

The Board reserves the right to take agenda items out of the order in which they are posted in the agenda. Anyone wishing to address the Board during "Public Comment" must sign in before the meeting begins.

**Lee College  
LEE COLLEGE DISTRICT  
OFFICE OF THE PRESIDENT  
BAYTOWN, TEXAS**

**AGENDA  
MEETING OF THE BOARD OF REGENTS  
Audit & Investment Committee Meeting  
JOHN B. TUCKER LECTURE HALL**

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<b>Items for Business</b>	<b>8:00 PM</b>	<b>July 12, 2018</b>
<b>I. Review of CAK Local Investment Policy</b>		2

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If, during the course of the meeting, any discussion of any item on the agenda should be held in closed meeting, the Board shall convene in such closed meeting in accordance with the Open Meetings Act, Chapter 551, Texas Government Code to discuss items pursuant to Sections 551.071 through 551.084. Before any such meeting is convened, the presiding officer shall publicly identify the section or sections of the Act authorizing the closed meeting. All final votes, actions, or decisions shall be taken in open meeting.

Posted: Monday, July 9, 2018 by 5:00 pm

Submitted by: **Leslie D. Gallagher**

Leslie D. Gallagher, Recording Secretary

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<b>Primary Objectives</b>	<p>The primary objectives of the College District's investment policy are:</p> <ol style="list-style-type: none"><li>1. Preservation of capital and protection of principal;</li><li>2. Safety of funds and investments;</li><li>3. Maintenance of sufficient liquidity;</li><li>4. Diversification to avoid unreasonable or avoidable risks; and</li><li>5. Yield.</li></ol>
<b>Standard of Care</b>	<p>The College District's portfolio shall be designed and managed in accordance with the following prudent person standard of care.</p> <p>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 as well as the probable income to be derived.</p> <p>This prudent person standard shall apply to the management of all College District funds.</p>
<b>Investment Management</b>	<p>In accordance with Government Code 2256.005(b)(3), the quality and capability of investment management for College District funds shall be in accordance with the standard of care, investment training, and other requirements set forth in Government Code Chapter 2256.</p>
<b>Liquidity and Diversity</b>	<p>To meet the investment objectives of the College District, the maturity of investments shall be targeted to coincide with the cash flow needs of the College District.</p> <p>The investment portfolio shall be diversified to reduce the risk of loss of investment income from overconcentration of assets in a specific issue, a specific issue size, or a specific class of securities.</p> <p>Nevertheless, the College District recognizes that in a diversified portfolio, occasional measured losses are inevitable and must be considered within the context of the overall portfolio's investment return. Also, it is intended that investments in all funds shall be managed in such a way that any market price losses resulting from interest rate volatility shall be offset by income received from the balance of the portfolio over a reasonable period of time as determined by the Board.</p>
<b>Monitoring Market Prices</b>	<p>The investment officer shall monitor the investment portfolio and shall keep the Board informed of significant changes in the market value of the College District's investment portfolio. Information</p>

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sources may include financial/investment publications and electronic media, available software for tracking investments, depository banks, commercial or investment banks, financial advisers, and representatives/advisers of investment pools or money market funds. Monitoring shall be done at least quarterly, as required by law, and more often as economic conditions warrant by using appropriate reports, indices, or benchmarks for the type of investment.

**Monitoring Rating Changes**

In accordance with Government Code 2256.005(b), the ~~investment~~~~in-vestment~~ officer shall develop a procedure to monitor changes in investment ratings and to liquidate investments that do not maintain satisfactory ratings.

**Authorized Investments**

The College District's investment authority is derived from the Public Funds Investment Act, effective September 1, 1995. College District funds may be invested in the following:

Obligations of U.S.

1. Obligations of the United States, its agencies, or instrumentalities except the following:
  - 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; and
  - d. Collateralized mortgage obligations, the interest rate of which is determined by an index that adjusts opposite to the changes in the market index.

Repurchase Agreements and Reverse Repurchase Agreements

2. Fully collateralized repurchase agreements and reverse repurchase agreements having a defined termination date and secured by any obligation of the United States, its agencies, or its instrumentalities, to include certain mortgage-backed securities of the U.S. The repurchase and reverse repurchase agreement transactions are to be placed only with primary government securities dealers or state or national banks doing business in the state of Texas.

