Investment Procedures for the City of College Station

The purpose of this Procedures Manual is to assist the investment staff with day-to-day investment operations. These procedures should be reviewed annually and any changes should be approved by the Investment Committee.

I. CASH REVIEW:

The Investment Officer or his/her delegate must review the cash balances daily. Items to be reviewed should include:

- Balances by account at the City's primary bank.
- Balances by account at any other banks.
- Balances held at any investment pool or money market fund.
- Repurchase agreements
- Deposits, withdrawals, and transfers to or from any of the above accounts. An investigation into any material unanticipated deposit, withdrawal or transfer should be made.

The Investment officer or his/her delegate should maintain a cash flow schedule that is updated weekly and reviewed prior to every investment. This schedule should cover a time period to include the previous two months and go through to the last debt service payment and last investment maturity. The schedule should:

- Compare actual cash flow numbers with projected numbers for the previous two months. Large differences between the two should be explained.
- Be prepared in detail for the following two months. This time period should project all anticipated deposits and expenditures from the normal course of business as well as investment maturities/purchases and debt service payments.
- Be prepared using only information on investment maturities, debt service payments and any other large expenditures that may reasonably be anticipated for beyond two months.

II. INVESTMENT REVIEW:

The Investment Officer or his/her delegate should maintain a current schedule of all securities held. This schedule should be reviewed and adjusted daily to reflect any purchases, sells or maturities, and the schedule should include the following information for each security:

- The investment type, cusip number, purchase amount, price paid, coupon rate, yield to maturity and yield to call.
- The original purchase date, the date of maturity, the first date it is callable (if applicable), and whether it is callable continuously, quarterly, etc.
- The current book value and the current market value. The market value should be updated no less than monthly and market values should be obtained by no less than two brokers and a sample of the market values provided should be verified through an independent source (ex. Wall Street Journal).

The Investment Officer or his/her delegate should also maintain a schedule of all investment maturities and interest payments expected in the current month. This list should be reviewed at the beginning of each week in order to coordinate the movement of money.

III. <u>INVESTMENT SELECTION</u>

Although the investment policy allows for a maximum maturity of five years and a maximum weighted average maturity of two years, the Investment Officer will attempt to limit maturities to three years and attempt to maintain a dollar-weighted average maturity of one and a half years. The purchase of investments with maturities between three and five years should be limited to situations in which the investment can be tied directly to a known cash outflow or to situations in which the investment is callable and the current economic conditions reasonably indicate that the investment will be called.

Prior to making any investment, the Investment Officer should review current cash balances and the cash flow schedule to determine the amount of cash available for investment. The investment officer should also review some of the following sources to determine whether the investment should be placed to match projected expenditures or shorter, or to take advantage of current and expected interest rate environments:

- Wall Street Journal or similar daily business publication.
- Input from approved brokers/dealers.
- Publications on general trends of economic statistics.
- Input from data services (Telerate, Bloomberg, Reuters, etc.)

In determining the maturity of the investment, the Investment Officer should attempt to follow a ladder strategy to ensure that the portfolio has at least one investment maturing every month. To ensure diversification in the portfolio the Investment Officer should, prior to making an investment selection, review the percentages of each type of investment currently held. Investment Officer should attempt to maintain a portfolio that meets the following percentages:

	MAXIMUM
• U.S. Government Treasury Securities	90%
• U.S. Government Agency Securities	70%
• Repurchase Agreements	50%
• Bank Certificates of Deposit	5%
• Liquidity Funds: Primary Bank	5%
• Public Funds Investment Pools	30%
• Money Market Mutual Funds	10%

IV. PURCHASING AN INVESTMENT:

The following must be determined prior to contacting the providers:

- Settlement- cash, regular (next day), corporate (3 business days) or when issued if a new issue.
- Amount- either par value or total dollars to be invested.
- Type of security to be purchased, or type to be excluded.
- Targeted maturity, or maturity range.
- Time limit to show offering - 5 minutes, 15 minutes, etc.

If choosing an external pool or fund as the preferred investment vehicle, the following should be available for inspection prior to purchase and at any reasonable time thereafter:

- A written investment policy, if a government-run investment pool.
- A prospectus for money-market funds, mutual funds or bank-managed funds.
- A schedule of the types of reports and the frequency of distribution.
- A clear description of how interest rates are calculated (30/360, actual/365, etc.)
- A schedule of when and how income is distributed.

It should also be predetermined that the pool or fund only invests in those instruments allowed by the Public Funds Investment Act and that the pool or fund limits maturities to levels that match or are shorter than those allowed in the City's Investment Policy.

Before concluding the transaction, the Investment Officer should validate the following:

- The security selected for purchase meets all criteria, including portfolio diversification, collateralization (if appropriate) and maturity. If the security has any imbedded options such as call provisions or coupon adjustments, these should be reviewed.
- Yield calculations should be verified.
- Total purchase cost (including accrued interest) does not exceed funds available for investment.

V. SETTLEMENT & FOLLOW-THROUGH:

The Investment Officer or his/her delegate should forward to the safekeeping agent a report of the investment transaction. The report may be verbal, but a written form should be sent and acknowledged. The report should always state that terms are Delivery-Versus-Payment, and it should also indicate if funds are to be wired for completion of the transaction. Notification should be required for any discrepancy prior to acceptance or rejection of the transaction. The Investment Officer should also require immediate notification if a fail has occurred: by the provider if they are responsible, by the safekeeping agent if they are responsible.

VI. SELLING AN INVESTMENT

Investments should be purchased with the intent of holding to maturity and should only be sold early under exceptional circumstances. To protect the portfolio from imprudent trading, no security may be sold until such time as the current market value of the security plus interest earned from date of purchase is at least equal to the purchase price of that security.

VII. ACCOUNTING, REPORTING & AUDITING

The Investment Committee should establish the following:

- Formats for monthly, quarterly and annual reports which will be provided to the appropriate persons.
- Benchmarks (in addition to those outlined in the Investment Policy) to measure the performance of the investment program.
- A Program to ensure:
    1. Compliance with generally accepted accounting principles of the Government Accounting Standards Board.

2. Establishment of a system of written internal controls designed to detect fraud, error, misrepresentation or imprudent actions.
3. Documented review of investment activities by the appropriate supervisors.
4. Review of the investment operations by an external auditor.

The Investment Officer should make available any information in compliance with the Open Records Act.