

APPROPRIATIONS AND REVENUE SOURCES
INVESTMENTS

CAK
(LEGAL)

All investments made by the College District shall comply with the Public Funds Investment Act (Texas Government Code Chapter 2256, Subchapter A) and all federal, state, and local statutes, rules, or regulations. *Gov't Code 2256.026*

WRITTEN POLICIES

Investments shall be made in accordance with written policies approved by the Board. The investment policies must primarily emphasize safety of principal and liquidity and address investment diversification, yield, and maturity and the quality and capability of investment management. The policies must include:

1. A list of the types of authorized investments in which the College District's funds may be invested;
2. The maximum allowable stated maturity of any individual investment owned by the College District;
3. For pooled fund groups, the maximum dollar-weighted average maturity allowed based on the stated maturity date of the portfolio;
4. Methods to monitor the market price of investments acquired with public funds; and
5. A requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis.

Gov't Code 2256.005(b)

ANNUAL REVIEW

The Board shall review its investment policy and investment strategies not less than annually. The Board shall adopt a written instrument stating that it has reviewed the investment policy and investment strategies and that the written instrument so adopted shall record any changes made to either the investment policy or investment strategies. *Education Code 51.0032; Gov't Code 2256.005(e)*

INVESTMENT
STRATEGIES

As part of the investment policy, the Board shall adopt a separate written investment strategy for each of the funds or group of funds under the Board's control. Each investment strategy must describe the investment objectives for the particular fund under the following priorities in order of importance:

1. Understanding of the suitability of the investment to the financial requirements of the College District;
2. Preservation and safety of principal;
3. Liquidity;

APPROPRIATIONS AND REVENUE SOURCES
INVESTMENTS

CAK
(LEGAL)

4. Marketability of the investment if the investment needs to be liquidated before maturity;
5. Diversification of the investment portfolio; and
6. Yield.

Gov't Code 2256.005(d)

INVESTMENT
OFFICER

A College District shall designate one or more officers or employees as investment officer(s) to be responsible for the investment of its funds. If the Board has contracted with another investing entity to invest its funds, the investment officer of the other investing entity is considered to be the investment officer of the contracting Board's College District. In the administration of the duties of an investment officer, the person designated as investment officer shall exercise the judgment and care, under prevailing circumstances that a prudent person would exercise in the management of the person's own affairs, but the Board retains the ultimate responsibility as fiduciaries of the assets of the College District. Unless authorized by law, a person may not deposit, withdraw, transfer, or manage in any other manner the funds of the investing entity. Authority granted to a person to invest the College District's funds is effective until rescinded by the College District or until termination of the person's employment by the College District, or for an investment management firm, until the expiration of the contract with the College District. *Gov't Code 2256.005(f)*

The College District or investment officer may use the College District's employees or the services of a contractor of the College District to aid the investment officer in the execution of the officer's duties under Government Code, Chapter 2256. *Gov't Code 2256.003(c)*

INVESTMENT
TRAINING

Each member of the Board and its investment officer shall attend at least one training session, provided by the Texas Higher Education Coordinating Board, relating to the person's responsibilities under the Public Funds Investment Act within six months after taking office or assuming duties. The training must include education in:

1. Investment controls;
2. Security risks;
3. Strategy risks;
4. Market risks;
5. Diversification of investment portfolio; and
6. Compliance with the Public Funds Investment Act.

APPROPRIATIONS AND REVENUE SOURCES
INVESTMENTS

CAK
(LEGAL)

The investment officer shall attend a training session not less than once in a two-year period and may receive training from any independent source approved by the Board. The investment officer shall prepare a report on the Public Funds Investment Act and deliver it to the Board no later than the 180th day after the last day of each regular session of the legislature.

Gov't Code 2256.007

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 his or her own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. Investments shall be governed by the following objectives in order of priority:

1. Preservation and safety of principal;
2. Liquidity; and
3. Yield.

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

1. The investment of all funds, rather than the prudence of a single investment, over which the officer had responsibility.
2. Whether the investment decision was consistent with the Board's written investment policy.