Certificates of Deposit

3. Fully collateralized certificates of deposit issued by state or national banks domiciled in the state of Texas or savings and loans domiciled in the state of Texas and guaranteed by the Federal Deposit Insurance Corporation or its successor. The

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certificates must be styled in the name of Lee College. Collateral for the time deposits may be in the form of:

- a. Obligations of the United States, its agencies, or instrumentalities;
- b. Direct obligations of the state of Texas, its agencies, or instrumentalities;
- c. Other state and local government bonds or obligations rated not less than "A" or its equivalent; or
- d. Other obligations fully guaranteed or insured by, or backed by the full faith and credit of, the state of Texas or the United States, including certain mortgage-backed securities.

Money Market  
Mutual Funds

4. College District funds may be invested in a no-load money market mutual fund, which is regulated by the Securities and Exchange Commission. The money market fund must be rated "AAA" or its equivalent by at least one nationally recognized investment rating firm. The money market fund must also maintain a dollar-weighted average stated maturity of 90 days or fewer and include in its investment objectives the maintenance of a stable net asset value of \$1.

Local Government  
Investment Pools

5. College District funds may be invested in a public funds investment pool that must be continuously rated no lower than AAA, AAA-m, or an equivalent by at least one nationally recognized rating service or no lower than investment grade by at least one nationally recognized rating service with a weighted average maturity no greater than 90 days.

The Board authorizes that College District funds may be invested in the Texas Local Government Investment Pool (TexPool) and the Lonestar Investment Pool, as long as each meets the requirements of state law.

Commercial Paper

6. College District funds may be invested in commercial paper if the commercial paper is rated not less than A-1 or P-1 or an equivalent rating by at least:
  - a. Two nationally recognized credit rating agencies; or
  - b. 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.

**Competitive Bidding** All trades, purchases, and sales transacted by the College District shall be handled through a documented competitive bidding process. The investment officer shall maintain a log of investment transactions and shall be required to obtain at least three bids from authorized brokers/dealers or a qualified representative of a business organization when purchasing or selling securities.

**Sellers of Investments** Prior to handling investments on behalf of the College District, a broker/dealer or a qualified representative of a business organization must submit required written documents in accordance with law.

**Representatives of brokers/dealers shall be registered Authorized Dealers / Brokers** ~~The College District shall maintain a list of primary dealers and brokers authorized to provide investment services. All dealers and brokers who desire to become qualified bidders for investment transactions must supply the following:~~

- ~~1. Completed broker/dealer questionnaire;~~
- ~~2. Proof of registration with the Texas State Securities Board and must have membership in the Securities Investor Protection Corporation (SIPC), and be in;~~
- ~~3.7. Proof of good standing with the Financial Industry Regulatory Authority (FINRA).;~~
- ~~4. Audited financial statement; and~~
- ~~5. Written acknowledgment that the entity has read the College District Investment Policy and has reasonable procedures and controls to preclude imprudent investment activities arising out of investment transactions conducted between the entity and the College District.~~

~~The College District shall annually review the financial condition and registration of qualified dealers and brokers.~~

**Conflicts of Interest** The College President, the vice president of finance and administration, the executive director of accounting, and the Board of Regents must disclose personal business and certain family relationships with any entity seeking to sell investments, and a copy of each such disclosure statement must be filed with the governing body of the investing entity and the Texas Ethics Commission.

**Safekeeping and Custody** To protect against potential fraud and embezzlement, the cash and investments of the College District shall be secured through third-party custody and safekeeping procedures as designated by the College District. In addition, all transactions, except investment pools and mutual funds will be settled on a delivery versus payment basis.

