Policy

The College District manages and invests financial assets as set forth below and follows these guidelines, which have been developed in accordance with Government Code 2256.

Scope

This investments policy applies to all financial assets of the College District. These funds are accounted for in the College District’s audited financial statements, including, but not limited to, the following:

1. Unrestricted Fund;
2. Restricted Fund;
3. Endowment Fund;
4. Agency Fund; and
5. Plant Funds.

The College District will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles. In addition to this policy, the investment of unexpended plant funds, debt service funds, and reserve funds shall be managed by their respective bond covenants and federal legislation.

Investment Authority

The College President or other person designated by Board resolution shall serve as the investment officer 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.

The vice president financial and administrative operations, the associate vice president budget and financial services, and the comptroller are designated as primary investment officers and are responsible for investment decisions and activities.

An Investment Advisory Committee shall be responsible for monitoring, reviewing, and making recommendations regarding the College District’s cash management and investment program. The Investment Advisory Committee will consist of the vice president, financial and administrative operations, associate vice president, budget and financial services, comptroller, and additional members appointed by those three administrators.
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 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.
4. No-load mutual funds, except for bond proceeds, and no-load money market mutual funds as permitted by Government Code 2256.014.

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.

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 standard of prudence to be used by investment officials shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. According to the “prudent person” standard, 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 officers acting in accordance with the written
procedures and the investments policy and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

Training

Each member of the Board and investment officer shall attend at least one training session within six months after taking office or assuming duties relating to responsibilities under Government Code 2256.

The primary investment officers shall attend not less than once in a two-year period an investment training session relating to investment responsibilities from an independent source approved by the Board. The independent sources may include:

1. Coordinating Board;
2. Center for Public Management at the University of North Texas;
3. Government Treasurer’s Organization of Texas; and
4. PFM Asset Management LLC.

Ethics and Conflicts of Interest

Officers 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 their ability to make impartial investment decisions. Employees and investment officials shall disclose to the College President any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the College District, particularly with regard to the time of purchase and sale. An investment officer has a personal relationship with a business organization if:

1. The investment officer owns ten percent or more of the voting stock or shares of the business organization or owns $5,000 or more of the fair market value of the business organization;
2. Funds received by the investment officer from the business organization exceed ten percent of the investment officer’s gross income for the previous year; or
3. The investment officer has acquired from the business organization during the previous year investments with a book value of $2,500 or more for the personal account of the investment officer.
An investment officer of the College District who has a personal business relationship with an organization seeking to sell an investment to the College District shall file a statement disclosing that personal business interest. An investment officer who is related within the second degree by affinity or consanguinity and seeking to sell an investment to the College District shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the governing body of the College District.

Investment Adviser

Pursuant to the Act, the College District may, at its discretion, contract with an investment management firm registered under the Investment Advisers Act of 1940 and with the State Securities Board to provide for investment and nondiscretionary management of its public funds or other funds under its control.

An appointed investment adviser shall act solely in an advisory and administrative capacity, within the guidelines of this policy. At no time shall the adviser take possession of investments or funds or otherwise be granted authority to transact business on behalf of the College District. Any contract awarded by the College District for investment advisory services shall be approved by the Board and shall not exceed two years, with an option to extend by mutual consent of both parties.

The investment adviser contracted by the College District shall abide by the "prudent expert rule," whereby investment advice shall, at all times, be given with the judgment and care, under circumstances then prevailing, which persons paid for their special prudence, discretion, and intelligence in such matters exercised in the management of their client's affairs, not for speculation by the client or production of fee income by the adviser or broker, but for investment by the client with emphasis on the probable safety of the capital while considering the probable income to be derived.

Chapter 2263 of the Government Code mandates certain actions by governing boards of state entities involved in the management and investment of state funds and adds disclosure requirements for outside financial advisers and service providers. Ethics and disclosure requirements for outside financial advisers and service providers are in Chapters 2263.01 through 2263.06 of the Government Code.

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.

To the extent possible, the College District will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the College District will not directly invest in securities maturing more than two years from the date of purchase. However, the College District may collateralize its repurchase agreements using longer-dated investments that either:

1. Have a term to maturity not to exceed ten years; or
2. Are marked-to-market at least weekly and require any valuation deficiencies below the required collateral margin to be cured within one business day.

The composite portfolio will have a weighted average maturity of one year or less. This dollar weighted average maturity will be calculated using the stated final maturity dates of each security.

**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 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 electronic 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 monthly or 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 shall develop a procedure to monitor changes in investment ratings and to liquidate investments that do not maintain satisfactory ratings.

