



Investment Policy:

Approved By and Date:

Board of Trustees, 8-13-2018

Executive Leadership Team, 7-25-2018

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).

Investment Policy Procedures:

Approved By and Date:

Executive Leadership Team, 8-16-2019

- 1.0 **Scope.** This investment policy applies to all financial assets of all funds of Kilgore College, 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 and any depository bank. Deferred compensation and pension funds are excluded from this policy.
- 2.0 **College Investment Officer.** The president and chief financial officer (CFO) of the College, acting on behalf of the Board of Trustees, are designated as the investment officers and are responsible for investment management decision and activities. The Board is responsible for considering the quality and capability of staff, investment advisors, 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 may be invested according to the Board's approved policy.
 - 2.1 **Disclosure of Business Relationship.** 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, 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).
- 3.0 **Investment Objectives.** Funds of the College will be invested in accordance with federal and state laws, this investment policy, and written administrative procedures. The College will invest according to investment strategies for each fund as they are adopted by Board resolution in accordance with Section 2256.005(d).
 - 3.1 **Safety and Maintenance of Adequate Liquidity.** The College 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 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.

- 3.2 Diversification. It will be the policy of the College 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 for funds subject to the PFIA shall always be selected to provide for stability of income and reasonable liquidity (Section 2256.005(b)(3)).
 - 3.3 Maturity. Portfolio maturities will be structured to meet the known financial obligations of the College first and then to achieve the highest return of interest. When the College 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 investment owned by the College of ten years.
 - 3.4 Quality and Capability of Investment Management. It is the College's policy to provide training required by the PFIA, Section 2256.007 and periodic training in investment for the College investment officers through courses and seminars offered by qualified organizations in order to ensure the quality, capability, and currency of the College 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 of at least five hours not less than once every two years thereafter.
 - 3.5 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.
- 4.0 **Investment Strategy.** The College'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 funds and to comply with the PFIA.
- 4.1 Operating Funds. Investment strategies for operating funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio structure which will experience minimal volatility during economic cycles. Current Operating Funds are to be invested primarily in instruments which offer high liquidity and maturities corresponding with the short to intermediate term operating needs of the College. Investments needed for immediate operating needs will primarily consist of bank certificates of deposit, interest bearing demand accounts, money market mutual funds and public fund investment pools. Funds not required for immediate operations may be invested in term instruments with maturities not to exceed five years.
 - 4.2 Debt Service Funds. Investment strategies for debt service funds shall have as the primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date. Securities purchased shall not have a stated final maturity date that exceeds the debt service payment date.
 - 4.3 Construction (Bond) and Special Purpose Funds (Plant/Reserve). Investment strategies for construction and special purpose fund portfolios will have as their primary objective

to ensure that anticipated cash flows are matched with adequate investment liquidity. These fund portfolios should include at least 25% in highly liquid securities for flexibility and unanticipated project outlays. The stated final maturity dates of securities should not exceed the estimated project completion date.

4.4 Endowment Funds. Investment strategies for Endowment Funds will have as their primary objective the ability to produce consistent and dependable investment earnings. Although these funds may not be considered public funds, they are funds that are the responsibility of public officials, and the responsibility of “preservation and safety of principle” is higher than that of a separate entity. The accepted strategy is to invest all accounts that are at the endowed level with a board approved financial advisor targeting the strategy of 50% equity and 50% fixed. Endowment funds held at the College’s depository will be invested 25% IBC and 75% CD 90 day. This strategy will be evaluated monthly by the investment officers and quarterly by the investment committee. The Endowment Corpus will primarily be invested in long-term treasury, agency and municipal securities.

4.5 Endowment disbursement. It is the College’s intent for those endowments that have expected annual disbursements, that 4% of the endowment value at January 1 be the targeted disbursement for the following fiscal year. For those endowments that are special purpose, as the expendable portion of the endowment becomes adequate for disbursement, the finance officers in consultation with the investment committee of the board will determine the amount of the disbursement, never touching the corpus of the endowment.

5.0 **Investment Types.** The College 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).

5.1 **Authorized Investments.** Except as provided by Government Code 2256.009(b), the following are authorized investments:

5.1.1 Obligations of the United States or its agencies and instrumentalities.

5.1.2 Direct obligation of this state or its agencies and instrumentalities.

5.1.3 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.

5.1.4 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.

5.1.5 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.

5.1.6 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 mortgaged-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.

5.1.7 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 as required by Section 2256.025.
- b. The broker or the depository institution selected by the College arranges for funds to be deposited in one or more federally insured depository institutions, wherever located, for the account of the College.
- 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 250.15c3-3) as custodian for the various certificates issued for and held in the account of the College.

5.1.8 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 or cash held by the College to be pledged to the College, held in the College's name, and deposited at the time the investment is made with the College or with a third party selected and approved by the College; 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 under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investment, but the term of the authorized investment acquired must mature not later than the expiration date stated in the reverse security repurchase agreement.

