

# NORTH HARRIS MONTGOMERY COMMUNITY COLLEGE DISTRICT

## APPROPRIATIONS AND REVENUE SOURCES: INVESTMENTS

CAK  
(LOCAL)

### *POLICY*

It is the policy of the District that after allowing for the anticipated cash flow requirements of the District and giving due consideration to the safety and risk of investment, all available funds shall be invested in conformity with this investment policy and governing statutes, seeking to safeguard assets, maintain liquidity and optimize interest earnings.

Effective cash management is recognized as essential to good fiscal management and investment interest serves as a source of revenue to the District. The District's investment portfolio shall be designed and managed in a prudent manner to obtain reasonable revenue within the limitations of the District's cash flow needs, to be responsive to public trust, and to be in compliance with legal requirements and limitations.

Investments shall be made with the following objectives in priority order:

- Safety and preservation of principal
- Maintenance of sufficient liquidity to meet operating needs
- Diversification
- Optimization of earnings in the portfolio

This Investment Policy extends to all financial assets under the direct control of the District.

### *PURPOSE*

The purpose of this Investment Policy is to comply with the Public Funds Investment Act Chapter 2256 of the Texas Government Code (the "Act"), which requires that the District annually adopt a written investment policy regarding the investment of its funds and funds under its control. This Policy addresses the methods, procedures and practices that must be exercised to ensure effective and judicious fiscal management of the District's funds.

### *STRATEGY*

The overall objective of the Investment and Cash Management Policy is to ensure that District financial assets are properly safeguarded, provide sufficient liquidity, and produce a reasonable rate of return while enabling the District to react to changes in economic and market conditions.

The longer the maturity of investments, the greater their price volatility. Therefore, the District's concentrates its investment portfolio in short and intermediate term securities to limit market risk caused by changes in interest rates. The District attempts to match its investments with anticipated cash flow requirements.

Cash flow requirements generally divide the portfolio into four major parts: liquidity needs, short term needs, intermediate term needs, and longer term, core investment. The District will not invest in securities maturing more than three (3) years from the date of purchase.

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The District commingles its operating and reserve funds into one investment portfolio for investment purposes of efficiency, accurate distribution of interest, and maximum investment opportunity. Bond funds are managed separately in accordance with their anticipated expenditure schedules and bond document requirements. Although commingled, the District recognizes the unique characteristics and needs of the individual funds in its strategy statement and in the management of the funds. The maximum dollar weighted average maturity (WAM) of the entire commingled portfolio reflecting cash flow needs shall be no greater than one (1) year and the corresponding benchmark for the commingled portfolio shall be the comparable one year US Treasury security.

*GENERAL FUND*

The General Fund includes all operating funds of the District including, but not limited to, the general fund, payroll fund, technology fund, student activity fee fund, repair and replacement fund, and, the auxiliary operating fund. The primary investment strategy for this fund is to assure the preservation and safety of principal; and, secondly, that anticipated cash flows are matched with adequate investment liquidity. These objectives shall be accomplished by purchasing high credit quality, short-to intermediate term securities matching cash flow requirements. Funds not needed for short-term cash flow requirements will be invested in diversified instruments with diversified maturities and be readily marketable in the secondary market. Yield will be enhanced by the use of maturity extensions available within the confines of accurate cash flow projections and market cycle timing. Based on ongoing cash flow analysis needs the maximum weighted average maturity shall be one year.

*RESTRICTED  
FUND*

The Restricted Fund includes local, state and federal grant funds as well as funds from other sources that are restricted for instructional use. The primary objectives are safety and liquidity sufficient to meet anticipated cash flow requirements as well as yield optimization. These objectives shall be accomplished by purchasing high-credit quality, short-term securities, diversified by instrument and maturity, and matching the maturity of the securities with anticipated liabilities. A ladder of short-term securities with sufficient liquidity from pool investments will be used to maintain a maximum weighted average maturity of one year. The maximum stated maturity will be two years.

*CAPITAL  
PROJECTS*

The primary investment objective for the Capital Projects Fund is preservation and safety of principal. In addition, the District will seek to match cash flows from maturities and earnings of diversified investments to anticipated needs while obtaining a reasonable market yield. Investments will be made in an attempt to attain a rate equal to or above the arbitrage yield in order to avoid negative arbitrage. These objectives shall be accomplished by purchasing high-credit quality, short and intermediate-term securities with maturities closely matching the

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projected cash flow schedules. The maximum maturity of an individual security shall not exceed the expenditure plan of the funds.

