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Frank Phillips College Investment Policy

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FRANK PHILLIPS COLLEGE INVESTMENT POLICY

I. INVESTMENT OBJECTIVE

The investment objective of Frank Phillips College shall be to:

- A. Assure the **Preservation and Safety of Principal** of invested funds;
- B. Maintain sufficient liquidity to provide adequate and timely working funds;
- C. Provide the College with the best available yield given the investment officers assessment of the desired investment risk (ie.credit risk, market risk, opportunity risk);
- D. Provide diversification in the investment portfolio with regard to maturity, instruments, and financial institutions permitted under the Public Funds Investment Act.

II. INVESTMENT RESPONSIBILITIES

The Board of Regents has the responsibility of designating the College's Investment officer. The Dean of Business Affairs, Senior Accountant or other designee by the President is designated as the investment officers of the College, responsible for the investment of the College's funds. All investment recommendations will be presented to the President for review. Investment officers must be bonded. (see Resolution)

A. 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 the person's 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 objectives stated in I. above.

In determining whether an investment officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

1. the investment of all funds, or funds under the College'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 College.

III. AUTHORIZED INVESTMENTS

Sec. 2256.009,010, 011.012,013,014,015,016,017,020 of the Public Funds Investment Act 1995.

A. OBLIGATIONS OF OR GUARANTEED BY GOVERNMENTAL ENTITIES

1. Obligations of the United states or its agencies and instrumentalities, including letters of credit;
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, this state or the United States or their respective agencies and instrumentalities and;
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. **Unauthorized investments under this section:**
 - 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 10 years; and
 - d. collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

B. CERTIFICATES OF DEPOSIT AND SHARE CERTIFICATES

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

- (1) guaranteed or insured by the Federal Deposit Insurance Corporation or National Credit Union Share Insurance Fund.

- (2) secured by obligations that are described in section A. (1) 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 in A. (6); or
- (3) secured in any other manner and amount provided by law for deposits of the investing entity.

C. REPURCHASE AGREEMENTS

A fully collateralized repurchase agreement is an authorized investment if the repurchase agreement:

- (1) has a defined termination date
- (2) is secured by obligations described in A.(1)
- (3) requires the securities being purchased by the entity to be pledged to the entity, held in the entity's name, and deposited at the time the investment is made with entity or with a third party selected and approved by the entity
- (4) is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state.

A repurchase agreement means a simultaneous agreement to buy, hold for a specified time, and sell back at a future date obligations described in 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. 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.

D. BANKERS' ACCEPTANCES

A bankers' acceptance is an authorized investment if the bankers' acceptance:

- (1) has a stated maturity of 270 days or fewer from the date of its 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 a bank holding company of which the bank is the largest subsidiary, are rate not less than A-1 or P-1 or an equivalent rating by at least one nationally recognized credit rating agency.

E. 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 its issuance; and
- (2) is rated not less than A-1 or P-1 or an equivalent rating by at least:
 - a. two nationally recognized credit rating agencies
 - 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.

F. MUTUAL FUNDS

1. A no-load money market mutual fund is an authorized investment if the mutual fund:
 - a. is registered with and regulated by the Securities and Exchange Commission;
 - b. provides the investing entity with a prospectus and other information required by the Securities Exchange Act of 1934 (15 U.S.C. Section 78 a et.seq.) or the Investment Company Act of 1940 (15 U.S.C. Section 80 a et.seq.).
 - c. has a dollar-weighted average stated maturity of 90 days or fewer; and
 - d. includes in its investment objectives the maintenance of a stable net asset value of \$1 for each share.
2. In addition to a no-load money market mutual fund permitted as an authorized investment 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 by this policy
 - 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 Section H.1.and 2. relating to the eligibility of investment pools to receive and invest funds of investing entities.
3. The College is not authorized in this section to:
 - a. invest in the aggregate more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in mutual funds described in Section 2.
 - b. invest any portion of bond proceeds, reserves and funds held for debt service, in mutual funds described in Section 2; or

- c. invest its funds or funds under its control, including bond proceeds and reserves and other funds held for debt service, in any one mutual fund described in Section 1 or 2 in an amount that exceeds 10 percent of the total assets of the mutual fund.

