

NORTHEAST TEXAS COMMUNITY COLLEGE INVESTMENT POLICY

1. POLICY:

It is the policy of Northeast Texas Community College to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the entity and conforming to all state and local statutes governing the investment of public funds. It is the intent of the College to be in compliance with the Texas Public Funds Investment Act.

2. SCOPE AND STRATEGY:

This investment policy applies to all financial assets of Northeast Texas Community College. These funds are accounted for in the Northeast Texas Community College Comprehensive Annual Financial Report and include:

2.1 Funds:

2.1.1 Operating Funds

The nature of these funds requires that anticipated cash flows are matched with adequate investment liquidity and safety. The college will invest operating funds in interest bearing checking accounts, investment pools, certificates of deposit or other authorized investments having a short-term maturity to ensure that sufficient funds are available for continued operations of the college.

2.1.2 Debt Service Funds

The primary objective in the investments of all monies collected or allocated for debt service will be to maintain safety of principal. Secondly, the college will seek to maximize the return on such funds while insuring that funds are available for timely payment of its debt obligations. Debt service funds will be invested in certificates of deposits, investments pools, treasury bills or other authorized short-term investments that have maturity dates corresponding to required debt service payment dates.

2.1.3 Debt Service Reserve Funds

Investment strategies for debt service reserve funds shall have as the primary objective the ability to generate a dependable revenue stream to the appropriate debt service fund from investments with a low degree of volatility. Maturities of investments of these funds must allow for availability of some funds as a safe-guard for any unanticipated short-fall in funds required for debt service payments. Except as may be required by the bond ordinance specific to an individual issue, investments shall have short-to-intermediate term maturities. Authorized investments will include certificates of deposit, investment pools, treasury bills and treasury notes.

2.1.4 Bond Funds

Investment of these funds will have the primary objective of safety of principal, while seeking to maximize returns on such funds, the maturity of investments must ensure sufficient funds are available to meet payment obligations on a timely basis. Short to intermediate term investments will be the most appropriate, depending on the progress of projects funded with bond funds. Any yield restrictions due to arbitrage rules must be considered when investing bond funds.

3. PRUDENCE:

Investments shall be made with judgment and care--under circumstances 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 probable income to be derived.

3.1 The standard of prudence to be used by investment officials shall be the "**prudent person**" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy who exercise due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

4. OBJECTIVE:

The primary objectives, in priority order, of the Northeast Texas Community College's investment activities shall be:

4.1 Safety: Safety of principal is the foremost objective of the investment program. Investments of the Northeast Texas Community College District shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

4.2 Liquidity: The Northeast Texas Community College District's investment portfolio will remain sufficiently liquid to enable the Northeast Texas Community College District to meet all operating requirements which might be reasonably anticipated.

4.3 Yield: The Northeast Texas Community College District's investment portfolio shall be designed with the objective of attaining a yield throughout budgetary and economic cycles, commensurate with the Northeast Texas Community College District's investment risk constraints and the cash flow characteristics of the portfolio.

4.4 Diversification: To diversify investments as to maturity, instruments, and financial institutions where permissible under state law.

4.5 Marketability: The Northeast Texas Community College District's investment portfolio shall be designed with the objective of purchasing investments that can be converted to cash or other liquid assets within seven working days to ensure an adequate cash flow for uninterrupted fiscal operations.

Market price of each investment shall be monitored and reported to the Board of Trustees during all regularly scheduled meetings of the Board of Trustees. Monitoring shall include calculating and reporting the current face or par value of an investment multiplied by the net selling price of the security as quoted by a recognized market pricing source quoted on the valuation date.

4.6 Maturity: Maturities of investments must allow for availability of some funds as a safe-guard for any unanticipated short-fall in funds required for operations as well as debt service payments.

5. DELEGATION OF AUTHORITY:

Authority to manage the Northeast Texas Community College District's investment program is derived from the following: The Public Funds Investment Act, Chapter 2256, Texas Government Code and Northeast Texas Community College District Board of Trustees Resolution.

Management responsibility for the investment program is hereby delegated to the Vice President for Administrative Services and the Controller, who shall serve as investment officers for the college and shall establish written procedures for the operation of the investment program consistent with this investment policy. The investment officers shall attend at least one training session on investments within six months after taking office or assuming duties. Procedures should include reference to: safekeeping, repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the investment officers and approved by the Board. The investment offices shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. Signatures approval of both investment officers is required on all investment transactions.

6. TRAINING: Each member of the Board of Trustees and its investment officer(s) shall attend at least one training session related to the person's responsibilities within six months after taking office or assuming duties. Training must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with the Public Funds Investment Act.

An investment officer shall attend a training session not less than once in a two-year period and may receive training from any independent source approved by the Board of Trustees. Each training session attended shall contain at least ten hours of instruction related to the officer's

responsibilities under the Public Funds Investment Act.

7. ETHICS AND CONFLICTS OF INTEREST:

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the President of Northeast Texas Community College District any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the Northeast Texas Community College District, particularly with regard to the time of purchases and sales.

8. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS:

The Vice President for Administrative Services will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment services in the State of Texas. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by state laws.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Vice President for Administrative Services with the following: audited financial statements, proof of state registration, certification of having read Northeast Texas Community College District's investment policy and depository contracts.

An annual review of the financial condition and registrations of qualified bidders will be conducted by the Vice President for Administrative Services.

A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the Northeast Texas Community College District invests.

9. AUTHORIZED AND SUITABLE INVESTMENTS:

The Northeast Texas Community College District Board of Trustees, by adoption of this policy, authorizes the college investment officers to invest in the following types of securities. Amendments to the investment policy must be approved by the Board of Trustees through Board resolution.