**Portfolio Reports**

A monthly management portfolio report shall be prepared by the vice president of finance and administration relating to investments of the College District. The report must:

1. Describe in detail the investment position of the entity on the date of the report;
2. Be prepared jointly by all investment officers of the entity;
3. Be prepared jointly and signed by the vice president of finance and administration and the executive director of accounting;
4. Contain a summary statement of each pooled fund group that states the:
  - 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.
5. State the book value and market value of each separately invested asset at the beginning and ending of the reporting period by the type of asset and fund invested;
6. State the maturity date of each separately invested asset that has a maturity date;
7. State the account, fund, or pooled group fund for which each individual investment was acquired; and
8. State the compliance of the investment portfolio as it relates to:
  - a. The investment strategy expressed in the investment policy; and
  - b. Other relevant provisions of the investment policy.

Market values shall be monitored on a monthly basis by requiring written communication of market indications at the end of each month from at least one of the College District's approved brokers/dealers or a qualified representative of a business organization.

**Interest Rate Risk**

To reduce exposure to changes in interest rates that could adversely affect the value of investments, the College District shall use final and weighted-average-maturity limits and diversification.

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The College District shall monitor interest rate risk using weighted average maturity and specific identification.

**Investment Training**

Each member of the Board shall attend at least one investment training session or view the state-approved investment training video within 12 months after taking office or assuming duties.

The training must include education in investment controls, security risks, strategy risks, market risks, as well as compliance with the Texas Public Funds Investment Act.

In addition, the investment officers shall attend a training session not less than once in a two-year period and receive not less than ten hours of instruction relating to investment responsibilities from an independent source approved by the governing body of the local government or a designated investment committee.

**Investment Authorization**

The vice president of finance and administration and the executive director of accounting shall serve as the co-investment officers of the College District, in consultation with the College President and the Board Investment Committee. No officer or employee of the Board may deposit, withdraw, invest, transfer, or otherwise manage local funds without express written authority of the Board.

**Prior Authorized Investments**

Authorized investment securities acquired under Chapter 2256, Government Code, before the effective date of House Bill 2459, 74th Legislative Session, that are no longer authorized investment securities under Chapter 2256, Government Code, as amended by House Bill 2459, are not required to be liquidated before the final stated maturity of the investment. However, these investment securities should be liquidated when prudent as determined by the Board.

**Investment Strategy**

All College District funds shall be invested in a manner consistent with the following ranked criteria:

1. Preservation of capital and protection of principal;
2. Safety of funds and investments;
3. Maintenance of sufficient liquidity;
4. Diversification to avoid unreasonable or avoidable risk; and
5. Yield.

**Diversification and Suitability**

The portfolio shall be designed with the protection of principal and maintenance of sufficient liquidity as the highest priority of the investment strategy. After consideration of safety and liquidity, the College District portfolio shall be directed towards achieving a competitive rate of return. The risk-return relationship shall be

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maintained and controlled through these investment parameters, operating requirements, and the guiding Board policies. Actual risks shall be minimized by adequate collateralization and delivery versus payment procedures, which shall be utilized at all times.

Market and credit risk shall be minimized by diversification. Diversification by market sector and security types, as well as maturity, will be used to protect the College District against market and credit risk as well as aiding in liquidity requirements. The portfolio shall be structured to benefit from anticipated market conditions and to achieve a reasonable return.

Cash needs and cash expectations shall take priority in designing and structuring the portfolio. Income and expenditure history shall be developed and continually updated to determine the liquidity needs of the College District. Reports of these cash flow needs shall be used to develop the maturity structure of the portfolio and shall be designed to ensure sufficient distribution of investments in liquid, short-term instruments. The maturities of the investments shall be distributed such that there will be a continuing stream of securities maturing at frequent intervals.

**Maximum Maturities**

Maximum maturities for College District funds are as follows:

1. Operating funds — Local, state, and federal.  
The maximum stated maturity of any investment of current-year operating funds shall be no more than six months.
2. Reserve funds — Local.  
The maximum stated maturity of any investment reserve funds shall be no more than ten years.

**Review of  
Investment Policy**

The Board shall review the investment policy and investment strategies not less than annually and, upon review, shall adopt a resolution that shall confirm the review and shall include any changes to the policy or strategies.

**Annual Audit**

In conjunction with the annual financial audit, the College District shall perform a compliance audit of management controls on investments and adherence to the College District's established investment policies.