G. GUARANTEED INVESTMENT CONTRACTS

1. A guaranteed investment contract is an authorized investment for state agencies for bond proceeds under this section if the guaranteed investment contract:
 - a. has a defined termination date
 - b. is secured by obligations described by Section A. 1., excluding those obligations described by Section A. 2., in an amount at least equal to the amount of bond proceeds invested under the contract, and
 - c. is pledged to the entity and deposited with the entity or with a third party selected and approved by the entity.
2. Bond proceeds, other than bond proceeds representing reserves and funds maintained for debt service purposes, may not be invested under this subchapter in a guaranteed investment contract with a term of longer than five years from the date of issuance of the bonds.
3. To be eligible as an authorized investment:
 - a. the Board of Regents of the College must specifically authorize guaranteed investment contracts as an eligible investment in the order, ordinance, or resolution authorizing the issuance of bonds;
 - b. the College must receive bids from at least three separate providers with no material financial interest in the bonds from which proceeds were received;
 - c. the College must purchase the highest yielding guaranteed investment contract for which a qualifying bid is received;
 - d. the price of guaranteed investment contract must take into account the reasonably expected drawdown schedule for the bond proceeds to be invested; and
 - e. the provider must certify the administrative costs reasonably expected to be paid to third parties in connection with the guaranteed investment contract.

H. INVESTMENT POOLS

1. The College may invest its funds and funds under its control through an eligible investment pool if the Board of Regents authorizes by rule, order, ordinance, or resolution, investment in the particular pool. An investment pool shall invest the funds it receives from entities in authorized investments permitted by the section.
2. 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 College and offering circular or other similar disclosure instrument that contains, at a minimum, the following information:

- a. the types of investments in which money is allowed to be invested;
- b. the maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool;
- c. the maximum stated maturity date any investment security within the portfolio has;
- d. the objectives of the pool;
- e. the size of the pool;
- f. the names of the members of the advisory board of the pool and the dates their terms expire;
- g. the custodian bank that will safekeep the pool's assets;
- h. whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market price fluctuation;
- i. whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment;
- j. the name and address of the independent auditor of the pool;
- k. the requirements to be satisfied for an entity to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the entity to invest funds in and withdraw funds from the pool; and
- l. the performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios.

3. To maintain eligibility to receive funds from and invest funds on behalf of an entity under this section, an investment pool must furnish the investment officer or other authorized representative of the entity:

- a. investment transaction confirmations; and
- b. a monthly report that contains, at a minimum, the following information:
 - (1) the types and percentage breakdown of securities in which the pool is invested
 - (2) the current average dollar-weighted maturity, based on the stated maturity date, of the pool
 - (3) the current percentage of the pool's portfolio in investments that have stated maturities of more than one year
 - (4) the book value versus the market value of the pool's portfolio using amortized cost valuation
 - (5) the size of the pool
 - (6) the number of participants in the pool

- (7) the custodian bank that is safekeeping the assets of the pool
 - (8) a listing of daily transaction activity of the entity participating in the pool
 - (9) the yield and expense ratio of the pool
 - (10) the portfolio managers of the pool; and
 - (11) any changes or addenda to the offering circular
4. The College by contract may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds.
 5. In this section, "yield" shall be calculated in accordance with regulations governing the registration of open-end management investment companies under the Investment Company Act of 1940, as promulgated from time to time by the federal Securities and Exchange Commission.
 6. Other Investment Pool requirements:
 - (1) A public funds investment pool created to function as a money market mutual fund must mark its portfolio to market daily and, to the extent reasonably possible, stabilize at a \$1 net asset value. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005, portfolio holdings shall be sold as necessary to maintain the ratio between 0.995 and 1.005.
 - (2) An investment pool must establish an Advisory Board under Sec. 2256.016 of the Act.
 - (3) A public funds investment pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.

I. AUTHORIZED INVESTMENTS: INSTITUTIONS OF HIGHER EDUCATION

In addition to the authorized investments permitted by these sections, an institution of higher education may purchase, sell, and invest its funds and funds under its control in the following:

- A. cash management and fixed income funds sponsored by organizations exempt from federal income taxation under Section 501(f), Internal Revenue Code of 1986 (26 U.S.C. Section 501 (f);

negotiable certificates of deposit issued by a bank that has a certificate of deposit rating of at least 1 or equivalent by a nationally recognized credit rating agency or that is associated with a holding company having a commercial paper rating of at least A-1, P-1 or the equivalent by a nationally recognized credit rating agency; and

- C. corporate bonds, debentures, or similar debt obligations rated by a nationally recognized investment rating firm in one of the two highest long-term rating categories, without regard to gradations within those categories.