9.1 Certificates of Deposit: A certificate of deposit is an authorized investment if the certificate is issued by a state or national bank domiciled in this state, a savings bank domiciled in this state, or a state or federal credit union domiciled in this state and is:

9.1.1 guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor;

9.1.2 secured by obligations that are described by PFIA, Section 2256.009 (a) 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

9.1.3 secured in any other manner and amount provided by law for deposits of the district.

9.2 Mutual Funds: Except as provided by Subsection (c) of Section 2256.014 of the Public Funds Investment Act a no-load money market mutual fund is an authorized investment under this policy if the mutual fund:

9.2.1 is registered with and regulated by the Securities and Exchange Commission;

9.2.2 provides the investing entity with a prospectus and other information required by the Securities Exchange Act of 1934 (15 U.S.C. Section 78a et seq.) or the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.);

9.2.3 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.).

9.2.4 has a dollar-weighted average stated maturity of 90 days or fewer;

9.2.5 includes in its investment objectives the maintenance of a stable net asset value of \$1 for each share.

In addition to a no-load money market mutual fund permitted as an authorized investment referenced in 9.2 above, a no-load mutual fund is an authorized investment if the mutual fund:

- 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 in Subchapter 2256.014;
- 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 eligibility of investment pools to receive and invest funds of investing entities.

Investments in mutual funds are not authorized that in the aggregate will exceed 15 percent of the monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service.

9.3 Investment Pools: To be eligible to receive funds from and invest funds on behalf of an entity under this section, an investment pool must furnish to the investment officer or other authorized representative of the entity an offering circular or other similar disclosure instrument.

9.4 Obligations of, or Guaranteed by, governmental Entities: Except as provided by Subsection (b) of Section 2256.009 of the Public Funds Investment Act. The following are authorized investments under this policy:

9.4.1 obligations of the United States or its agencies and instrumentalities;

9.4.2 direct obligations of this state or its agencies and instrumentalities;

9.4.3 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;

9.4.4 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;

9.4.5 obligations of states, agencies, counties, cities and other political subdivisions of the state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; and

9.5 Commercial Paper: Commercial paper is an authorized investment under this policy if the commercial paper:

9.5.1 has a stated maturity of 365 days or fewer from the date of its issuance; and

9.5.2 is rated not less than A-1 or P-1 or an equivalent rating by at least two nationally recognized credit rating agencies or 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.

10. COLLATERALIZATION:

Collateralization will be required on two types of investments: certificates of deposit and repurchase (and reverse) agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be (102%) of market value of principal and accrued interest and will be compared to market weekly. Collateral will always be held by an independent third party with whom the entity has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to Northeast Texas Community College District and retained.

The right of collateral substitution is granted.

11. SAFEKEEPING AND CUSTODY:

All security transactions, including collateral for repurchase agreements, entered into by the Northeast Texas Community College District shall be conducted on a **delivery-versus-payment (DVP)** basis. Securities will be held by a third party custodian designated by the Vice President for Administrative Services and evidenced by safekeeping receipts.

12. MAXIMUM MATURITIES:

To the extent possible, the Northeast Texas Community College District will attempt to match its investment maturities with anticipated cash flow requirements.

13. INTERNAL CONTROL:

The Vice President for Administrative Services shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

14. PERFORMANCE STANDARDS:

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

15. MONITORING MARKET PRICES AND RATING CHANGES:

The Vice President for Administrative Services 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 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 monthly, or more often as economic conditions warrant by using appropriate reports, indices, or benchmarks for the type of investment.

In accordance with Government Code 2256.005(b), the investment officer shall monitor changes in investment ratings and liquidate investments that do not maintain satisfactory ratings.

16. REPORTING:

The Vice President for Administrative Services is charged with the responsibility of including a market report on investment activity and returns in the Northeast Texas Community College District's Financial Report. Reports will be presented to the Board during each regularly scheduled monthly meeting and will include performance and interest earnings. The investment report shall be prepared jointly and signed by all investment officers of the college district.

17. INVESTMENT POLICY ADOPTION:

The Northeast Texas Community College District's investment policy shall be reviewed annually by the college Investment Officers and any modifications made thereto must be approved and adopted by resolution of the Northeast Texas Community College District's Board of Trustees.

GLOSSARY

AGENCIES: Federal agency securities.

ASKED: The price at which securities are offered.

BANKERS' ACCEPTANCE (BA): A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid). See Offer

BROKER: A broker brings buyers and sellers together for a commission.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large denomination CD's are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the Northeast Texas Community College District. It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on a bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DISCOUNT: The difference between the cost price of a security and its maturity when quoted

at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g. U.S. Treasury Bills.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g. S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATIONS (FDIC): A federal agency that insures bank deposits, currently up to \$100,000 per deposit.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-a-vis member commercial banks.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae):

Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA, or FMHM mortgages. The term "passthroughs" is often used to describe Ginnie Maes.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase--reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

OFFER: The price asked by a seller of securities. (when you are buying securities, you ask for an offer.) See Asked and Bid.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit: sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of

New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) - registered securities broker-dealers, banks, and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state--the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money, that is, increasing bank reserves.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15C3-1: See Uniform Net Capital Rule.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BOND: Long-term U.S. Treasury securities having initial maturities of more than

10 years.

TREASURY NOTES: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months or one year.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called *net capital rule* and *net capital ratio*. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issued are spread among members of underwriting syndicates. Liquid capital includes each and assets easily converted into cash.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security. (b) **NET YIELD or YIELD TO MATURITY** is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.