

Alvin Community College

Investment Policy

8/17/17

Purpose and Need for Policy

Alvin Community College (ACC) is required under the Public Funds Investment Act, Chapter 2256, Texas Government Code, to adopt a written investment policy. ACC is required to comply with the Investment Policy as reviewed and adopted by the Board of Regents not less than annually, in accordance with the standard of care, as set forth in Chapter 2256.006, Texas Government Code.

Statement of Intent

It is the policy of Alvin Community College to invest public funds in a manner which shall provide the maximum security while meeting the daily cash flow demands of ACC, providing maximum potential interest earnings and conforming to all state and local statutes governing the investment of public funds.

Scope

This Investment Policy applies to all financial assets of Alvin Community College. The College will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting procedures.

All funds are accounted for in the Alvin Community College Annual Financial Report.

Monitoring Market Prices and Rating Changes

In accordance with Government Code 2256.021, the investment officer shall monitor investments acquired with public funds for market prices and rating changes. Monitoring shall be done monthly and more often as economic conditions warrant by using appropriate reports, indices, or benchmarks for the type of investment, as well as using nationally recognized rating agencies. The investment officer shall keep the Board informed of significant changes in ratings and/or declines in the market value of the College's investment portfolio at least quarterly. Information sources may include financial/investment publications and electronic media, available software for tracking investments, depository banks, commercial or investment banks, financial advisors, and representatives/advisors of investment pools or money market funds.

The investment officer shall take all prudent measures that are consistent with the investment policy to liquidate any investment that does not have a minimum rating or significantly changes its rating or declines in market value.

Safety and Investment Management

The primary objectives, in priority order, of ACC's investment activities shall be: safety, liquidity and yield.

Safety: Safety of principal is the foremost objective of ACC's investment program. Investments of the College shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

Liquidity: ACC's investment portfolio shall remain sufficiently liquid to enable the College to meet all operating requirements which might be reasonably anticipated.

Yield: ACC's investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with the College's investment risk constraints and the cash flow characteristics of the portfolio.

Designated Officers

In accordance with the Public Funds Investment Act, the Vice President of Administrative Services, the Director of Fiscal Affairs and the Assistant Director of Fiscal Affairs are expressly authorized by the Board of Regents to cause the investment of all available college funds consistent with this policy. The Director of Fiscal Affairs will be designated the primary Investment Officer with the Vice President and Assistant Director acting as alternates in the absence of the Director. The Investment Officer has the authority to deposit, withdraw, invest, transfer and manage the funds in accordance with this Investment Policy and applicable law. No person may engage in an investment transaction except as provided under the terms of this policy.

Ethics and Conflicts of Interest

In the event that the Investment Officer has a personal business relationship with an entity seeking to sell an investment to the college, the Investment Officer shall file a statement disclosing to the Texas Ethics Commission and to Alvin Community College's Board of Regents that personal relationship prior to purchasing such investment. An Investment Officer who is related within the second degree by affinity or consanguinity, as determined under Chapter 573 of the Texas Government Code, to an individual seeking to sell an investment to the college shall file a statement with the Board and the Texas Ethics Commission disclosing that relationship.

Internal Controls

The Vice President of Administrative Services and the Director of Fiscal Affairs are responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the college are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

As part of the annual financial audit, the external auditors shall perform a compliance audit of management controls on investments and adherence to investment policies and procedure.

Delivery versus Payment

Securities shall be purchased using the delivery versus payment method with the exception of investment pools and mutual funds. Funds will be released after notification that the purchased security has been received.

Authorized Financial Dealers and Institutions

Alvin Community College shall maintain a list of creditworthy financial institutions and qualified brokers/dealers authorized to engage in investment transactions. The Board of Regents shall annually review, revise and adopt this list.

All financial institutions and brokers/dealers who would like to become qualified to bid on investments other than certificates of deposit must submit the following to the Investment Officer: (1) audited financial statements; (2) proof of Financial Industry Regulatory Authority (FINRA) certification, or for financial institutions, a statement from a senior bank official that the institution is registered as a government securities dealer; (3) proof of state registration; and (4) certification of having read this Investment Policy.