Gov't Code 2256.006

PERSONAL
INTEREST

A College District investment officer who has a personal business relationship with a business organization offering to engage in an investment transaction with 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, as determined by Government Code Chapter 573, to an individual seeking to sell an investment to the investment officer's College District shall file a statement disclosing that relationship. A required statement must be filed with the Board and with the Texas Ethics Commission. For purposes of this policy, an investment officer has a personal business 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;

APPROPRIATIONS AND REVENUE SOURCES
INVESTMENTS

CAK
(LEGAL)

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.

Gov't Code 2256.005(i)

QUARTERLY
REPORTS

Not less than quarterly, the investment officer shall prepare and submit to the Board a written report of investment transactions for all funds covered by the Public Funds Investment Act. This report shall be presented to the Board not less than quarterly, within a reasonable time after the end of the period. The report must:

1. Contain a detailed description of the investment position of the College District on the date of the report.
2. Be prepared jointly and signed by all College District investment officers.
3. Contain a summary statement for each pooled fund group (i.e., each internally created fund in which one or more accounts are combined for investing purposes). The report must be prepared in compliance with generally accepted accounting principles and must state:
 - 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.
4. State the book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested.
5. State the maturity date of each separately invested asset that has a maturity date.
6. State the account or fund or pooled group fund in the College District for which each individual investment was acquired.
7. State the compliance of the investment portfolio of the College District as it relates to the College District's investment strategy expressed in the College District's investment policy and relevant provisions of Government Code, Chapter 2256.

APPROPRIATIONS AND REVENUE SOURCES
INVESTMENTS

CAK
(LEGAL)

If the College District invests in other than money market mutual funds, investment pools or accounts offered by its depository bank in the form of certificates of deposit, or money market accounts or similar accounts, the reports shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the Board by that auditor.

Education Code 51.0032; Gov't Code 2256.023

SELECTION OF
BROKER

The Board or a designated investment committee, shall, at least annually, review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the College District. *Gov't Code 2256.025*

AUTHORIZED
INVESTMENTS

The Board may purchase, sell, and invest its funds and funds under its control in investments described below, in compliance with its adopted investment policies and according to the standard of care set out in this policy. Investments may be made directly by the Board or by a nonprofit corporation acting on behalf of the Board or an investment pool acting on behalf of two or more local governments, state agencies, or a combination of the two. *Gov't Code 2256.003(a)*

In the exercise of these powers, the Board may contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control. A contract made for such purpose may not be for a term longer than two years. A renewal or extension of the contract must be made by the Board by order, ordinance, or resolution. *Gov't Code 2256.003(b)*

The following investments are authorized:

1. Obligations, including letters of credit, of the United States or its agencies and instrumentalities; direct obligations of the state of Texas or its agencies and instrumentalities; 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; other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the state of Texas, the United States, or their respective agencies and instrumentalities; 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 A or its equivalent; and bonds issued, assumed, or guaranteed by the state of Israel. *Gov't Code 2256.009(a)*

APPROPRIATIONS AND REVENUE SOURCES
INVESTMENTS

CAK
(LEGAL)

The following investments are not authorized:

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

Gov't Code 2256.009(b)

2. Certificates of deposit or share certificates issued by a depository institution that has its main office or a branch office in Texas or a state or federal credit union domiciled in Texas that is guaranteed or insured by the FDIC or its successor or the National Credit Union Share Insurance Fund or its successor and is secured by obligations described in item 1 above, 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 described in Section 2256.009(b)) or secured in any other manner and amount provided by law for the deposits of the investing entity. *Gov't Code 2256.010(a)*

In addition to the authority to invest funds in certificates of deposit under the previous section, an investment in certificates of deposit made in accordance with the following conditions is an authorized investment under Government Code 2256.010:

- a. The funds are invested by the College District through a depository institution that has its main office or a branch office in this state and that is selected by the College District;
- b. The depository institution selected by the College District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the College District;

APPROPRIATIONS AND REVENUE SOURCES
INVESTMENTS

CAK
(LEGAL)

- c. The full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States;
- d. The depository institution selected by the College District acts as custodian for the College District with respect to the certificates of deposit issued for the account of the College District entity; and
- e. At the same time that the funds are deposited and the certificates of deposit are issued for the account of the College District, the depository institution selected by the College District receives an amount of deposits from customers of other federally insured depository institutions, wherever located, that is equal to or greater than the amount of the funds invested by the College District through the depository institution.

