NAVARRO COLLEGE

INVESTMENT POLICY AND STRATEGY

Pursuant to the Public Funds Investment Act, Texas Government Code Section 2256, House Bill 2799, Acts of 75th Legislature, and House Bill 3009, Acts of 76th Legislature, the Board of Trustees of the Navarro College District adopts the following policies and strategies in regard to its investments. This investment policy does not apply to investments donated to the College for a particular purpose or donated according to the terms specified by a donor. This exception is authorized by H.B. 3009, (1999). This policy reconfirms the investment policy and strategy reaffirmed by the Board on September ~~29~~ 27, ~~2016~~ 2018.

The Board of Trustees of Navarro College recognizes the requirement for the Chief Executive Officer to delegate authority for the overall direction and management of fiscal responsibility to the Vice-President for Finance and Administration. This resolution provides direction for the execution of these duties.

Delegation of Authority

The Vice-President for Finance and Administration, as Chief Financial Officer of the College District, is designated as the Investment Officer and is responsible for the overall investment management decisions and activities. The Vice-President is responsible for considering the quality and capability of the staff, investment advisors, and consultants involved in investment management and procedures. The Investment Officer shall develop and maintain administrative procedures for the operation of the investment program that are consistent with this investment policy. The Investment Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials and staff. The Investment Officer shall designate the ~~Comptroller~~ Director of Business Services and Cashiers Office as Deputy Investment Officer in the event that circumstances require timely action and the Chief Investment Officer is not available. The Deputy Investment Officer shall be a key member of the investment team and will act on behalf of the Investment Officer in his/her absence.

No officer or designee may engage in an investment transaction except as provided under the terms of this policy. The policy will be established by the Investment Officer and recommended by the President to the Board of Trustees for final approval. This authority is effective until rescinded by the Board of Trustees or until the termination of employment.

Scope

This investment policy applies to all the financial assets and funds held by the Navarro College District. Navarro College consolidates its funds into one investment fund for investment purposes for efficiency and maximum investment opportunity. These funds are defined in Navarro College's Annual Financial Report and include:

> Educational and General Fund, Debt Service Fund, Plant Fund, Auxiliary Fund, Agency Fund, Student Financial Aid Funds, and any other funds held by Navarro College unless specifically exempted by the Board of Trustees and this policy.

OBJECTIVES

Safety

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

Risk

There are various types of investment risks faced by the College's portfolio. In compliance with Governmental Accounting Standards Board (GASB) Statement 40, the College addresses these various types of risk.

Custodial Risk

Custodial Risk is defined as deposits that are uninsured and either (a) uncollateralized or collateralized but not in the government's name or (b) investments that are uninsured and unregistered.

In accordance with the collateralization policy for deposits and certificates of deposit, all of Navarro College's investments are fully collateralized by FDIC insurance,

pledged securities, letters of credit, and/or a surety bond in the name of the College District.

Credit Risk

Credit Risk is the risk of loss due to the failure of the security or backer to perform due diligence. In order to disclose credit risk, credit ratings from a national statistical organization will be reported on the year-end investment report. Obligations of or guaranteed by the U.S. Government do not require disclosure of credit quality. Certificates of Deposit are fully collateralized and do not require a credit risk rating. If an investment is unrated, that fact must be disclosed.

Concentration of Credit Risk

In accordance with GASB 40, governments need to disclose by amount and issues any concentration in one issuer that represents five percent (5%) or more of the total assets in the portfolio for that business activity.

Investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds or pools are excluded. Navarro College's auditors classify short-term Certificates of Deposit as "Deposits" that do not require disclosure. Long-term Certificates of Deposit are fully collateralized and do not require disclosure.

Interest Rate Risk

Navarro College needs to disclose the interest rate sensitivity of its investments. Individual investment maturities will be listed in the investment report, and a Maturity Schedule will be presented for the Navarro College Board of Trustees' review in the quarterly investment report. Variable interest rate instruments are discouraged since these items are highly sensitive to interest rate changes. In addition, maturities of investments generally should be five years or less.

Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated

demands. Since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets.

Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of least importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low-risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity, with the following exceptions:

a declining credit security could be sold early to minimize loss of principal;
a security swap would improve the quality, yield, or target duration in the portfolio, or liquidity needs of the portfolio require that the security be sold.

INTERNAL CONTROL PROCEDURES

Internal control is the process by which Navarro College's Board of Trustees and management obtain reasonable assurance as to achievement of specified objectives. It consists of interrelated components, with integrity, ethical values, competence, and the control environment serving as the foundation for establishing objectives, risk assessment, information systems, control procedures, communication, managing change, and monitoring.

Prudence

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 procedures and this investment policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion and the liquidity and sale of securities are carried out in accordance with the terms of this policy.

Investments shall be made with the judgment and care, under circumstances then prevailing, that 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.

Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program or that could impair the ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of their entity. An investment officer who has a personal business relationship with any entity seeking to sell an investment to Navarro College or who is related in the second degree by marriage (affinity) or blood relations (consanguinity) to an individual seeking to sell an investment to Navarro College is required to file a statement disclosing the relationship with the Texas Ethics Commission and the Navarro College Board of Trustees.

