

INVESTMENT POLICY
FOR THE
COUNTY OF POLK
LIVINGSTON, TEXAS
APRIL, 2007

#11

INVESTMENT SCOPE

1.01 GENERAL STATEMENT

This investment policy, when reviewed and adopted by the Polk County Commissioners Court, on November 2, 2004, will replace the adopted investment policy dated May, 2003. This investment policy satisfies the statutory requirements of the Public Funds Investment Act. (Government Code, Chapter 2256).

1.02 LEGAL AUTHORITY TO INVEST

This investment policy applies to the investment activities of the County of Polk, Livingston, Texas. This policy serves to satisfy the statutory requirements of Local Government Code 116.112 and Government Code Chapter 2256 to define and adopt a formal investment policy. This policy will be reviewed and adopted by the Commissions court Order at least annually according to Section 2256.005(e).

1.03 FUNDS INCLUDED

This investment policy applies to all financial assets of all selected funds of the County of Polk, Livingston Texas at the present time and any funds to be created in the future and any funds held in custody by the County Treasurer shall be administered in accordance with the provisions of these policies, unless expressly prohibited by law or unless it is in contravention of any depository contract between Polk County and any depository bank.

1.04 FUNDS INVESTED WITH AUTHORIZED INVESTMENT POOLS

This investment policy does not supersede the investment policy of an authorized investment pool (under Sec. 2256.016) that Polk County, by order and/or resolution, has authorized investment with, such as Texpool, Texpool Prime, and MBIA Texas Class.

INVESTMENT STRATEGY

2.01 Polk County Cash Funds to be invested, but not limited to, are as follows:

(PLEASE SEE EXHIBIT-A FOR LIST OF FUNDS)

In accordance with the Public Funds Investment Act 2256.005 (d), a written investment strategy shall be developed for each of the funds under the county's control. The following strategy will apply for each of the funds listed in EXHIBIT-A using the following priorities of importance: (a) understanding of the suitability of the investment to the financial requirements of the County; (b)

preservation and safety of principal; (c) liquidity; (d) marketability of the investment if the need arises to liquidate the investment before maturity; (e) diversification of the investment portfolio; and (f) yield. This fulfills the requirement as stated in the Government Code 2256.005.

- 1) All funds to be invested and under the control of the County Investment Officer will be transferred from the depository bank account to it's individual investment account in a PUBLIC FUNDS INVESTMENT POOL, currently TEXPOOL.
- 2) While at TEXPOOL, each fund is invested until money is needed to cover the fund's expenses. Money is available daily at TEXPOOL.
- 3) If money is not needed by a fund to cover expenses based on liquidity needs determined by the County Investment Officer, the money may be invested in other investment tools as directed by the policy.
- 4) The stated final maturity of any investment, outside a PUBLIC FUNDS INVESTMENT POOL, made by the County Investment Officer shall be three years or less. (2256.005 (b) (4) (B).

INVESTMENT OBJECTIVES

3.01 GENERAL STATEMENT

Funds of Polk County will be invested in accordance with federal and state laws and the investment policy of Polk County. The County will invest according to investment strategies for separate funds as they are adopted by Commissioners Court order in accordance with Sec. 2256.005 (d).

3.02 SAFETY

Polk County is concerned about the return of its principal, therefore, safety of principal is a primary objective in any investment transaction. (Sec. 2256.005 (b) (2).

3.03 LIQUIDITY

The County's investment portfolio must be structured in a manner which will provide the liquidity necessary to pay obligations as they become due. (Sec. 2256.005 (b) (2).

3.04 DIVERSIFICATION

The policy of Polk County, except when investing with the Depository Bank, Investment Pools, U.S. Treasury Bills/Bonds/Notes, or in U.S. Agencies, will be to diversify its investment portfolio when investing in:

- 1) Certificates of Deposit of other banks, savings banks, and state or federal credit unions domiciled in Texas;
- 2) Repurchase Agreements;
- 3) Commercial Paper; and
- 4) other investment instruments provided for by law.