Gov't Code 2256.010(b)

The investment policies may provide that bids for certificates of deposit be solicited orally, in writing, electronically, or in any combination of those methods. *Gov't Code 2256.005(c)*

- 3. Fully collateralized repurchase agreements that have a defined termination date, are secured by obligations of the United States or its agencies and instrumentalities, are pledged to the College District, held in the College District's name, and deposited with the College District or a third party selected and approved by the Board, and placed through a primary government securities dealer, as defined by the Federal Reserve or a financial institution doing business in Texas. 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 investments acquired must mature not later than the expiration date stated in the reverse security repurchase agreement. *Gov't Code 2256.011*
- 4. A securities lending program if:
 - a. The value of securities loaned is not less than 100 percent collateralized, including accrued income, and the loan allows for termination at any time;
 - b. The loan is secured by:

APPROPRIATIONS AND REVENUE SOURCES
INVESTMENTS

CAK
(LEGAL)

- (1) Pledged securities described by Government Code 2256.009;
 - (2) Pledged irrevocable letters of credit issued by a bank that is organized and existing under the laws of the United States or any other state and continuously rated by at least one nationally recognized investment rating firm at not less than A or its equivalent; or
 - (3) Cash invested in accordance with Government Code 2256.009, 2256.013, 2256.014, or 2256.016;
- c. The terms of the loan require that the securities being held as collateral be pledged to the investing entity, held in the investing entity's name, and deposited at the time the investment is made with the entity or with a third party selected by or approved by the investing entity; and
 - d. The loan is placed through a primary government securities dealer or a financial institution doing business in this state.

An agreement to lend securities under a securities lending program must have a term of one year or less.

Gov't Code 2256.0115

5. Banker's acceptance, with a stated maturity of 270 days or fewer from the date of issuance that will be liquidated in full at maturity, which is eligible for collateral for borrowing from a Federal Reserve Bank, and is accepted by a bank meeting the requirements of Government Code 2256.012(4). *Gov't Code 2256.012*
6. Commercial paper that has a stated maturity of 270 days or fewer from the date of issuance and is rated not less than A1-1 or P-1 or an equivalent rating by at least two nationally recognized credit rating agencies or by one nationally recognized credit rating agency provided the commercial paper is fully secured by an irrevocable letter of credit issued by a bank organized and existing under U.S. law or the law of any state. *Gov't Code 2256.013*
7. No-load money market mutual funds that:
 - a. Are registered with and regulated by the Securities and Exchange Commission;
 - b. Provide the College District with a prospectus and other information required by the Securities and Exchange Act

APPROPRIATIONS AND REVENUE SOURCES
INVESTMENTS

CAK
(LEGAL)

of 1934 (15 U.S.C. 78a et seq.) or the Investment Company Act of 1940 (15 U.S.C. 80a-1 et seq.);

- c. Have a dollar-weighted average stated maturity of 90 days or fewer; and
- d. Include in their investment objectives the maintenance of a stable net asset value of \$1 for each share.

However, investments in no-load money market mutual funds shall be limited to the percentages authorized by Government Code 2256.014(c).

- 8. No-load mutual funds that:
 - a. Are registered with the Securities and Exchange Commission;
 - b. Have an average weighted maturity of less than two years;
 - c. Are invested exclusively in obligations approved by Government Code Chapter 2256, Subchapter A, regarding authorized investments (Public Funds Investment Act);
 - d. Are continuously rated by at least one nationally recognized investment rating firm of not less than AAA or its equivalent; and
 - e. Conform to the requirements in Government Code Section 2256.016(b) and (c) relating to the eligibility of investment pools to receive and invest funds of investing entities.

Investments in no-load mutual funds shall be limited to the percentages authorized by Government Code 2256.014(c). In addition, the College District may not invest any portion of bond proceeds, reserves, and funds held for debt service, in no-load mutual funds described in this item.

