INVESTMENT POLICY

Purpose, Scope, Objectives and Strategy

1.0 Purpose of Policy. It is the policy of Kilgore College that the Administration of its funds and the investment of those funds shall be handled as its highest public trust. Investments shall be made in a manner which will provide the maximum security of principal invested through limitations and diversification while meeting the daily cash flow needs of the college and conforming to all applicable state laws governing the investment of public and endowment funds. The receipt of a market rate of return will be secondary to the requirements for safety and liquidity. It is the intent of the college to be in compliance with local policies and the Texas Public Funds Investment Act and any other applicable law. The earnings from investments will be used in a manner that best serves the public trust and interests of the college.

2.0 Scope of Policy. This investment policy applies to all financial assets of the college which are accounted for in its annual financial report and may include:

   2.1 Operating Funds:
      A. Unrestricted funds
      B. Restricted funds
      C. Agency funds

   2.2 Reserve Funds:
      A. Cash reserve funds
      B. Debt service funds
      C. Endowment funds

   2.3 Bond Proceeds

3.0 Objectives and Strategy. It is the policy of the college that all funds, except endowment funds, shall be managed and invested with the following primary objectives, listed in order of their priority: safety, suitability, liquidity, diversification and yield. These objectives encompass:

   3.1 Safety of principal is the foremost objective. Investments shall be undertaken in a manner that seeks to insure that potential capital losses are avoided whether they be from defaults or erosion of market value.

   3.2 Investment suitability is considered in recognition of the college's primary educational mission, its role as a custodian of the public trust, its unique budgetary and cash flow cycles, and restrictions of state and federal laws.

   3.3 The college's investment portfolio will remain sufficiently liquid to enable it to meet all operating requirements which might be reasonably anticipated.
3.4 Diversification of the portfolio will include diversification by maturity and market sector and will include the use of a number of broker/dealers for diversification and market coverage. The concept of competitive bidding from approved broker/agents will be used when appropriate, excepting Certificates of Deposit from authorized depositories and excluding those investments purchased directly from the U.S. Treasury.

3.5 The college's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the college's risk constraints and the cash flow necessities of the portfolio. "Market rate of return" may be defined as the average yield of the current three-month U.S. Treasury Bill or such other index that most closely matches the average maturity of the portfolio.

3.6 The college shall have a written investment strategy. Each major fund type has varying cash flow requirements and liquidity needs. Therefore, specific investment strategies shall be implemented and changed from time to time considering the fund's unique requirements. The investment officers will review the current investment strategy, make appropriate revisions, and present an updated investment strategy statement as requested by the investment committee.

4.0 Objective and Strategy for Endowment Funds. The primary purpose of endowment funds is to create an appropriate revenue stream to benefit the College in the manner designated by the donor. The investment committee shall have a written investment strategy specific to endowment funds.

5.0 Statutory Authorization. Direct specific investment parameters for the investment of public funds in Texas are found in the Public Funds Investment Act, Chapter 2256, Texas Government Code. The Public Funds Collateral Act, Chapter 2257, Texas Government Code, specifies collateral requirements for all public funds deposits. Under Attorney General Opinion No. GA-0768, the college, exercising its authority to manage an endowment fund under Education Code section 51.0031(a), is not restricted solely to investments permitted by the Texas Public Funds Investment Act when managing the endowment fund.

5.1 The Interlocal Cooperation Act, Chapter 791, Texas Government Code, authorizes local governments in Texas to participate in an investment pool established thereunder. That statute and reference to authorized investment pools in the act, provide primary authority for use of investment pools by political subdivisions of the state of Texas.

6.0 Delegation of Investment Authority. The president of the college, the vice president of finance and chief financial officer and one other employee of the college selected by the president of the college and approved by the investment committee, acting on behalf of the Board of Trustees, are designated as the investment officers and are responsible for investment management decisions and activities. The Board of Trustees is also 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.
6.1 The investment committee will advise the college's Board of Trustees with regard to:

   6.1.A Any amendments or revisions of the college's Investment Policy
   6.1.B An investment strategy for the transition of investments to current policies

6.2 The investment committee is composed of no less than three or more than five members; all of which shall be members of the Kilgore College Board of Trustees except one member who may be elected from the community at large. Committee members will be appointed at the first board meeting following the election of board members in odd numbered years to a term of two years.

6.3 The investment committee shall be responsible for establishing a system of controls to regulate the activities of subordinate officials and staff. No officer may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the investment committee.

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

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

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

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

8.0 Internal Procedures. Cash flow forecasting is designed to protect and sustain cash flow requirements of the college. Supplemental to the financial and budgetary systems, the investment officers will maintain a cash flow forecasting process designed to monitor and forecast cash positions for investment purposes. Cash flow will include the historical researching and monitoring of specific cash flow items, payables and receivables as well as overall cash position and patterns.
9.0 Authorized Investments. Acceptable investments under this policy for all funds except endowment funds shall be limited to the instruments listed below. The investments are to be chosen in a manner which promotes diversity of market sector and maturity. The choice of high-grade government investments and high-grade money market instruments is designed to assure the marketability of those investments should liquidity needs arise.


9.2 Fully insured or collateralized Certificates of Deposit from a bank domiciled in the state of Texas and under the terms of a written depository agreement with that bank, not to exceed one year to the stated maturity.

9.3 Repurchase agreements and reverse purchase agreements as defined by the Public Funds Investment Act: not to exceed 180 days to stated maturity, provided an executed PSA master repurchase agreement is on file with the college and the counter party bank or primary dealer.