The County's portfolio shall be diversified to eliminate the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer or a specific class of investments. Investments of the County shall always be selected to provide for stability of income and reasonable liquidity. (Sec. 2256.005 (b) (3).

3.05 YIELD

Consistent with federal and state law and the County's depository contract, it will be the objective of the County Investment Officer to earn the maximum interest rate allowed within the constraints of safety and liquidity.

3.06 MATURITY

Portfolio maturities will be staggered, if market conditions are favorable, in a way to achieve the highest return of interest but at the same time provide for the necessary liquidity to meet the County's cash needs. The maximum allowable stated final maturity of any individual investment owned by the County will be three years. (Sec.2256.005 (b) (4) (B).

3.07 SALE OF SECURITIES BEFORE MATURITY

The Polk County Investment Officer may sell securities before maturity if:

- 1) market conditions present an opportunity for the County to benefit from sale;
- 2) funds are urgently needed to meet unforeseen expenses, even if there is a loss of interest and/or principal due to the sale; and
- 3) a security has lost its minimum required rating as an authorized investment. (Sec. 2256.021)

3.08 QUALITY AND CAPABILITY OF INVESTMENT MANAGEMENT:

It is the County's policy to provide training required by the Public Funds Investment Act., Sec. 2256.0058 and periodic training in investments for the County Investment Officer through courses and seminars offered by professional organizations and associations in order to insure the quality and capability of the County Investment Officer in making investment decisions. The County Investment Officer, unless instructed otherwise, will receive training under 2256.008 (a) (1) & (2), through courses offered by the County Treasurer's Association of Texas, Texas Association of Counties, and the association's Certified Investment Officer, (CIO) programs, and The National Association of County Treasurer's and Finance Officers. (NACTFO).

INVESTMENT RESPONSIBILITY AND CONTROL

4.01 COUNTY'S INVESTMENT DELEGATE

In accordance with Sec. 116.112 (a), Local Government Code, Chapter 2256, Sec. 2256.005 (f), and Commissioners Court Order, the County Investment Officer, under the direction of the Polk County Commissioners Court, may invest the funds of Polk County that are not required immediately to pay obligations.

4.02 STANDARD OF CARE

In accordance with Government Code 2256.006, 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 following investment objectives, in order of priority:

- 1) preservation and safety of principal;
- 2) liquidity; and
- 3) yield.

4.03 LIABILITY OF COUNTY INVESTMENT OFFICER

The County Investment Officer is not responsible for any loss of the county funds through the failure or negligence of a depository. Sec. 113.005 Local Government Code does not release the Investment Officer from responsibility for a loss resulting from the official misconduct or negligence of the Investment Officer, including a misappropriation of the funds, or from responsibility for funds until a depository is selected and the funds are deposited.

4.04 ACCOUNTING AND AUDIT CONTROL

The Polk County Investment Officer will establish liaison with the Polk County Investment Committee in preparing necessary investment forms that may be prescribed by the County Investment Committee to provide for accounting and auditing controls.

4.05 ANNUAL AUDIT AND PERFORMANCE EVALUATION

It is the policy of the Polk County Commissioners Court to have a yearly audit of all County funds by an outside auditing firm. Polk County, in conjunction with its annual audit, shall perform a compliance audit of management controls on investments and adherence to the County's established investment policy. (Government Code 2256.005 (m) and Section 2256.023 (d) if applicable).

INVESTMENT REPORTING

5.01 QUARTERLY REPORT

In accordance with Government Code 2256.023, not less than quarterly, the County Investment Officer shall prepare and submit to the Commissioners Court a written report of investment transactions for all funds for the preceding reporting period within a reasonable time after the end of the period. The report must:

- 1) describe in detail the investment position of Polk County on the date of the report;
- 2) be prepared and signed by the Investment Officer of Polk County;
- 3) contain a summary statement of each pooled fund group that states:
 - a) the beginning market value for the reporting period;
 - b) any additions, withdrawals, and transfers to the market value during the period;
 - c) the ending market value for the period; and
 - d) the fully accrued interest for reporting period.
- 4) state the maturity date of each separately invested asset that has a maturity date.