Delegation of Authority

Authority to manage the investment program is granted to the Vice-President for Finance and Administration, and derived responsibility for the operation of the investment program is hereby delegated to the Investment Officer. No person may engage in an investment transaction except as provided under the terms of this policy and its procedures. The Investment Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

Quality and Capability of Investment Management: Training

Each member of the Board of Trustees, the President, and the investment officers shall attend at least one training session, provided by the Texas Higher Education

Coordinating Board, relating to the person's responsibilities under the Public Funds Investment Act, within six months after taking office or assuming duties. The training must include education in investment controls, security risks, market risks, and compliance with the Public Funds Investment Act.

The investment officers shall attend a training session not less than once in a two-year period and may receive training from any independent source such as Texas Higher Education Coordinating Board, other governmental agencies, or non-profit organizations. The investment officers shall prepare a report on the Public Funds Investment Act and deliver it to the Board no later than the 180th day after the last day of each regular session of the legislature.

SAFEKEEPING AND CUSTODY

Authorized Financial Dealer and Institution

A list will be maintained of financial institutions authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by credit worthiness. These may include "primary" dealers or regional dealers.
An annual review of the financial condition and registration of qualified bidders will be conducted.

Community National Bank and Trust will be the College's primary dealer for purchase of securities. The College will solicit at least three (3) competitive quotes when it purchases Certificates of Deposit and similar investments. The primary depository bank has provided a "floor" rate for these investments. Competitive rates will be solicited by telephone from at least two other financial institutions before a Certificate or similar investment is purchased. A bid file will be maintained of those bids. The institution providing the best rate in the opinion of the investment officers will be selected.

The Investment Officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of Navarro 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 the control should not exceed the benefits likely to be

derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

Accordingly, the President shall establish a process of annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

a. Control of collusion. Collusion is a situation in which two or more employees are working in conjunction to defraud their employer.

b. Separation of transaction authority from accounting and record keeping. By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved. All investment transactions, with the exception of investment pools and mutual funds, will be settled on a delivery-versus-payment basis.

c. Custodial safekeeping. Securities purchased from any bank or dealer, including appropriate collateral (as defined by State law), shall be placed with an independent third party for custodial safekeeping.

d. Avoidance of physical delivery securities. Book entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.

e. Clear delegation of authority to subordinate staff members. Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper action. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.

SUITABLE AND AUTHORIZED INVESTMENTS

Investment Types

The following investments will be permitted by this policy:

a. U.S. Government obligations such as Treasury Bills, Treasury Notes, Treasury Bonds, Discount Notes and Debentures

b. U.S. Government agency obligations such as Farm Credit System, Farmers Home Administration, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, Small Business Administration, Student Loan Marketing Association; and Tennessee Valley Authority

c. Certificates of deposit

d. Savings and loan association deposits

e. Prime commercial paper that has a stated maturity of 270 days or less and is rated not less than A-1 or P-1 by at least two nationally recognized credit rating agencies

f. Investment-grade obligations of state and local governments and public authorities

g. Texas local government investment pools, as defined by the Public Funds Investment Act - specifically, Texas TERM Local Government Investment Pool

h. Investment pools such as TexPool, operated by the Texas Comptroller's Office, and Lone Star, operated by the Texas Association of School Boards. These investment pools must meet the requirements of Section 2256.06 of the Public Funds Investment Act and must be rated AAA or AAA-M by at least one nationally recognized rating service.

i. Fully collateralized direct repurchase agreements, with a defined termination date, secured by obligations of the United States or its agencies and instrumentalities. These shall be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District.

j. Money Market Mutual funds that: 1) are registered and regulated by the Securities and Exchange Commission, 2) have a dollar-weighted average stated maturity of 90 days or less, 3) seek to maintain a net asset value of $1.00 per share, and 4) are rated AAA by at least one nationally recognized rating service.

k. Money Market Accounts

The following investments are not authorized by this policy:

Obligations whose payments represent the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pay no principal

Obligations whose payments represent the principal stream of cash flow from the underlying mortgage-backed security collateral and bear no interest

Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years

Collateralized mortgage obligations, the interest rate of which is determined by an index that adjusts to opposite to the changes in a market index

Collateralization

In accordance with state law, full collateralization will be required on certificates of deposit and cash held in the College's depository bank. Collateralization of certificates of deposit and cash balances will be in accordance with Chapter 2257 of Vernon's Texas Codes Annotated. The total value of eligible collateral to secure the College's deposit of public funds must be in an amount not less than the amount of public funds increased by the amount of any accrued interest. The value of investment security shall be its market value.

Investment securities to collateralize deposits of Navarro College shall be U.S. Government debt obligations, U.S. Agency debt obligations, State of Texas, local municipalities and district debt obligations. All investment securities will be held at the Federal Reserve Bank, the Federal Home Loan Bank or at a third-party bank as approved by the College.

All substitution of security collateral shall be approved by the Vice-President for Finance and Administration and/or the ~~Comptroller~~ Director of Business Services and Cashiers Office.

