

Collin County Community College District
Investment Policy
Approved July 22, 2003

Purpose and Need for Policy

Collin County Community College District (the District) is required under the Public Funds Investment Act Chapter 2256, Texas Government Code, to adopt a written investment policy. The District is required to comply with the investment policy as approved by the Board of Trustees, 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 the District to invest public funds in a manner which will provide the maximum security while meeting the daily cash flow demands of the District, 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 Collin County Community College District.

All funds are accounted for in the District's Annual Financial and Compliance Report.

Prudence

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

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 the overall portfolio.

Investment officers acting in accordance with written procedures and the investment policy, and exercising 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.

Prudent measures shall be used to liquidate any investment that is downgraded to less than the required minimum rating.

Objectives

The primary objectives, in priority order, of the District's investment activities shall be:

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

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

Return on Investments: The District's investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with the District's investment risk constraints and the cash flow characteristics of the portfolio.

Designated Officers

The Vice President of Administration, the Director of Accounting and Financial Reporting and the Controller are expressly authorized by the Board of Trustees to cause the investment of all available District funds consistent with this policy and are therefore designated as the Investment Officers. Because of the various duties and responsibilities related to managing the investment portfolio, the Vice President of Administration, the Director of Accounting and Financial Reporting, or the Controller may delegate specific duties and responsibilities to the Revenues and Receivables Accountant. No person may engage in an investment transaction except as provided under the terms of this policy.

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 District's investment program, or which could impair their ability to make impartial investment decisions. Investment officials who have a personal business relationship with a business organization shall file a statement disclosing to the Texas Ethics Commission and to the District's Board of Trustees. Any material financial interests in financial institutions that conduct business with the District, as well as any personal financial/investment positions that could be related to, or impact upon, the performance of the District's portfolio shall be disclosed. Additionally, investment officials who are related within the second degree by affinity or consanguinity, as determined under Chapter 573, to an individual seeking to sell an investment to the District shall file a statement disclosing that relationship. A personal business relationship is defined as 1) owning 10 percent or more of the voting stock or shares of the business organization or owning \$5,000 or more of the fair market value of the business organization; 2) receiving funds from the business organization exceeding 10 percent of gross income for the previous year; or 3) acquiring from the

business organization during the previous year investments with a book value of \$2,500 or more for a personal account.

Authorized Financial Dealers and Institutions

The District will maintain a list of qualified brokers authorized to engage in investment transactions. The Board of Trustee will annually review, revise and adopt this list of qualified brokers.

All approved brokers (1) must have completed a District broker/dealer questionnaire (2) must have executed a written statement by a qualified representative acknowledging receipt and review of the District Investment Policy and indicating that reasonable procedures and controls have been implemented to preclude investment activities being conducted between the District and any investment provider unauthorized by the District Investment Policy, except to the extent that this authorization is dependent on an analysis of the make-up of the District's entire portfolio or requires an interpretation of subjective investment standards.

Approved brokers must have a current financial statement on file and if necessary have executed a Master Repurchase Agreement.

Authorized Investments

The District will pursue a conservative approach to investment activity and although other investments may be authorized by law, the District may invest only in investments authorized by the Board of Trustees as listed below:

1. Treasury bills, treasury notes, and treasury bonds of the United States and other direct obligations of the agencies and instrumentalities of the United States;
2. Collateralized deposits issued by a state or national bank domiciled in this state or a savings and loan association domiciled in the state that are:
 - a. guaranteed or insured by the Federal Deposit Insurance Corporation or its successor;
 - b. secured by obligations described by the Public Funds Collateral Act, Chapter 2257;
or
 - c. secured in any other manner and amount provided by law for deposits of the investing entities.

Bids for collateralized deposit may be solicited orally, in writing, electronically or in any combination thereof.