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All investments made by investing entities, including college districts, shall comply with the Public Funds Investment Act, Government Code Chapter 2256, Subchapter A, and all federal, state, and local statutes, rules, or regulations. *Gov't Code 2256.026*

**Written Policies**

The governing body of an investing entity shall adopt by rule, order, ordinance, or resolution, as appropriate, a written investment policy regarding the investment of its funds under its control. The investment policies must be written; primarily emphasize safety of principal and liquidity; and address investment diversification, yield, and maturity and the quality and capability of investment management; and include:

1. A list of the types of authorized investments in which the investing entity's funds may be invested;
2. The maximum allowable stated maturity of any individual investment owned by the entity;
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;
5. A requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis; and
6. Procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the provisions of Government Code 2256.021 [see Loss of Required Rating, below].

*Gov't Code 2256.005(b)*

**Annual Review**

The governing body of an investing entity shall review its investment policy and investment strategies not less than annually. The governing body shall adopt a written instrument by rule, order, ordinance, or resolution 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 an integral part of the investment policy, the governing body shall adopt a separate written investment strategy for each of the funds or group of funds under its control. Each investment strategy

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must describe the investment objectives for the particular fund using the following priorities in order of importance:

1. Understanding of the suitability of the investment to the financial requirements of the entity;
2. Preservation and safety of principal;
3. Liquidity;
4. Marketability of the investment if the need arises to liquidate the investment before maturity;
5. Diversification of the investment portfolio; and
6. Yield.

*Gov't Code 2256.005(d)*

**Investment Officer**

Each investing entity shall designate, by rule, order, ordinance, or resolution, as appropriate, one or more officers or employees as investment officer to be responsible for the investment of its funds consistent with the investment policy adopted by the entity. If the governing body of an investing entity 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 first investing entity for purposes of Government Code Chapter 2256. Authority granted to a person to invest an entity's funds is effective until rescinded by the investing entity, until the expiration of the officer's term or the termination of the person's employment by the investing entity, or if an investment management firm, until the expiration of the contract with the investing entity. 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 governing body of the investing entity retains the ultimate responsibility as fiduciaries of the assets of the investing entity. Unless authorized by law, a person may not deposit, withdraw, transfer, or manage in any other manner the funds of the investing entity. *Gov't Code 2256.005(f)*

Government Code Chapter 2256 does not prohibit an investing entity or investment officer from using the entity's employees or the services of a contractor of the entity 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**  
**Board Members**

Each member of the governing board of a state agency and its investment officer shall attend at least one training session relating to

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the person's responsibilities under the Public Funds Investment Act within six months after taking office or assuming duties. The Coordinating Board shall provide the training under Government Code 2256.007. 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.

The 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 state agency. The investment officer shall prepare a report on the Public Funds Investment Act and deliver it to the governing body of the state agency no later than the 180th day after the last day of each regular session of the legislature.

*Gov't Code 2256.007*

Other College  
Officials

The treasurer, the chief financial officer if the treasurer is not the chief financial officer, and the investment officer of a local government shall:

1. Attend at least one training session from an independent source approved by the governing body of the local government or a designated investment committee advising the investment officer as provided for in the investment policy of the local government and containing at least ten hours of instruction relating to the treasurer's or officer's responsibilities under Government Code Chapter 2256, Subchapter A within 12 months after taking office or assuming duties; and
2. Attend an investment training session not less than once in a two-year period that begins on the first day of that local government's fiscal year and consists of the two consecutive fiscal years after that date, and receive not less than ten hours of instruction relating to investment responsibilities under Chapter 2256, Subchapter A from an independent source approved by the governing body of the local government or a designated investment committee advising the investment officer as provided for in the investment policy of the local government.

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The training must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with Government Code Chapter 2256.

*Gov't Code 2256.008(a), (c)*

**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. Investment of funds 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, or funds under the entity's control over which the officer had responsibility rather than a consideration as to the prudence of a single investment; and
2. Whether the investment decision was consistent with the written investment policy of the entity.