**Collateralization**

The College District is not required to liquidate investments that were authorized investments at the time of purchase. All prudent measures will be taken to liquidate an investment that is downgraded to less than the required minimum rating.
Consistent with the requirements of the Public Funds Collateral Act, it is the policy of the College District to require full collateralization of all College District investments and funds on deposit with a depository bank, other than investments, which are obligations of the U.S. Government and its agencies and instrumentalities. The collateralization level will be at not less than 100 percent of market value of the principal and accrued interest, reduced by that portion of funds insured by the Federal Deposit Insurance Corporation (FDIC). Securities pledged as collateral shall be held by an independent third party with whom the College District has a current custodial agreement and will be of any type permitted by the provisions of the Public Funds Collateral Act, Title 10, Chapter 2257 of the Texas Government Code. The vice president for financial and administrative operations is responsible for entering into collateralization agreements with third-party collateral, including provisions relating to possession of the collateral, the substitution or release of investment securities, ownership of securities and the method of valuation of securities. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the College District and retained.

**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 the following in order of priority: an understanding of the suitability of an investment to the financial requirements of the College District, 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.

The College District's investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, consistent with the College District's investment risk constraints and the cash flow needs projected.

The College District's cash management portfolio shall be designed with the objective of equaling or exceeding the average returns on the 13-week U.S. Treasury bill rates.

**Operating Funds**

Investment strategies for operating funds (including any commingled pools containing operating funds) shall have as their primary objectives preservation and safety of principal, investment liquidity, and maturity sufficient to meet anticipated cash flow requirements.
Custodial Funds  | Investment strategies for custodial funds shall have as their primary objectives 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 objective sufficient investment liquidity to timely meet debt service payment obligations in accordance with provisions in the bond documents. Maturities longer than one year are authorized provided legal limits are not exceeded.

Plant Funds  | Investment strategies for plant funds shall have as their primary objective 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.

Competitive Bidding  | Competitive quotes must be taken from at least three qualifying institutions for any investment transaction requiring competitive bidding. Investment transactions may be done verbally but followed by electronic or written confirmation. Funds will be authorized to be released after notification that the purchased security has been received. Written confirmation shall be received from the financial institution or broker/dealer. All investments purchased will be held in the College District’s name in safekeeping at a third-party custodial institution with a safekeeping receipt being sent to the College District investment officer.

Safekeeping Agreement  | All security transactions, including collateral for repurchase agreements, entered into by the College District shall be conducted on a delivery-versus-payment (DVP) basis, except those with investment pool funds and mutual funds. Securities will be held by a third-party custodian designated by the comptroller in the College District’s name and evidenced by safekeeping receipts.

Sellers of Investments  | 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).

If the College District chooses to invest in securities that require the services of brokers/dealers, the Board or the Investment Advisory Committee shall adopt a list of approved qualified brokers that are authorized to engage in investment transactions with the College District. This list should be reviewed and revised at least annually.

A written copy of the investments policy shall be presented to any person offering to engage in an investment transaction with the College District. The qualified representative of the business organization offering to engage in an investment transaction with the College District shall execute a written instrument in a form acceptable to the College District and the business organization substantially to the effect that the business organization has:

1. Received and reviewed the College District's investment policy; and
2. Acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the entity and the organizations that are not authorized by the College District's investments policy.

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.
2. Avoidance of collusion.
3. Custodial safekeeping.
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.

**Reporting**

A written report of the College District’s funds and investment transactions shall be prepared not less than quarterly and signed by the investment officers for submittal to the Board. The report shall include a summary statement of investment activity prepared in compliance with generally accepted accounting principles and Government Code 2256 and will include the following:

1. A listing of individual securities held at the end of the reporting period;
2. Additions and changes to the market value during the period;
3. Listing of investments by maturity date;
4. Fully accrued interest for the reporting period;
5. Average weighted yield to maturity of portfolio as compared to applicable benchmark; and
6. Statement of compliance of the College District’s investment portfolio with state law and the investment strategy and policy approved by the Board.

Market value of all securities in the portfolio will be determined on a quarterly basis if the nature of the investments warrants it. These values will be obtained from a reputable and independent source and reflected on the written report to the Board. A formal annual review of the quarterly reports will be performed by an independent auditor with the results reported to the Board.

The investment officer shall prepare a report on any changes in Government Code 2256 and deliver the report to the Board not later than the 180th day after the last day of each regular session of the legislature.
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.