3. Fully collateralized repurchase agreements, as expressly defined in Section 2256.011, Texas Government Code.
4. Investments pools approved by the District's Board of Trustees, by Resolution with a continuous rating of no lower than AAA or an equivalent rating by at least one nationally recognized rating service.
5. No-load money market mutual funds meeting the following criteria:
 - a. The fund must be registered with and regulated by the Securities and Exchange Commission;
 - b. the fund must have a dollar-weighted average stated maturity of not more than 90 days;
 - c. an established objective of the Fund must be to maintain a stable net asset value of \$1 for each share; and
 - d. the fund must meet all requirements of the Texas Public Funds Investment Act, as amended.

Prohibited Investments

The District is prohibited from investing in any investment unless expressly described under the Authorized Investments paragraph of this policy. The District is strictly prohibited from investing in any type of derivatives:

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.

Collateralization

Collateralization will be required on certificates of deposit, and repurchase 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.

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 Collin County Community College District shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian. Safekeeping receipts and clearance documents will be required for all securities purchased by the District and held in safekeeping by an authorized third party.

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 will reduce the impact of adverse market fluctuations.

Maximum Maturities

To the extent possible, the District will attempt to match its investments with anticipated cash flow requirements. Except as noted in the Investment Strategy for the Debt Service Reserve Fund (last paragraph), the District will not directly invest in securities maturing more than 24 months from the date of purchase unless specifically limited by the Public Funds Investment Act as noted in Section 2256, Texas Government Code.

Internal Controls

Duties related to investment activities will be delegated so that segregation of duties will be maintained with respect to purchasing, recording, authorizing and reconciling investment accounts. All investment purchases must be authorized by the Vice President of Administration, the Director of Accounting and Financial Reporting and the Controller.

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

Reporting

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

Market Price

The investment portfolio will be marked to market monthly. Pricing information will be obtained from Bloomberg, Tracs Financial Group or sources deemed reliable by the Director of Accounting and Financial Reporting or the Controller. If the price of a security is not available, the price may be estimated by analyzing similar securities' market values.

Training

The Vice President of Administration, Director of Accounting and Financial Reporting and the Controller, being designated by the Board of Trustees as the Investment Officers for the District, must receive instruction in accordance with the Public Funds Investment Act of the State of Texas every two years relating to investment responsibility from an independent source approved by the Board of Trustees. In addition, he/she must attend at least one ten-hour training session under the Public Funds Investment Act of the State of Texas within twelve months of taking office or assuming duties.

Investment Policy Review and Adoption

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

Collin County Community College District Investment Strategy

Collin County Community College District maintains portfolios, which utilize four 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 Collin County Community College District;
- 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 District's obligations as they become due;
- d. Investment marketability provided the need arises for the District 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. Twenty-four months is the maximum maturity for the majority of securities in the portfolio.

Like the operating fund, the investment strategy for the building fund has as its primary objective to ensure that maturities are matched with anticipated cash flows. Maturities should be staggered such that they coincide with estimated draw down dates based on construction schedules and estimated project completion dates. In any case, investment maturity will not be greater than 24 months except on bond proceed investments, which can be invested to the IRS temporary period.

Investment strategies for the debt service fund shall have as the primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date. Securities purchased shall not have a stated final maturity date which exceeds the next unfunded debt service payment date. Investments for this fund will generally be short term (360 days or less).

Debt service reserve funds have no anticipated expenditures. The funds are deposited to provide annual debt service payment protection to bond holders. Market conditions and arbitrage regulation compliance determine the advantage of security diversification and liquidity. Generally, if investment rates exceed the applicable arbitrage yield for a specific bond issue, the District is best served by locking in investment maturities and reducing liquidity. If the arbitrage yield cannot be exceeded, the concurrent market conditions will determine the attractiveness of locking in maturities or investing shorter and anticipating future increased yields. Managing the portfolios maturities to not exceed the call provisions of the bond issue will reduce the investment's market risk if the District's bonds are called and the reserve fund liquidated. No investment maturity shall exceed the final maturity of the bond issue. All portfolio investments will be in compliance with bond covenants and insurance requirements of all bond issues.