*Gov't Code 2256.006*

*Personal Interest*

An investment officer of an entity who has a personal business relationship with a business organization offering to engage in an investment transaction with the entity 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 entity shall file a statement disclosing that relationship. A required statement must be filed with the Texas Ethics Commission and the governing body of the entity. 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;

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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 governing body of the entity a written report of investment transactions for all funds covered by the Public Funds Investment Act for the preceding reporting period. This report shall be presented not less than quarterly to the governing body and the chief executive officer of the entity within a reasonable time after the end of the period. The report must:

1. Describe in detail the investment position of the entity on the date of the report;
2. Be prepared jointly by all investment officers of the entity;
3. Be signed by each investment officer of the entity;
4. Contain a summary statement for each pooled fund group (i.e., each internally created fund of an investing entity in which one or more institutional accounts of the investing entity are invested) that states the:
  - a. Beginning market value for the reporting period;
  - b. Ending market value for the period; and
  - c. Fully accrued interest for the reporting period;
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;
6. State the maturity date of each separately invested asset that has a maturity date;
7. State the account or fund or pooled group fund in the state agency or local government for which each individual investment was acquired; and
8. State the compliance of the investment portfolio of the state agency or local government as it relates to the investment strategy expressed in the agency's or local government's in-

vestment policy and relevant provisions of Government Code Chapter 2256.

If the entity 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 prepared by the investment officer under Government Code Chapter 2256 shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the governing body by that auditor.

*Education Code 51.0032; Gov't Code 2256.001(9), .023*

**Selection of Broker**

The governing body of an entity subject to Government Code Chapter 2256, Subchapter A 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 entity. *Gov't Code 2256.025*

**Authorized Investments**

Each governing body of a local government or a state agency may purchase, sell, and invest its funds and funds under its control in investments described below, in compliance with investment policies approved by the governing body and according to the standard of care set out in this policy. The governing body of an investing entity may specify in its investment policy that any investment authorized by Government Code Chapter 2256 is not suitable. Investments may be made directly by the governing body or by a nonprofit corporation acting on behalf of the governing body or an investment pool acting on behalf of two or more local governments, state agencies, or a combination of those entities.

In the exercise of these powers, the governing body of an investing entity 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 governing body of an investing entity by order, ordinance, or resolution.

*Gov't Code 2256.003(a)-(b), .005(j)*

**Obligations**

Except as provided below, the following are authorized investments under the Public Funds Investment Act:

1. Obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks;

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2. Direct obligations of this state or its agencies and instrumentalities;
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;
4. 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, 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. 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;
6. Bonds issued, assumed, or guaranteed by the state of Israel;
7. Interest-bearing banking deposits that are guaranteed or insured by:
  - a. The FDIC or its successor; or
  - b. The National Credit Union Share Insurance Fund or its successor; and
8. Interest-bearing banking deposits other than those described by item 7 if:
  - a. The funds invested in the banking deposits are invested through a broker with a main office or branch office in this state that the investing entity selects from a list the governing body or designated investment committee of the entity adopts as required by Government Code 2256.025 or a depository institution with a main office or branch office in this state that the investing entity selects;
  - b. The selected broker or depository institution arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the investing entity's account;
  - c. The full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and

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- d. The investing entity appoints as the entity's custodian of the banking deposits issued for the entity's account the selected depository institution, an entity described by Government Code 2257.041(d), or a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3).

*Gov't Code 2256.009(a)*

The following investments are not authorized:

1. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal.
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 date of greater than ten years.
4. 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)*

Certificates of  
Deposit and Share  
Certificates

A certificate of deposit or share certificate is an authorized investment if the certificate is issued by a depository institution that has its main office or a branch office in Texas and is:

1. Guaranteed or insured by the FDIC or its successor or the National Credit Union Share Insurance Fund or its successor;
2. Secured by obligations described by Government Code 2256.009(a) 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 of the nature described by Section 2256.009(b); or
3. Secured in accordance with Government Code Chapter 2257 or in any other manner and amount provided by law for the deposits of the investing entity.

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:

1. The funds are invested by an investing entity through a broker that has its main office or a branch office in this state and is selected from a list adopted by the investing entity as required by Government Code 2256.025, or a depository institution that has its main office or a branch office in this state and that is selected by the investing entity;
2. The broker or depository institution selected by the investing entity 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 investing entity;
3. 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; and
4. The investing entity appoints the depository institution selected by the investing entity under paragraph a above 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. 240.15c3-3) as custodian for the investing entity with respect to the certificates of deposit issued for the account of the investing entity.