IV. INTERNAL MANAGEMENT REPORTS

Sec. 2256.023 Public Funds Investment Act

- A. Not less than quarterly, the investment officer shall prepare and submit to the Board of Regents a written report of investment transactions for all funds covered by this section for the preceding reporting period. Quarterly meetings, November, February, May, August.
- B. 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 College;
 3. be signed by each investment officer of the College
 4. contain a summary statement prepared in compliance with generally accepted accounting principles, 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, and
 - 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 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 of the College for which each individual investment was acquired; and
 8. state the compliance with the investment portfolio of the College as it relates to:
 - a. the investment strategy expressed in the College's investment policy; and
 - b. relevant provisions of this chapter.
- C. The report shall be presented not less than quarterly to the Board of Regents and the Chief Executive Officer of the College within a reasonable time after the end of the period.

V. INTERNAL CONTROLS

A system of internal controls will be in place designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the College. Controls shall include:

- A. Control of collusion
- B. Separation of duties
- C. Separation of transaction authority from accounting and recording keeping
- D. Custodial safekeeping
- E. Avoidance of bearer-form securities
- F. Clear delegation of Authority

- G. Written confirmation of telephone transactions
- H. Limiting the number of authorized investment officials
- I. Continued documentation of transactions and strategies
- J. Controls will be reviewed by the College's independent audit firm.

VI: COMPLIANCE AUDIT

Compliance audit of management controls on investments and adherence to investment policies will be performed every two years. Results of the audit shall be reported to the State Auditor by January 1st of even numbered years.

Frank Phillips College Investment Strategies

I. Frank Phillips College Fund Groups

Current Funds

Funds available for current operating and maintenance purposes as well as those restricted by donors and other outside agencies for specific operating purposes. Current funds are segregated into separate balanced fund groups:

- A. Unrestricted Current Funds - Funds received by an institution that have no limitations or stipulations placed on them by external agencies or donors. The funds are used for carrying out the primary purpose of an institution, i.e. educational, research, extension and administration.
- B. Auxiliary Enterprises - Funds for activities that serve students, faculty, or staff for charges that are directly related to, although not necessarily equal to the cost of service. Examples are residence halls, food services and book stores.
- C. Restricted Current Funds - Funds available for current purposes, but with restrictions from outside agencies or persons. Revenues are reported only to the extent of expenditures for the current year.

Endowment and Similar Funds

Funds subject to restrictions of endowment and trust instruments requiring that principal be maintained and that only the income be spent.

Plant Funds

Plant funds are divided into these separate balanced fund groups:

- 1. Unexpended - Funds for the construction, rehabilitation, and acquisition of physical properties for institutional purposes.
- 2. Renewals and Replacements - Funds accumulated for the renewal and replacement of physical plant properties.
- 3. Retirement of Indebtedness - Funds accumulated to meet debt service charges and the retirement of indebtedness.
- 4. Investment in Plant - Funds already expended for plant properties.

Agency Funds

Funds held by the college as custodial or fiscal agent for students, faculty members, and/or others.

II. Fund Investing Objectives

Funds invested by the College must meet the following objectives in priority:

- A. Suitability of the investment must match the financial requirements as described in the overall investment policy.
- B. Adherence to the policy requirements for the preservation and safety of principal of invested funds.
- C. Adherence to liquidity or cash flow needs with regard to fund groups.
- D. Determination of marketability of investment if the need arises to liquidate the investment prior to maturity.
- E. Diversification of the investment portfolio.
- F. Yield.

III. Fund Group Strategies

Each fund group, as described in Sec. I, will be analyzed as to:

- A. the estimate of the anticipated expenditure pattern;
- B. the differences between amounts to be spent and stable balances on savings;
- C. the appropriate strategy for the fund;
- D. the appropriate investment options; and
- E. the economic impact of the proposed strategy

1. Current Funds

The current funds as described in Sec. I, include Education and General Funds, Auxiliary Enterprise Funds, and Restricted Funds may be invested in instruments whose maturities do not exceed one year at the time of purchase. Factors used in determining investment decisions are:

- a. estimate of expenditure pattern anticipated for the current fiscal year.
- b. the balances in reserves available for investment, anticipating the monthly cash flow requirements for each fund group.
- c. investment options available, given the current market conditions at the time, that will yield adequate return without the risk of loss of principal.
- d. the economic impact an investment may have on projected budgeted revenue in a given year.