5.1.9 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.

5.1.10 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.

5.1.11 Mutual funds and money market mutual funds with limitations described below:

5.1.11.1 A no-load money market mutual fund is authorized if it:

- a. Is regulated by the Securities and Exchange Commission;
- b. Has a dollar-weighted average stated maturity of 90 days or fewer; and
- c. Includes in its investment objectives the maintenance of a stable net asset value of \$1 for each share.

5.1.11.2 A no-load mutual fund is authorized if it:

- a. Is registered with the Securities and Exchange Commission;
- b. Has an average weighted maturity of less than two years;
- c. Is invested exclusively in obligations approved by this subchapter;
- d. 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
- e. 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.

5.1.11.3 Relative to mutual funds and money market mutual funds, the College may not:

- a. Invest in the aggregate more than 80 percent of its monthly average funds 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;
- b. 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;
- c. Invest any portion of bond proceeds, reserves, and funds held for debt service in mutual funds; or
- d. 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.

- 5.2 **Eligible Investment Pools.** As discussed in 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:

- a. 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.
- b. 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.
- c. 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.
- d. 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 an annual audited financial statement of the investment pool in which the entity has funds invested.
- e. 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.
- f. 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.

Kilgore College, as an institution of higher education are permitted the following additional investments under Section 2256.020 of the Act:

- a. Cash management and fixed income funds sponsored by organizations exempt from federal income taxation under Section 501 (f), Internal Revenue Code of 1986 (26 U.S.C. Section 501 (f));
- b. 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

- c. 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.

5.3 **Prohibited Investments Under Section 2256.009(b) of the PFIA.** The College investment officer has no authority to use any of the following investment instruments for funds subject to the PFIA:

- 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; or
- d. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

5.4 **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 shall take all prudent measures that are consistent with its investment policy to liquidate an investment that does not have the minimum rating.

6.0 **Investment Responsibility and Control.**

6.1 **Authorized Brokers/Dealers and Financial Institutions.** The College 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:

- a. Depository bank;
- b. Other state or national banks that are insured by the FDIC;
- c. Public funds investment pools;
- d. Registered securities brokers, dealers, and money managers;
- e. Mutual fund companies; and
- f. Organizations exempt under Internal Revenue Code 501(f).

7.2 **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 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:

- a. Received and thoroughly reviewed the investment policy of the College; and
- b. 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 and the organization.

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

- 7.3 **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 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, in conjunction with its annual financial audit, shall perform a compliance audit of management controls and adherence to the College's established investment policy.
- 7.4 **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 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).
- 7.5 **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:

- a. 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
- b. 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.

- 7.6 **Change in the Law.** The College is not required to liquidate investments that were authorized investments at the time of purchase (Government Code 2256.017).
- 8.0 **Investment Reporting and Performance Evaluation.** 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.
- 8.1 **Requirements of the Quarterly Report.** The report must:
- 8.1.1 Describe in detail the investment position of the College on the date of the report;
 - 8.1.2 Be prepared jointly by all investment officers of the College;
 - 8.1.3 Be signed by each investment officer of the College;

- 8.1.4 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.
- 8.1.5 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;
- 8.1.6 State the maturity date of each separately invested asset that has a maturity date;
- 8.1.7 State the account or fund or pooled group fund in the College for which each individual investment was acquired; and
- 8.1.8 State the compliance of the investment portfolio of the College as it relates to:
 - a. The investment strategy expressed in the College's investment policy; and
 - b. Relevant provisions of this chapter.

8.2 **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.

9.0 **Collateral and Safekeeping.** The College investment officer shall ensure that all College depository funds subject to the PFIA are fully collateralized or insured consistent with federal and state law and the current bank depository contract.

9.1 **Collateral and Insurance.** Collateral or insurance shall be secured in one or more of the following manners:

- a. FDIC insurance coverage; and
- b. Obligations of the United States or its agencies and instrumentalities.

9.2 **Safekeeping.** All purchased securities subject to the PFIA shall be held in safekeeping by the College, a College 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 or a College account in a third-party financial institution.

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

Investment Strategy Grid (8/13/2018)

		Investment Type										
		IBC	LGIP	CD 30-day	CD 60-day	CD 90-day	CD 6Mo	CD 12Mo	GO 90	GO 6Mo	Stocks	N-L MF
Funds Invested	General Unrestricted Strategy	75%				25%						
	Auxiliary Strategy	50%				50%						
	Restricted Strategy	100%										
	Plant Fund Strategy	25%				75%						
	Construction Strategy	50%	50%									
	Debt Service Strategy					100%						
	Agency and Club Strategy	70%				30%						

IBC - Interest bearing checking

LGIP - Local government investment pool (TEXPOOL)

CD - Certificate of deposit

GO - U.S. Government obligations

N-L MF - No load mutual funds