*Gov't Code 2256.010(a)–(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)*

**Repurchase  
Agreements**

A fully collateralized repurchase agreement is an authorized investment under the Public Funds Investment Act if the repurchase agreement:

1. Has a defined termination date;
2. Is secured by a combination of cash and obligations of the United States or its agencies and instrumentalities;
3. Requires the securities being purchased by the entity or cash held by the entity to be pledged to the entity, held in the entity's name, and deposited with the entity or a third party selected and approved by the entity; and
4. Is placed through a primary government securities dealer, as defined by the Federal Reserve or a financial institution doing business in Texas.

Notwithstanding any other 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 an entity 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.

Government Code 1371.059(c) applies to the execution of a repurchase agreement by an investing entity.

A "repurchase agreement" means a simultaneous agreement to buy, hold for a specified time, and sell back at a future date obligations described by Government Code 2256.009(a)(1), at a market value at the time the funds are disbursed of not less than the principal amount of the funds disbursed. The term includes a direct security repurchase agreement and a reverse security repurchase agreement.

*Gov't Code 2256.011*

Securities Lending  
Program

A securities lending program is an authorized investment if:

1. The value of securities loaned must not be less than 100 percent collateralized, including accrued income, and the loan must allow for termination at any time;
2. The loan must be secured by:
  - a. Pledged securities described by Government Code 2256.009;
  - b. 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
  - c. Cash invested in accordance with Government Code 2256.009, 2256.013, 2256.014, or 2256.016;
3. 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
4. The loan must be placed through a primary government securities dealer, as defined by 5 C.F.R. 6801.102(f), as that regu-

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lation existed on September 1, 2003, 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*

Banker's  
Acceptance

A banker's acceptance is an authorized investment if the banker's acceptance:

1. Has a stated maturity of 270 days or fewer from the date of issuance;
2. Will be, in accordance with its terms, liquidated in full at maturity;
3. Is eligible for collateral for borrowing from a Federal Reserve Bank; and
4. 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.

*Gov't Code 2256.012*

Commercial Paper

Commercial paper is an authorized investment if the commercial paper:

1. Has a stated maturity of 270 days or fewer from the date of issuance; and
2. 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 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.

*Gov't Code 2256.013*

Mutual Funds

A no-load money market mutual fund is an authorized investment if the mutual fund:

1. Is registered with and regulated by the Securities and Exchange Commission;
2. Provides the investing entity with a prospectus and other information required by the Securities and Exchange Act of

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

3. Complies with federal Securities and Exchange Commission Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.).

A no-load mutual fund is an authorized investment if the mutual fund:

1. Is registered with the Securities and Exchange Commission;
2. Has an average weighted maturity of less than two years; and
3. Either has a duration of one year or more and is invested exclusively in obligations approved by Government Code Chapter 2256, Subchapter A, regarding authorized investments (Public Funds Investment Act) or has a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities.

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

*Gov't Code 2256.014*

Guaranteed  
Investment  
Contracts

A guaranteed investment contract is an authorized investment for bond proceeds if the guaranteed investment contract:

1. Has a defined termination date;
2. Is secured by obligations described by Government Code 2256.009(a)(1), excluding those obligations described by Section 2256.009(b), in an amount at least equal to the amount of bond proceeds invested under the contract; and
3. Is pledged to the entity and deposited with the entity or with a third party selected and approved by the entity.

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:

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1. The governing body of the entity must specifically authorize guaranteed investment contracts as eligible investments in the order, ordinance, or resolution authorizing the issuance of bonds;
2. The entity must receive bids from at least three separate providers with no material financial interest in the bonds from which proceeds were received;
3. The entity must purchase the highest yielding guaranteed investment contract for which a qualifying bid is received;
4. The price of the guaranteed investment contract must take into account the reasonably expected drawdown schedule for the bond proceeds to be invested; and
5. The provider must certify the administrative costs reasonably expected to be paid to third parties in connection with the guaranteed investment contract.

Government Code 1371.059(c) applies to the execution of a guaranteed investment contract by an investing entity.