In accordance with H.B. 3459, the College requires the collateral pledged on mortgage-backed securities pledged to the District be in an amount of not less than 110% of the market value of the securities.

Navarro College depository banks shall maintain a separate, accurate and complete record relating to pledged investment securities, deposits of public funds and transactions related to each pledged investment security. It is the College's responsibility to inform the depository banks of any significant change in the amount of activity of its deposits.

According to Section 2257.048 of the Government code, a security interest arises out of a depository's bank pledge at the time that the custodian identifies the pledge of the security on its books and records and issues the trust receipt.

INVESTMENT STRATEGY

Diversification

The investments will be diversified by security type and maturity. The buy and sell decisions in regard to investments entered into the portfolio will be made by the investment team. The investment team shall be composed of the Vice-President for Finance and Administration and the Director of Business Services and Cashiers Office.

Buy and sell decisions will be influenced primarily by cash flow in each of the respective funds listed previously. The fundamental investment strategy of Navarro College will be to buy an investment and hold it until its maturity. However, because of changes in market conditions and changes in anticipated cash flow, there may be instances where decisions will need to be made to liquidate the investment prior to its maturity.

When the investment team makes decisions in regard to purchasing securities for the portfolio, the team must interpret the interest rate cycle and may choose to make relatively long-term purchases for the purpose of "locking in" a favorable interest rate or may choose to make shorter term purchases if they anticipate interest rates to be more favorable in the future.

The investment team is given the responsibility for putting into place an investment portfolio that serves the College's financial requirements and also attempts to protect the College against market condition changes. It is the intent of this document to give the investment team the latitude to purchase investments within the scope outlined and to change strategies within the confines of the stated objectives of this policy.

Maximum Maturities

Navarro College will normally limit final maturities on any securities to five years or less. To the extent possible, Navarro College will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, Navarro College will not directly invest in securities maturing more than five (5) years from the date of purchase. The Investment Officer will analyze each fund and determine what the appropriate average weighted maturity of the portfolio should be.

The following funds will require investments that are shorter term in maturity. These funds will require investments that generally mature in one year or less:

Educational and General Fund
Plant Fund
Auxiliary Enterprises Fund
Agency Fund

Smaller amounts of the above funds may be invested for longer than one year if this investment is consistent with cash flow requirements. The following funds will normally allow for maturities of longer than one year:

Debt Service Fund
Student Financial Aid Fund

The Investment Officer will provide for a diversified maturity schedule for all investments. In addition, diversification of security types, i.e. Federal Home Loan Mortgage Notes, U. S. Treasury Bills, etc., is required. For Agency securities, normally no more than 10 percent (10%) of the total portfolio shall be in one type of security issued by one agency. There is no restriction on U.S. Treasury Notes.

REPORTING

Methods

The Investment Officer shall prepare an investment report at least quarterly, including a succinct management summary that provides a clear picture of the status of

the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner that will allow Navarro College to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the President and the Board of Trustees. The report must:

a. describe in detail the investment position of Navarro College on the date of the report;
b. be prepared jointly by all investment officers of Navarro College;
c. be signed by the Investment Officer and Deputy Investment Officer;
d. contain a summary statement of each pooled fund group that includes the:
    1. beginning market value for the reporting period;
    2. additions and changes to market value during the period;
    3. ending market value for the period;
e. state the book value and market value of each separately invested asset *that has a maturity date*;
f. state the account or fund or pooled group fund for which each individual investment was acquired;
g. state the compliance of the investment portfolio with Navarro College's investment policy, investment strategy and the provision of the Public Funds Investment Act as amended: and
h. be posted to the Navarro College website in accordance with State Auditor's Office requirements.

In accordance with H.B. 2799, there will be a formal annual review of the quarterly reports by an independent auditor, with results reported to the governing body. The auditors should also report assurances regarding compliance with the Public Funds Investment Act.

Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return,

and its performance should be compared to appropriate benchmarks on a regular basis. The investment officers will use the *Wall Street Journal* to monitor and report the market prices of the investments acquired. Corrective action will be taken if an investment consistently under-performs as compared to its appropriate benchmark.

Amendment

This policy shall be reviewed on an annual basis. In accordance with H.B. 2799, the Board of Trustees will take formal action annually, stating that this policy and strategy has been reviewed, and will record any changes in the document. Any changes must be approved by the Board of Trustees, as well as the individual(s) charged with maintaining internal controls. However, as changes occur in financial markets, the Board of Trustees may amend this policy as often as needed.

STATE OF TEXAS §
COUNTY OF NAVARRO §

NAVARRO COLLEGE DISTRICT

I, the undersigned, Secretary-Treasurer of the Board of Trustees of Navarro College District, do hereby certify that the attached is a true, full, and correct copy of a resolution adopted by the Board of Trustees on the 27th day of August 2020, reaffirming an investment policy for all college funds.

WITNESS MY HAND AND SEAL of said District on this 27th day of August 2020.

Richard L. Aldama

Richard L. Aldama
Secretary-Treasurer, Board of Trustees
Navarro College District