*DEBT SERVICE*

The investment strategy for the Debt Service Fund has as its primary objective the preservation and safety of capital while optimizing yield in order to fund debt service payments in accordance with provisions in the bond documents. Funds not required for immediate liquidity shall be invested in diversified instruments. Each successive debt service payment shall be fully funded before extensions are made. The maximum maturity of an individual security shall not exceed two years. The maximum dollar average weighted maturity shall not exceed one year.

*TRUST AND  
AGENCY FUND*

The Trust and Agency Fund is comprised of local scholarship funds, club funds, and other funds for which the District acts as fiduciary and which have short average lives and high liquidity needs. The primary objectives are safety, liquidity, diversification and yield. These objectives shall be accomplished by purchasing high credit quality, short-term securities and utilizing investment pools for liquidity. The maximum maturity shall be one year and the maximum weighted average maturity six months.

*PRUDENT  
PERSON RULE*

Investments shall be made, considering prevailing internal and market circumstances, which persons of prudence, discretion, and intelligence would exercise in the management of their own affairs not for speculation, but for investment, and considering the probable safety of capital as well as probable income from an investment decision.

In determining whether an Investment Officer has exercised prudence with respect to an investment decision, the determination shall take into account the investment of all funds rather than a single investment, and, whether the investment decision was consistent with the District's Investment Policy.

*DOWNGRADES*

The District is not required to liquidate investments that were authorized investments at the time of purchase, if they subsequently become unauthorized. However, it is the policy of the District to liquidate as quickly as is prudently possible any investment that becomes unauthorized while held in the District's portfolio.

The Investment Officers will meet within two business days on any security which has been downgraded or placed on credit-watch to evaluate and take any necessary and prudent measures to assure the safety of District funds.

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**DELEGATION OF  
RESPONSIBILITY:**

Authority to manage the District's investment program is derived from and delegated pursuant to provisions of the Act.

*INVESTMENT  
OFFICERS*

The Board designates the Vice Chancellor for Business Affairs and CFO and the Deputy Vice Chancellor for Finance & Treasurer as the District's Investment Officers. Management's responsibility for the investment program is hereby delegated to the Investment Officers. The Investment Officers shall exercise judgment and care, under prevailing circumstances, which a prudent person would exercise in the management of the person's own affairs, but the Board retains ultimate fiduciary responsibility.

The Investment Officers shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. The Investment Officers shall establish and maintain a cash flow analysis used as the basis of investment decisions. The Officers shall develop written procedures for the investment program consistent with the Investment Policy. Procedures shall include explicit delegation of authority for all investment activities and provide controls for all transactions. The Officers will report quarterly to the Board on investment results and annually on counter-parties used in the process.

No person may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the Investment Officers. Investment Officers acting in good faith and in accordance with these Policies and Procedures shall be relieved of personal liability.

*CAPABILITY  
OF  
INVESTMENT  
OFFICERS*

The District shall provide access to periodic training in investments for Trustees and designated Investment Officers and other investment personnel through courses and seminars offered by professional organizations, associations, and other independent sources in compliance with the Act to insure the quality and capability of investment management.

*TRAINING*

Members of the Board of Trustees and designated Investment Officers shall acquire 5 hours of investment training from the Texas Higher Education Coordinating Board within 6 months after taking office or assuming duties. Training must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with the Act. Training must be obtained from an independent source approved by the Board.

Thereafter Investment Officers are required to complete 5 hours of training every two years.

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*ETHICS AND  
DISCLOSURE  
OF CONFLICTS  
INTEREST*

Investment Officers and employees of the District 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. All Investment Officers shall complete disclosure related to potential conflicts of interest annually or as conditions change. Investment Officers must file a disclosure statement with the Texas Ethics Commission and the District if:

1. The officer has a personal business relationship with a business organization offering to engage in an investment transaction with the District.
2. The officer is related within the second degree by affinity or consanguinity, as determined by Chapter 537 of the Texas Government Code, to an individual seeking to transact investment business with the District.

*AUTHORIZED  
FINANCIAL  
DEALERS AND  
INSTITUTIONS*

The Investment Officers shall obtain and maintain information on all financial institutions and brokers/dealers authorized to transact financial transactions with the District. The information shall include the following:

1. Audited annual financial statements.
2. Proof of National Association of Security Dealers membership and CRD number (as applicable).
3. Proof of registration with the Texas State Securities Commission (as applicable)
4. Completed District questionnaire.

Certification that the authorized representative of the firm has received and thoroughly reviewed the District's current Investment Policy. This statement shall certify that the firm has implemented reasonable procedures and controls in an effort to preclude transactions conducted with the District not authorized by the Investment Policy except to the extent that this authorization is dependent on the analysis of the makeup of the District's entire portfolio or requires interpretation of subjective investment standards.