5.02 ANNUAL REPORT

After the close of the County's fiscal year, the County Investment Officer will submit an annual report to the Commissioners Court on the funds that were invested during the year in accordance with 2256.023. The report will reflect the total interest earned on each fund.

INVESTMENT INSTITUTIONS

6.01 INVESTMENT INSTITUTIONS DEFINED

The Polk County Investment Officer shall invest county funds with any or all of the following institutions or groups consistent with federal and state law, Chapter 2256 Texas Government Code, and the current Depository Bank contract:

- 1) depository bank;
- 2) other state or national banks domiciled in Texas that are insured by FDIC or its successor;
- 3) savings banks domiciled in Texas that are insured by FDIC or its successor;
- 4) state and federal credit unions domiciled in Texas that are insured by National Credit Union Share Insurance Fund or its successor;
- 5) Public funds investment pools, currently Texpool; Texpool Prime, and MBIA Texas Class; and
- 6) Broker/Dealers who are either "Primary Dealers" of U.S. Government Securities who are on the approved list published by the Federal Reserve System and report to the market reports division of the Federal Reserve Bank of New York; or are licensed to conduct business in the State of Texas, regulated by the Securities and Exchange Commission, and are in good standing with the National Association of Securities Dealers, Inc. (NASD).

6.02 QUALIFICATIONS FOR APPROVAL OF BROKER/DEALERS:

In accordance with 2256.005 (k), a written copy of this investment policy shall be presented to any person seeking to sell Polk County an authorized investment. The registered principal of the business organization seeking to sell and authorized investment shall execute a written instrument substantially to the effect that the registered principal has:

- 1) received and thoroughly reviewed the investment policy of Polk County; and
- 2) 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 Polk County and the organization.

The County Investment Officer must comply with Sections 2256.005 (K) & (L) before obtaining any authorized investment.

INVESTMENT INSTRUMENTS

7.01 AUTHORIZED INVESTMENTS

The Polk County Investment Officer shall use any or all of the following authorized investment instruments consistent with governing law (Chapter 2256 Local Government Code):

- 1) Authorized investments: Obligation of, or Guaranteed by Government Entities as follows:
 - a) obligation of the United States or its agencies and instrumentalities;
 - b) direct obligations of this state or its agencies and instrumentalities;
 - c) 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 of instrumentality of the United States;
 - d) 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
 - e) obligations of states, agencies, counties, cities, and other political subdivisions of any state related as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent.

- 2) Certificated of deposit and share certificates if issued by a state on national bank domiciled in this state, a savings bank domiciled in this state, or a state or federal credit union domiciled in this state and is:
 - a) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor;
 - b) secured by obligations that are described by Section 2256.009 (a) of the Public Funds Investment Act, 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 by Section 2256.009 (b) of the public Funds Investment Act; or

- c) secured in any other manner and amount provide by law for deposits of the county.
- 3) A fully collateralized repurchase agreement, as defined in the Public Funds Investment Act, if it:
- a) has a defined termination date
 - b) is secured by obligation described by Section 2256.009 (a) (1) of the Public Funds Investment Act; and
 - c) requires the securities being purchased by the county to be pledged to the county, held in the county's name, and deposited at the time the investment is made with the county or with a third party selected and approved by the county; and
 - d) is placed through a primary government securities dealer, as defined by the Federal Reserve or a financial institution doing business in the state.

Notwithstanding any law, the term of any reverse security repurchased agreement may not exceed 90 days after the date the reverse security repurchased agreement is delivered.

Money received by a county under the terms of a reverse security repurchased 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 repurchased agreement.

