notification of the decision to the custodian holding the collateral. Substitution is allowable for all transactions but should be limited, if possible, to minimize potential administrative problems and transfer expense. The investment officer(s) may limit substitution and assess appropriate fees if substitution becomes excessive or abusive.

Collateral
Reductions

Should the collateral's market value exceed the required amount, any broker/dealer or financial institution may request approval from the investment officer(s) to reduce collateral. Collateral reductions may be permitted only if the College District's records indicate that the collateral's market value exceeds the required amount.

Funds / Strategies

Investments of the following fund categories shall be consistent with this policy and in accordance with the applicable strategy defined below. All strategies described below for the investment of a particular fund should be based on an understanding of the suitability of an investment to the financial requirements of the College District and consider preservation and safety of principal, liquidity, marketability of an investment if the need arises to liquidate before maturity, diversification of the investment portfolio, and yield.

Operating and
Operating Reserve
Funds

Investment strategies for operating funds and operating reserve funds (including any commingled pools containing operating funds) shall have as their primary objectives the preservation and safety of principal, investment liquidity, and maturity sufficient to meet anticipated cash flow requirements.

Debt Service Funds

Investment strategies for debt service funds shall have as their primary objectives preservation and safety of principal, investment liquidity, and maturity sufficient to meet anticipated cash flow requirements.

Custodial (Agency)
Funds

Investment strategies for custodial (agency) funds shall have as their primary objectives preservation and safety of principal, investment liquidity, and maturity sufficient to meet anticipated cash flow requirements.

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Capital Project Funds	Investment strategies for capital project funds shall have as their primary objective the preservation and safety of the principal and sufficient investment liquidity to timely meet capital project obligations. Maturities longer than one year are authorized provided legal limits are not exceeded.
Safekeeping and Custody	The College District shall retain clearly marked receipts providing proof of the College District's ownership. The College District may delegate, however, to an investment pool the authority to hold legal title as custodian of investments purchased with College District funds by the investment pool.
Sellers of Investments / Authorized Financial Dealers and Institutions	Securities shall only be purchased from those institutions included on the College District's approved list of brokers/dealers. This list of approved brokers/dealers shall be reviewed at least annually by the College District's investment officers. Prior to handling investments on behalf of the College District, a broker/dealer or 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).
Soliciting Bids for CDs	In order to get the best return on its investments, the College District may solicit bids for certificates of deposit in writing, by telephone, or electronically, or by a combination of these methods.
Interest Rate Risk	To reduce exposure to changes in interest rates that could adversely affect the value of investments, the College District shall use final and weighted-average-maturity limits and diversification. The College District shall monitor interest rate risk using weighted average maturity and specific identification.
Internal Controls	A system of internal controls shall be established and documented in writing and must include specific procedures designating who has authority to withdraw funds. Also, they shall be designed to protect against losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the College District. Controls deemed most important shall include: 1. Separation of transaction authority from accounting and recordkeeping and electronic transfer of funds.

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2. Avoidance of collusion.
3. Custodial safekeeping.
4. Clear delegation of authority.
5. Written confirmation of telephone transactions.
6. Documentation of dealer questionnaires, quotations and bids, evaluations, transactions, and rationale.
7. Avoidance of bearer-form securities.

These controls shall be reviewed by the College District's independent auditing firm.

**Performance
Evaluation and
Reporting**

The investment officer(s) shall submit quarterly reports to the Board containing sufficient information to permit an informed outside reader to evaluate the performance of the investment program. At a minimum, this report shall contain:

1. Beginning and ending market value of the portfolio by market sector and total portfolio;
2. Beginning and ending carrying (book) value of the portfolio by market sector and total portfolio;
3. Transactions that change market and book value;
4. Detail reporting on each asset (book, market, and maturity dates at a minimum);
5. Overall current yield of the portfolio;
6. Overall weighted average maturity of the portfolio; and
7. Maximum maturities in the portfolio.

The report shall be prepared jointly by all involved in the investment activity and signed by the investment officers.

Annual Review

The Board shall review this investment policy and investment strategies not less than annually and shall document its review in writing, which shall include whether any changes were made to either the investment policy or investment strategies.

Annual Audit

In conjunction with the annual financial audit, the College District shall perform a compliance audit of management controls on investments and adherence to the College District's established investment policies.