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*ANNUAL  
REVIEW*

The Investment Officers shall annually submit a list of financial institutions for Board approval. These institutions shall be authorized to provide depository services to the District. No District deposit shall be made except in an authorized public depository as defined by state law.

The Investment Officers shall annually submit a list of financial and brokers/dealer institutions for Board approval. These institutions shall be selected for service, market involvement, and credit worthiness and be authorized to provide brokerage services. These may include primary dealers and regional dealers that qualify under the Securities and Exchange Commission uniform net capital rule (Rule 15C3-1).

The Board shall annually review and evaluate the firms authorized to enter into investment or depository transactions with the District. The following minimum criteria may be included in the review and evaluation:

1. Number of transactions competitively won/tried/lost.
2. Prompt and accurate confirmation of transactions.
3. Efficiency of securities deliveries.
4. Accuracy of market information.
5. Account servicing.

Subsequent to the review and evaluation, the Board will approve a list of firms authorized to enter into investment or depository transactions with the District for the following year.

*AUTHORIZED  
INVESTMENTS*

The following are authorized for investment with District funds:

1. Obligations of the United States of America, its agencies and instrumentalities, excluding mortgage backed securities (MBS) and with a stated maturity date not to exceed three (3) years;
2. Certificates of Deposit issued by a bank domiciled in Texas, or a savings bank domiciled in Texas and that is guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or secured by obligations in a manner consistent with state law and the Investment Policy, with a stated maximum maturity not to exceed one year.
3. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the United States government or its respective agencies and instrumentalities, excluding mortgage backed securities;
4. Fully collateralized repurchase agreements with a defined termination date secured by obligations of the United States government, its agencies and instrumentalities including mortgage backed securities. Underlying securities shall be held in

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the District's name, deposited at the time the investment is made with the District, and held by an independent custodian approved by the District. Repurchase agreements must be purchased through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in Texas. The Bond Industry Association Master Repurchase Agreement must be executed prior to the transaction. All repurchase agreements will be executed on a delivery vs. payment basis. Underlying securities shall have a continuous market value greater than or equal to 102 percent. The transaction shall have a maximum maturity of 120 days except flex repurchase agreements used for bond proceeds. The maximum maturity for a flex shall be matched to project cash flow projections and the requirements of the governing bond ordinance.

5. SEC registered Money Market Mutual Funds continuously rated AAA by at least one nationally recognized rating service and in compliance with the requirements of Section 2256.014 of the Act.
6. Constant dollar local government investment pools in Texas which, 1) meet the requirements of the Act, 2) are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service, 3) seek to maintain a \$1.00 net asset value, and 4) are authorized by resolution of the Board.
7. Non-extendible commercial paper with a maximum maturity of 120 days, rated A1/P1 or equivalent by at least two nationally recognized credit rating agencies.

Other types of investments which may be authorized by statute are not authorized for investment by the District until the Investment Policy is amended and adopted by the Board.

The following are not authorized for investment with District funds:

1. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no interest;
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 10 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.
5. Extendible commercial paper such as Extended Credit Notes (ECN) or Secured Liquidity Notes (SLN) where an issuer may choose to extend the security's final maturity date.

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*COLLATERIZATION* Consistent with the requirements of the Public Funds Collateral Act (Texas Government Code §2257), it is the policy of the District to require full collateralization of all District time and demand deposits. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% (and 110% on mortgage backed collateral) of market value of principal and accrued interest on the deposits less an amount insured by the FDIC.

Securities pledged as collateral shall be held by an independent third party bank outside the holding company of the pledging bank, approved by the District, and under a tri-party custodial agreement executed under the terms of FIRREA.

The Vice Chancellor of Business Affairs and CFO is authorized to execute depository and/or collateral agreements approved by the Board of Trustees. The agreements shall specify the acceptable investment securities for collateral, including provisions relating to possession of the collateral, the substitution or release of investment securities with prior District approval, documentation of the pledge of securities, and the monthly reporting on the valuation of collateral. Original evidences of ownership (safekeeping receipt) must be supplied to the District and retained. The financial institution shall be contractually liable for monitoring and maintaining the required collateral and collateral margins at all times.

*AUTHORIZED  
COLLATERAL*

The District authorizes only the following types of collateral:

- Obligations of the United States or its agencies and instrumentalities including mortgage backed securities which pass the bank test;
- Direct obligations of the State of Texas or its 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 rating firm not less than A or it's equivalent.

All collateral shall be subject to inspection and audit by the District's internal audit staff or by its independent auditors on a reasonable basis.