Authorized Investments

Alvin Community College shall pursue a conservative approach to investment activity and although other investments may be authorized by law, the college may invest only in investments authorized by the Board of Regents as listed below:

1. Obligations of the United States of America or one of its agencies or instrumentalities.
2. Direct Obligations of the State of Texas and its agencies thereof.
3. Other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities.
4. Certificates of deposit and other evidences of deposit at a financial institution, including credit unions that,
 - a. has its main office or a branch office in Texas and is guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their successors,
 - b. is secured by obligations in a manner and amount provided by law for deposits of the College, or
 - c. is executed through a depository institution that has its main office or a branch office in Texas that participates in the Certificate of Deposit Account Registry Service (CDARS), or similar program, and meets the requirements of the PFIA.
5. The funds may be invested in investment pools to the extent authorized by the Public Funds Investment Act and this Investment Policy. Only investment pools approved by the Board shall be used. A public funds investment pool must be continuously rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service.
6. Fully collateralized repurchase agreements and reverse repurchase agreements permitted by Section 2256.011, Texas Government Code.

7. SEC-regulated no-load money market mutual funds as permitted by Government Code 2256.014 that (1) have a dollar weighted average stated maturity of 90 days or less, (2) maintain a net asset value of \$1 for each share, (3) are rated AAA by at least one nationally recognized rating service.
8. A guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.015.
9. Treasury bills, treasury notes, and treasury bonds of the United States and other direct obligations of the agencies and instrumentalities of the United States as permitted by Government Code 2256.009.
10. 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 as permitted by Government Code 2256.009(a).
11. Investments that are fully guaranteed or insured by the FDIC.
12. Commercial paper with a maximum maturity of 270 days or fewer from the date of its issuance and rated A1 or P1 or an equivalent rating by a nationally recognized rating agency.

Investments in any and all types of derivatives are prohibited. All investments are prohibited unless expressly described in this policy.

Collateralization

Consistent with the requirements of State law, it is the policy of the College to require full collateralization of all College investments and funds on deposit with banks, savings banks and credit unions, other than investments which are obligations of the U.S. government and its agencies and instrumentalities. 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 on the deposits or investments less an amount insured by the FDIC. At its discretion, the College may require a higher level of collateralization for certain investment securities. The Vice President of Administrative Services is responsible for entering into written collateralization agreements with third party custodians. Agreements shall require compliance with the Public Funds Investment Act and this Investment Policy, establish an independent custodian for all pledged collateral, define the eligible collateral and the College's rights to the collateral in case of default, bankruptcy, or closing, and establish a perfected security interest in compliance with Federal and State regulations.

Acceptable collateral includes securities as specified in the Public Funds Collateral Act, Chapter 2257, Texas Government Code.

Additional collateral may be pledged or purchased as required, released as it is not needed, and substituted, if necessary, with the written consent of the Investment Officer, or his designee.

Safekeeping and Custody

All security transactions, including collateral for repurchase agreements, entered into by Alvin Community College shall be conducted on a delivery-versus-payment (DVP) method with the exception of investment pools and mutual funds. Funds shall not be wired or paid until verification has been made that the correct security was received by the Trustee. The security shall be held in the name of the College or held on behalf of the College. The Trustee's records shall assure the notation of the College's ownership of or explicit claim on the securities. The original copy of all safekeeping receipts shall be delivered to the College. The College requires monthly reports with market values of pledged securities from all financial institutions with which the College has collateralized deposits. The College will regularly monitor the adequacy of collateral.

Diversification

Credit risk has been eliminated by restricting investment activity to authorized investments coupled with the strategy of holding all investments to maturity. Diversification by investment maturity based on cash flow needs shall reduce the impact of adverse market fluctuations.