- 4) A bankers' acceptance if it:
- a) has stated maturity of 270 days or fewer from the date of its issuance;
 - b) will be, in accordance with its term, liquidated in full maturity;
 - c) is eligible for collateral for borrowing from a Federal Reserve Bank; and
 - d) 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 rated not less than A-1 or P-1 or an equivalent rating by at least on nationally recognized credit rating agency.
- 5) Commercial paper is an authorized investment under this subchapter if the commercial paper:
- a) has a stated maturity of 270 days or fewer from the date or its issuance;
 - b) is rated not less than A-1 or P-1 or an equivalent rating by at least:

- a) two nationally recognized credit rating agencies; or
 - 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.
- 6) A no-load money market mutual fund is authorized if it:
- a) is registered with and regulated by the Securities and Exchange Commission;
 - b) has a dollar-weighted average stated maturity of 90 days or fewer; and
 - c) included in its investment objective the maintenance of a stable net asset value of \$1 for each share.
- 7) Guaranteed Investment Contracts is authorized if it meets the requirements of Sec. 2256.015 for bond proceeds.
- 8) Eligible investment pools (as discussed in the Public Funds Investment Act, Sec. 2256.016-2256.019) if the Commissioners Court by resolution authorized investment in the particular pool. An investment pool shall invest the Funds it receives from entities in authorized investments permitted by the Public funds Investment Act.

7.02 AUTHORIZED INVESTMENTS WITH DEPOSITORY BANK

The Polk County Investment Officer may invest county funds with the Depository Bank as authorized by the Depository Contract.

7.03 PROHIBITED INVESTMENTS

The Polk County Investment Officer has no authority to use any of the following investment instruments which are strictly prohibited by Sec. 2256.009 (b):

- 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 on interest;
- 3) collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and
- 4) collateralized mortgage obligations the interest of which is determined by an index that adjusts opposite to the changes in a market index.

INVESTMENT PROCEDURES

8.01 CONFIRMATION OF TRADE

A confirmation of trade will be provided by the broker/dealer to the Polk County Investment Officer for every purchase of an investment security. The confirmation will become a part of the file that is maintained on every investment security.

8.02 DELIVERY VERSUS PAYMENT

It will be the policy of the County that all Treasury, and Government Agencies' securities shall be purchased using the "delivery vs. payment" (DVP) method through the Federal Reserve System. By so doing, County funds are not released until the County has received, through the Federal Reserve wire, the securities purchased.

8.03 ELECTRONIC FUNDS TRANSFER

The County Investment Officer may use electronic means to transfer or invest all funds collected or controlled by Polk County. (Sec. 2256.051).

8.04 SAFEKEEPING OF PURCHASED SECURITIES

All purchases securities shall be held in safekeeping by the County, or a County account in a third party financial institution, or with a Federal Reserve Bank. All certificates of deposit, insured by FDIC, purchased outside the Depository Bank shall be held in safekeeping by the County, or a County account in a third party financial institution, or with a Federal Reserve Bank.

8.05 MONITORING MARKET VALUE

Polk County will use one or more of the following ways to monitor the market price if investments acquired with public funds when applicable:

- 1) the Wall Street Journal, or other financial data sources that provides the market value of investments;
- 2) primary broker dealers;
- 3) pricing services through the Depository Bank contract; and
- 4) any other pricing services that comply with the Public Funds Investment Act.

COLLATERAL AND SAFEKEEPING

9.01 COLLATERAL OR INSURANCE

The Polk County Investment Officer shall insure that all county funds are fully collateralized or insured consistent with federal and state laws (Chapter 2257 Public Funds Collateral Act) and the current bank depository contract in one or more of the following manners:

- 1) insured by FDIC or its successor;
- 2) obligations of the United States or its agencies and instrumentalities; and
- 3) other obligations under Sec. 2256.009(a); but
- 4) none of the obligations stated in Sec. 2256.009(b) shall be used as collateral.

9.02 SAFEKEEPING

All pledged securities by the depository bank shall be held in safekeeping by the County, or a County account in a third party financial institution, or with a Federal Reserve Bank.

INVESTMENT POLICY REVIEW AND AMENDMENT

10.01 REVIEW PROCEDURES

The Polk County Commissioners Court shall review its investment policy and investment strategies on an annual basis, preferably during the same time as the annual investment and interest report prepared and submitted by the Polk County Investment Officer (Sec. 2256.005 (e)).

10.02 CHANGES TO THE INVESTMENT POLICY

It shall be the duty of the County Investment Officer to notify the Polk County Commissioners Court of any significant changes in current investment methods and procedures prior to their implementation.