Gov't Code 2256.014

- 9. A guaranteed investment contract, as an investment vehicle for bond proceeds, if the guaranteed investment contract:
 - a. Has a defined termination date.
 - b. Is secured by obligations described by Government Code Section 2256.009(a)(1), excluding those obligations described by Section 2256.009(b), in an amount at

APPROPRIATIONS AND REVENUE SOURCES
INVESTMENTS

CAK
(LEGAL)

least equal to the amount of bond proceeds invested under the contract.

- c. Is pledged to the College District and deposited with the College District or with a third party selected and approved by the College District.

Bond proceeds, other than bond proceeds representing reserves and funds maintained for debt service purposes, may not be invested in a guaranteed investment contract with a term longer than five years from the date of issuance of the bonds.

To be eligible as an authorized investment:

- a. The Board must specifically authorize guaranteed investment contracts as eligible investments in the order, ordinance, or resolution authorizing the issuance of bonds.
- b. The College District must receive bids from at least three separate providers with no material financial interest in the bonds from which proceeds were received.
- c. The College District must purchase the highest yielding guaranteed investment contract for which a qualifying bid is received.
- d. The price of the guaranteed investment contract must take into account the reasonably expected drawdown schedule for the bond proceeds to be invested.
- e. The provider must certify the administrative costs reasonably expected to be paid to third parties in connection with the guaranteed investment contract.

Gov't Code 2256.015

- 10. A public funds investment pool meeting the requirements of Government Code 2256.016 and 2256.019, if the Board authorizes the investment in the particular pool by resolution.

Gov't Code 2256.016, 2256.019

CHANGE IN LAW

The College District is not required to liquidate investments that were authorized investments at the time of purchase. *Gov't Code 2256.017*

INVESTMENT OF DEBT
SERVICE FUNDS

The College District may enter into a contract with a term not to exceed seven years to purchase investments with the proceeds of taxes levied or to be levied by the College District for the purpose of paying debt service on bonds issued by the College District.

APPROPRIATIONS AND REVENUE SOURCES
INVESTMENTS

CAK
(LEGAL)

A contract under this section may provide for the purchase of investments at a stated yield or yields.

Before entering a contract under this section, College District must solicit and receive bids from at least three separate providers. The College District must accept the qualifying bid that provides for the highest yield investments over the term of the contract.

A contract under this section may provide only for the purchase of an obligation described by Government Code 2256.009(a)(1), other than an obligation described by Government Code 2256.009(b).

Education Code 45.112

GENERAL DEPOSITS

The Board may invest the funds received as general deposits authorized by Education Code 54.502 in the manner provided under either Education Code 51.003 or 51.0031. *Education Code 54.5022*

SELLERS OF
INVESTMENTS

A written copy of the investment policy shall be presented to any person offering to engage in an investment transaction with the College District or to an investment management firm under contract with the College District to invest or manage the College District's investment portfolio. For purposes of this section, a business organization includes investment pools and an investment management firm under contract with the College District to invest or manage the College District's investment portfolio. 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 thoroughly reviewed the College District 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 College District and the organization that are not authorized by the College District's policy, except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio or requires an interpretation of subjective investment standards.

The investment officer may not acquire or otherwise obtain any authorized investment described in the College District's investment policy from a person who has not delivered to the College District the instrument described above.

Gov't Code 2256.005(k)(l)

APPROPRIATIONS AND REVENUE SOURCES
INVESTMENTS

CAK
(LEGAL)

DONATIONS	Investments donated to the College District for a particular purpose or under terms of use specified by the donor are not subject to the requirements of Government Code Chapter 2256, Subchapter A. <i>Gov't Code 2256.004(b)</i>
ELECTRONIC FUNDS TRANSFER	The College District may use electronic means to transfer or invest all funds collected or controlled by the College District. <i>Gov't Code 2256.051</i>
PRIVATE AUDITOR	The Board shall employ a private auditor if authorized by the legislative audit committee either on the committee's initiative or on request of the Board. <i>Gov't Code 2256.052</i>