- e. Auxiliary Enterprise funds determined to be available in reserves may be invested in instruments with maturities greater than one year but with a maximum maturity of five years.
- f. Diversification of the investment portfolio will be determined based on the above criteria with an emphasis on the overall investment risk associated with the investment.

2. Endowment and Similar Funds

Funds classified as Endowment or similar funds may be invested in instruments whose maturities exceed one year up to a maximum maturity of ten years. The College does not currently have custody of any Endowment funds.

3. Plant Fund

Those unexpended plant funds, funds accumulated for renewal and replacement, may be invested in instruments whose maturities do not exceed one year. Factors used in determining investment decisions are:

- a. an estimate of anticipated expenditures for the year;
- b. the balances in reserves available for investment, after anticipating cash flow requirements;
- c. investment options available, given the current market conditions, that will yield adequate return without the risk of loss to principal or affect liquidity.
- d. Debt Service Funds will be invested first according to the Bond Covenant restrictions and then by this investment policy, whichever offers the most restrictions as to investment options. Outside of the Bond Covenant, Debt Service Interest and Sinking Funds as well as reserves may be invested in instruments with maturities greater than one year but with a maximum maturity of five years. Factors used in determining investment decisions are:
 - (1) anticipated annual debt service requirements.
 - (2) anticipated reserve requirements.
 - (3) current bond covenant agreements.
 - (4) balances in reserves available for investment, after anticipating cash flow requirements.
 - (5) investment options available, given the current market conditions that will yield adequate return without the risk of loss to principal or affect liquidity.
 - (6) arbitrage rebate rules that affect covenant agreements for bond proceeds.

4. Pooled Fund Groups

The maximum maturity allowed for pooled funds will be one year.

IV. **Investment Policy Acknowledgement**

A written copy of the Frank Phillips College Investment Policy shall be presented to any person seeking to sell to the College an authorized investment. The registered principal of the organization seeking to sell an authorized investment shall execute a written instrument substantially to the effect that the organization has:

- A. received and thoroughly reviewed the investment policy of the College; and
- B. acknowledged that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between the College and the organization.

If the investment officer fails to obtain an acknowledgement from an organization selling securities, securities may not be purchased from the organization.

DEFINITIONS

- A. **Bond Proceeds** - means the proceeds from the sale of bonds, notes, and other obligations issued by the college, and reserves and funds maintained by the college for debt service purposes.
- B. **Book Value** - means the original acquisition cost of an investment plus or minus the accrued amortization or accretion.
- C. **Funds** - means public funds in the custody of a state agency or local government that:
(A) are not required by law to be deposited in the state treasury; and
(B) the investing entity has authority to invest.
- D. **Institution of Higher Education** - has the meaning assigned by Section 61.003, Education Code.
- E. **Investment pool** - means an entity created under this code to invest public funds jointly on behalf of the entities that participate in the pool and whose investment objectives in order of priority are:
1. preservation and safety of principal;
2. liquidity; and
3. yield.
- F. **Market Value** - means 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.
- E. **Pooled Fund Group** - means an internally created fund of an investing entity in which one or more institutional accounts of the investing entity are invested.
- G. **State Agency** - means an office, department, commission, board, or other agency that is part of any branch of state government, an institution of higher education, and any nonprofit corporation acting on behalf of any of those entities

TYPES OF AUTHORIZED INVESTMENTS

- I. Obligations of or guaranteed by, Governmental Entities:
 - A.
 - Treasury Bills
 - Treasury Notes
 - Treasury Bonds
 - Discount Notes
 - Debentures
 - B. Approved Agencies and Instrumentalities
 - Export/Import Bank Notes
 - Farm Credit System
 - Farm Credit System Financial Assistance Corp.
 - Farmers Home Administration
 - Federal Financing Bank
 - Federal Home Loan Banks
 - Federal Home Loan Mortgage Corp.
 - Federal National Mortgage Assoc.
 - Financing Corporation
 - General Services Administration
 - Government National Mortgage Association
 - Maritime Administration
 - Resolution Funding Corporation
 - Small Business Administration
 - Student Loan Marketing Association
 - Tennessee Valley Authority
 - United States Postal Service
 - Washington Metropolitan Area Transit Authority Bonds