Maximum Maturities

To the extent possible, the College shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the College will not directly invest in securities maturing more than three years from the date of purchase unless specifically limited by the Public Funds Investment Act as noted in Section 2256, Texas Government Code.

However, the above described obligations, certificates or agreements may be collateralized using longer dated investments. Because no secondary market exists for repurchase agreements, the maximum term for non-bond fund transactions shall be 120 days. The maximum investment term of a flexible repurchase agreement shall be the anticipated cash flow requirements of the projects or the "temporary period", as defined by Federal Tax Law, whichever is shorter.

Reporting

Not less than quarterly, a written report of investment transactions for all funds shall be prepared, signed by the Vice President of Administrative Services and the Director of Fiscal Affairs and submitted to the Board of Regents. Reports shall be prepared in accordance with requirements as specified in Section 2256.023, Texas Government Code. The quarterly written reports shall be reviewed annually during the compliance audit of an independent auditor, the results of which shall be reported to the Board of Regents.

Training

The Vice President of Administrative Services, the Director of Fiscal Affairs and the Assistant Director of Fiscal Affairs, being designated by the Board of Regents as the Investment Officers for the College, must receive instruction in accordance with the Public Funds Investment Act of the State of Texas not less than once each state fiscal biennium. The investment training session shall be provided by an independent source approved by the Texas Higher Education Coordinating Board. A newly appointed investment officer and each Board member must attend a training session relating to the person's responsibilities under the Act within six months after

assuming the duties of the office.

Investment Policy Review and Adoption

The College's Investment Policy shall be adopted by written resolution of the Board of Regents stating that the Board has reviewed the investment policy and strategy and shall include any changes made to either. The investment policies and strategies shall be reviewed by the Board of Regents not less than annually. All revisions shall be formally approved by the Board of Regents.

Investment Strategy

Alvin Community College maintains a pooled investment portfolio that utilizes specific investment strategy considerations designed to address the unique characteristics of the fund groups represented in the portfolios.

Investment of funds shall be governed by the following investment objectives, in order of priority, for each fund listed below:

- a. Investment suitability as it relates to the financial requirement of Alvin Community College;
- b. Preservation and safety of principal to ensure that capital losses are avoided whether they be from defaults or erosion of market value;
- c. Liquidity to the extent needed to pay the College's obligations as they become due;
- d. Investment marketability provided the need arises for the College to liquidate the investment prior to its maturity date, although securities of all types are purchased with the intention of holding until maturity;
- e. Investment diversification by maturity; and
- f. Yield to attain the best rate of return on investments, while considering risk constraints and cash flow needs; the basis or benchmark used to determine whether market yields are being achieved shall be the three-month Treasury Bill.

Investment strategies for the operating fund have as its primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. Maturities are staggered to meet operating expenditures, based on known and projected cash flows and market conditions.

Investments Providers

The following broker/dealers include a mix of primary and secondary firms with a history of competitive pricing in PFIA-related securities. This list represents security providers.

JPMorgan Chase
Merrill Lynch
UBS Paine Webber
Cantor Fitzgerald
Edward Jones

The following list of banks consists of local banks which have either shown an interest in Alvin Community College's banking business by participating in the bank bid process or they participate in a CD investment program that allows for a higher rate of interest on a Certificate of Deposit while still maintaining coverage under the FDIC, e.g. the bank is a member of the

CDARS Network*. These banks would be used for the purchase of Certificates of Deposit.

First National Bank
Texas Advantage Community Bank*
Wells Fargo Bank, Alvin
Texas First Bank, Alvin
BBVA Compass Bank, Alvin
Woodforest National Bank, Alvin
JP Morgan Chase Bank
Amoco Federal Credit Union
Chocolate Bayou Federal Credit Union
Associated Credit Union of Texas
Frost Bank*

**CDs are issued through "Certificate of Deposit Account Registry Service", a service of Promontory Interfinancial Network.*

The College's Investment Policy requires the Board of Regents to initially and annually thereafter approve this list.