*Gov't Code 2256.015*

Investment Pools

A public funds investment pool is an authorized investment if it meets the requirements of Government Code 2256.016 and 2256.019, including that the governing body of the entity authorizes the investment in the particular pool by rule, order, ordinance, or resolution, as appropriate. *Gov't Code 2256.016, .019*

Hedging  
Transactions

A hedging transaction is an authorized investment if an eligible entity meets the requirements of Government Code 2256.0206.

"Eligible entity" means a political subdivision, including a college district, that has:

1. A principal amount of at least \$250 million in outstanding long-term indebtedness, long-term indebtedness proposed to be issued, or a combination of outstanding long-term indebtedness and long-term indebtedness proposed to be issued; and
2. Outstanding long-term indebtedness that is rated in one of the four highest rating categories for long-term debt instruments by a nationally recognized rating agency for municipal securities, without regard to the effect of any credit agreement or other form of credit enhancement entered into in connection with the obligation.

*Gov't Code 2256.0206*

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<b>Funds from Mineral Rights</b>	<p>The governing board of a public junior college district may invest funds received by the district from a lease or contract for the management and development of land owned by the district and leased for oil, gas, or other mineral development in any investment authorized to be made by a trustee under Property Code Title 9, Subtitle B (Texas Trust Code).</p> <p>Funds invested by the governing board of a public junior college district under this section shall be segregated and accounted for separately from other funds of the district.</p> <p><i>Gov't Code 2256.0206</i></p>
<b>Change in Law</b>	<p>Except as provided by Government Code Chapter 2270, an entity is not required to liquidate investments that were authorized investments at the time of purchase. <i>Gov't Code 2256.017</i></p>
<b>Loss of Required Rating</b>	<p>An investment that requires a minimum rating under Government Code Chapter 2256 does not qualify as an authorized investment during the period the investment does not have the minimum rating. An entity shall take all prudent measures that are consistent with its investment policy to liquidate an investment that does not have the minimum rating. <i>Gov't Code 2256.021</i></p>
<b>Investment of Debt Service Funds</b>	<p>A school district, including a junior 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 district for the purpose of paying debt service on bonds issued by the district.</p> <p>A contract under this section may provide for the purchase of investments at a stated yield or yields.</p> <p>Before entering a contract under this section, a school district must solicit and receive bids from at least three separate providers. The district must accept the qualifying bid that provides for the highest yield investments over the term of the contract.</p> <p>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).</p> <p><i>Education Code 45.112</i></p>
<b>General Deposits</b>	<p>The governing board of each institution of higher education 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. <i>Education Code 54.5022</i></p>

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**Sellers of  
Investments**

A written copy of the investment policy shall be presented to any business organization offering to engage in an investment transaction with an investing entity. For purposes of Government Code 2256.005, "business organization" means an investment pool or an investment management firm under contract with an investing entity to invest or manage the entity's investment portfolio that has accepted authority granted by the entity under the contract to exercise investment discretion in regard to the investing entity's funds. The qualified representative of the business organization offering to engage in an investment transaction with an investing entity shall execute a written instrument in a form acceptable to the investing entity and the business organization substantially to the effect that the business organization has:

1. Received and reviewed the investment policy of the entity; and
2. Acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the entity and the organization that are not authorized by the entity's policy, except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio, requires an interpretation of subjective investment standards, or relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority.

The investment officer of an entity may not acquire or otherwise obtain any authorized investment described in the investment policy of the investing entity from a business organization that has not delivered to the entity the instrument described above.

*Gov't Code 2256.005(k)-(l)*

**Donations**

Government Code Chapter 2256, Subchapter A does not apply to an investment donated to an investing entity for a particular purpose or under terms of use specified by the donor. *Gov't Code 2256.004(b)*

**Electronic Funds  
Transfer**

Any local government, including a college district, may use electronic means to transfer or invest all funds collected or controlled by the local government. *Gov't Code 2256.051*

**Private Auditor**

Notwithstanding any other law, a state agency, including a college district, shall employ a private auditor if authorized by the legislative audit committee either on the committee's initiative or on request of the governing body of the agency. *Gov't Code 2256.052*