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*SAFEKEEPING  
AND CUSTODY:  
INDEPENDENT  
THIRD PARTY*

All securities owned by the District and collateral pledged to the District shall be held by independent third party custodians approved by the District and held in the District's name as evidenced by original safekeeping receipts of the institution with which the securities are deposited.

*DELIVERY  
VERSUS  
PAYMENT*

All investment transactions except investment pool funds and mutual funds shall be executed on a delivery versus payment basis.

*COMPETITIVE  
BIDDING*

A competitive bidding process, involving a minimum of three bids/offers from firms authorized to engage in investment transactions with the District is required. Comparison and evaluation of comparables, but not formal bidding, may be used to invest in money market mutual funds or local government investment pools.

Bids/offers may be solicited orally, in writing, or electronically. Records shall be kept of the prices/levels (bid and/or offered and accepted) on the District's trade ticket. The District shall determine what constitutes a responsive bid/offer.

*INVESTMENT  
PARAMETERS:  
DIVERSIFICATION*

The District recognizes that investment risks can result from issuer defaults, market price changes, or various complications leading to temporary illiquidity. Market risks are managed through portfolio diversification that shall be achieved within the following general guidelines:

- Limiting investments to avoid over concentration in investments from a specific issuer or business sector (excluding U.S. Treasury securities).
- Limiting investments with higher credit risk (such as commercial paper)
- Investing in securities with varying maturities and in accordance with the District's cash flow projections, and
- Continuously investing a portion of the portfolio in readily available funds such as local government investment pools, money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

To assure diversification of the portfolio and reduce market risk, the following maximum limits, by instrument, are established for the District's total portfolio:

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US Treasury Obligations	90%
US Agencies and Instrumentalities	80%
Certificates of Deposit	30%
Repurchase Agreements	50%
Flex Repurchase Agreements	100% of proceeds
Investment Pools	100%
Municipal Securities	30%
Commercial Paper	25%
Commercial Paper by issuer	5%

The internal control structure shall be designed to provide reasonable assurance that District funds are protected from loss, theft, or misuse. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

The internal controls established for the cash management and investment process shall address the following points at a minimum:

- Complete documentation of all transactions
- Control of collusion
- Separation of accounting and record keeping
- Custodial safekeeping
- Clear delegation of authority to subordinate staff members
- Written confirmation for all transactions
- Timely reconciliation of transactions
- Assurance of delivery versus payment and competitive bidding

The Vice Chancellor of Affairs and CFO shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures.

**REPORTING:**

**MONTHLY  
REPORTING**

The Investment Officers shall prepare a monthly report on all investment positions as of the close of business for the prior month. The report shall be provided to the Board as an integral part of the monthly financial reports.

**QUARTERLY  
REPORTING**

The Investment Officers shall prepare and present an investment report to the Board on a quarterly basis that summarizes investment strategies employed in the most recent quarter, details the portfolio in terms of investment securities and earnings, and summarizes the overall strategy for the period.

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The quarterly investment report shall include a summary statement of investment activity prepared in compliance with generally accepted accounting principles and the Act. The reports will be prepared in a manner that will allow the reader and the District to ascertain whether investment activities during the reporting period have conformed to the Investment Policy. The report will include the following at a minimum:

- A detailed listing of individual securities and depository accounts by maturity date at the end of the reporting period;
- A summary of the portfolio by market sectors and maturities;
- The beginning and ending book and market value of each security and position by the type of asset and fund type invested;
- Unrealized market gains or losses at the end of the period;
- Additions and changes in market value from the beginning of the period;
- The account or fund or pooled group fund for which each individual investment was acquired;
- Average weighted yield to maturity of the portfolio as compared to its benchmark;
- Interest earnings for the reporting period (accrued net of amortization);
- Diversification by market sectors;

Statement of compliance with the Act and the District's Investment Policy and strategy as approved by the Board.

*MARK TO  
MARKET*

Market values used in the monthly and quarterly reports will be obtained from reputable and independent sources. Information sources may include: financial/investment publications and electronic media, available software for tracking investments, depository banks, commercial or investment banks, financial advisors, and representatives/advisors of investment pools or money market funds.

*COMPLIANCE  
AUDIT*

The District's independent auditors will perform a formal annual review of the quarterly reports with the results reported to the Board. The compliance audit should review management controls on investments and adherence to the entity's established investment policies.

*ANNUAL POLICY  
REVIEW AND  
ADOPTION*

The Board of Trustees shall, not less than annually, adopt by resolution the District's Investment Policy and incorporated investment strategy. The adopting resolution shall state any changes made to either the policy or strategies. Material changes to the policy will require re-certification by financial firms.