9.4 Texas local government investment pools as defined by the Public Funds Investment Act.

9.5 Investment-grade obligations of state, provincial and local governments and public authorities.

9.6 Bankers acceptances as defined by the Public Funds Investment Act not to exceed 180 days to stated maturity.

9.7 Commercial paper rated A-1/P-1 or the equivalent by at least two nationally recognized rating agencies not to exceed 180 days to stated maturity.

9.8 No-load, SEC registered money market funds, only after receipt of the prospectus for the fund and after specific approval by the Board of Trustees. No more than 80% of the College's monthly average fund balance may be invested in money market funds.

9.9 No-load, SEC registered mutual funds, only after receipt of the prospectus for the fund and after specific approval by the Board of Trustees. No more than 15% of the college’s monthly average fund balance may be invested in mutual funds.

9.10 Corporate bonds, debentures, or similar debt obligations as defined by the Public Funds Investment Act which have been 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.

9.11 If additional types of securities are approved for investment of public funds by state statute, they will not be eligible for investment until this policy has been amended and the amended version approved by the Board of Trustees.
9.12 Authorized investments do not apply to an investment donated to the College for a particular purpose or under terms of use specified by the donor.

10.0 Authorized Investments for Endowment Funds. All investments of endowment funds shall follow the strategy established by the investment committee.

11.0 Authorized Financial Dealers and Institutions. All investments made by the college will be made through either the college's banking services institution (trading desk) or a primary dealer.

11.1 All security transactions, including collateral for repurchase agreements, entered into by the college, shall be conducted on a delivery versus payment (DVP) basis.

11.2 The college shall maintain a list of financial institutions which are authorized to provide investment services. Banks shall continuously provide their most recent "consolidated report of condition" (Call Report).

11.3 The college shall maintain and update a list of securities broker/dealers not affiliated with a bank. They shall be required to be classified as reporting dealers affiliated with the New York Reserve as primary dealers, and meet certain other criteria as determined by the investment officers. The following criteria must be met by those firms on the list:

11.3.A Provision of an audited financial statement for the most recent period
11.3.B Proof of certification by the National Association of Securities Dealers (NASD)
11.3.C Proof of current registration with the State Securities Commission
11.3.D Completion of a college questionnaire

11.4 Every dealer with whom the college transacts business will be provided a copy of this investment policy to assure that they are familiar with the goals and objectives of the investment program. The broker/dealer will be required to return a signed copy of the certification form certifying that the policy has been received and reviewed (see Exhibit B).

12.0 Authorized Financial Advisors and Money Managers. The selection of a financial advisor or money manager for endowment funds shall be approved by the Board of Trustees.

13.0 Diversification and Maturity Limitations. It is the policy of the college to diversify its investment portfolio. Invested funds shall be diversified to minimize risk or loss resulting from over-concentration of assets in a specific maturity, specific issuer, or specific class of securities. Diversification strategies shall be established and periodically reviewed.

14.0 Safekeeping and Collateralization. The laws of the state and prudent treasury management require that all purchased securities be bought on a delivery versus payment basis and be held in safekeeping by either the college, an independent third party financial institution, or the college's designated depository.
14.1 All safekeeping arrangements shall be designated by the investment officers and an agreement of the terms executed in writing. The third party custodian shall be required to issue safekeeping receipts to the college listing each specific security, rate, description, maturity, CUSIP number, and other pertinent information. Each safekeeping receipt will be clearly marked that the security is held for the college or pledged to the college.

14.2 All securities pledged to the college for Certificates of Deposit or demand deposits shall be held by an independent third party bank domiciled in Texas or any Federal Reserve Bank. The safekeeping bank may not be within the same holding company as the bank from which the securities are pledged.

14.3 Collateralization shall be required on two types of investments:

   14.3.A Certificates of Deposits over the FDIC insurance coverage of $250,000
   14.3.B Repurchase agreements

14.4 In order to anticipate market changes and provide a level of additional security, all funds shall be fully collateralized for the market value of the principal and the accrued interest.

15.0 Performance Evaluation and Reporting. The investment officers shall submit quarterly reports to the Board of Trustees containing sufficient information to permit an informed outside reader to evaluate the performance of the investment program. At a minimum, this report shall contain:

   15.0.A Beginning and ending market value of the portfolio by market sector and total portfolio
   15.0.B Beginning and ending carrying (book) value of the portfolio by market sector and total portfolio
   15.0.C Transactions which change market and book value
   15.0.D Detail reporting on each asset (book, market and maturity dates at a minimum)
   15.0.E Overall current yield of the portfolio
   15.0.F Overall weighted average maturity of the portfolio
   15.0.G Maximum maturities in the portfolio

The report will be reviewed and approved by all involved in the investment activity and be signed by at least two investment officers. An annual independent review by an external auditor will be conducted. This review will provide internal control by assuring compliance with the college’s investment policies and procedures.

16.0 Training Requirements. An investment officer shall attend a training session not less than once each state fiscal biennium and may receive training from any independent source approved by the governing body of the college.

16.1 Such training shall include education in investment control, security risks, strategy risks, market risks, and compliance with the Texas Public Funds Investment Act, as amended.
17.0 **Depositories.** The college will designate one banking institution through a competitive process as its central banking services provider. This institution will be used for normal banking services including disbursements, deposits, lockbox, controlled disbursement and safekeeping of securities. Other banking institutions from which the college may purchase Certificates of Deposit will also be designated after they provide their latest audited financial statements to the college.

18.0 **Investment Policy Adoption by the Board of Trustees.** The college's investment policy shall be adopted by the Board of Trustees and shall be reviewed on an annual basis by the investment officers and the Board of Trustees.