

**A RESOLUTION**

**ADOPTING THE LEON VALLEY ECONOMIC DEVELOPMENT CORPORATION  
INVESTMENT POLICY**

**WHEREAS**, the Leon Valley Economic Development Corporation (LVEDC) is required to adopt an investment policy annually; and

**WHEREAS**, the attached investment policy comply with the Public Funds Investment Act, as amended, and authorize the investment of LVEDC funds in safe and prudent investments.

**NOW, THEREFORE, BE IT RESOLVED** by the Board of Directors of the LVEDC:

That the LVEDC Investment Policy, attached hereto as "Exhibit A" is hereby adopted as the investment policy of the LVEDC effective August 11, 2009.

**PASSED, ADOPTED AND APPROVED** by the LVEDC Board of Director this the 11<sup>st</sup> day of August 2009.

**APPROVED:**

**Attest:**

\_\_\_\_\_  
xxxxxxx

\_\_\_\_\_  
Secretary

# **Exhibit A**

## **Leon Valley Economic Development Corporation Investment Policy**

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**I. PURPOSE**

## **A. Introduction**

This investment policy documents policies and procedures to be followed by the LVEDC, to ensure the proper investment of public funds. This policy will be reviewed by the LVEDC Board of Directors annually. At such time, the LVEDC Board of Directors will adopt by resolution a policy that (1) states that the investment policy has been reviewed and (2) enumerates the changes to be made to the policy.

## **B. Statutory Authority**

This policy serves to satisfy the statutory requirements of defining and adopting a formal investment policy in accordance with the Public Funds Investment Act, Article 342a-2 V.T.C.S.

## **C. Scope**

This investment policy applies to all financial assets of the LV EDC, held in all funds.

# **II. OBJECTIVES**

The LVEDC's investment program will be conducted to accomplish the following objectives, listed in priority order:

## **A. Safety**

The primary objective of the LVEDC's investment program is the preservation and safety of principal in the overall portfolio. Each investment transaction shall seek first to ensure that capital losses are avoided, whether they are from security defaults or erosion of market value.

## **B. Liquidity**

The LVEDC's investment portfolio will remain sufficiently liquid to enable the LVEDC to meet operating requirements that might be reasonably anticipated. Liquidity shall be achieved by matching investment maturities with forecasted cash flow requirements; thereby avoiding the need to liquidate investments under adverse market condition. It is the intent of the LVEDC to invest its funds to maturity.

## **C. Diversification**

The investment portfolio will be designed to limit risk by avoiding the concentration of assets with a specific maturity, with a specific issuer, or in a specific class of securities.

## **D. Yield**

A fundamental rule of investing is that risk equals return. The LVEDC has deliberately established a

low risk threshold to protect its financial resources and ensure that cash is available when needed. The LVEDC will invest idle cash at the highest possible rate of return, consistent with the objectives and provisions of this policy, and in compliance with state and federal laws governing the investment of public funds.

### **III. STANDARDS OF CARE**

#### **A. Prudence**

The standard of care used by the LVEDC shall be the "prudent person" standard which shall be applied in the context of managing the overall portfolio within the applicable legal constraints. The Public Funds Investment Act states:

"Investments shall be made with 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."

All participants in the investment process shall seek to act responsibly as custodians of the public trust. Investment Officers shall avoid any transactions that might impair public confidence in the LVEDC's ability to govern effectively. The LVEDC Board of Directors recognizes that in maintaining a diversified portfolio, occasional measured losses due to market volatility are inevitable, and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.

#### **B. Ethics and Conflicts of Interest**

Investment officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or that which could impair their ability to make impartial investment decisions. Investment Officers and subordinate employees shall disclose any material interests in financial institutions or broker/dealer firms with which they conduct business. They shall further disclose any personal investment positions that could be related to the performance of the investment portfolio. Investment Officers and subordinate employees shall refrain from undertaking personal investment transactions with the same individual(s) with whom business is conducted on behalf of the LVEDC.

#### **C. Delegation of Authority**

Management responsibility for the investment program is delegated to the XXXXXX and the XXXXX. As Investment Officers for the LVEDC, the XXXXX and XXXXX are responsible for the day-to-day administration of the investment program and shall supervise the activities of subordinate employees. No person may engage in investment transactions except as provided under the terms of this policy.

## **D. Training**

Investment Officers shall attend at least one training session related to their duties as Investment Officers within 12 months of assuming office or duties. This training must include education in investment controls, security risks, strategy risks, market risks and compliance with the Public Funds Investment Act. At least once every two years, Investment Officers shall receive a minimum of 10 hours of training designed to ensure the continued proper performance of their duties under this policy and the Public Funds Investment Act.

The training provider must be an independent provider approved by the LVEDC Board of Directors. The LVEDC Board of Directors hereby authorizes the following entities to serve as qualified training providers for the LVEDC:

1. The Texas Municipal League, or any of its affiliate organizations;
2. The Government Treasurers Organization of Texas;
3. The Government Finance Officers Association;
4. The State of Texas, Comptroller's Office, or any other department/division of the State of Texas;
5. The University of Texas at Austin, or any other public University or College of higher education in Texas;
6. Investment pool administrators to include LOGIC, Texpool and Lone Star Investment Pool; and
7. Other training providers as approved by the City Council.

## **E. Indemnity**

Investment Officers and subordinate employees, acting in accordance with the provisions of this investment policy, shall not be held personally liable for a specific security's credit risk or market price change, provided that any unexpected deviations are reported in a timely manner and that appropriate action is taken to control adverse developments.

# **IV. AUTHORIZED AND SUITABLE INVESTMENTS**

## **A. Investment Types**

The following investments are permitted under this policy, in compliance with the Public Funds Investment Act:

1. **Certificates of Deposit.** Fully insured or collateralized certificates issued by state and national banks and savings and loan associations domiciled in the State of Texas.
2. **U.S. Treasuries and Agencies.** Securities issued by the United States Treasury or its Governmental Agencies. U. S. Treasuries and Agencies are guaranteed as to principal and interest by the full faith and credit of the United States of America.
3. **Repurchase Agreements.** Repurchase agreements collateralized by U.S. Treasuries or Agencies guaranteed as to principal and interest by the full faith and credit of the United States of America.
4. **Investment Pools.** Investment pools that meet the following criteria:
  - a. An investment pool must provide an offering circular or other similar disclosure instrument and provide monthly transaction reporting.
  - b. A public funds investment pool created to function as a money market mutual fund must (1) mark its portfolio to market daily, (2) include in its investment objectives the maintenance of a stable net asset value of \$1 for each share and (3) be continuously rated no lower than "AAA" or "AAA-m" or at an equivalent rating by at least one nationally recognized rating service.
  - c. An investment pool must invest solely in (1) obligations of the United States or its agencies and instrumentalities, (2) repurchase agreements involving those same obligations and (3) SEC regulated AAA no-load money market mutual funds with a weighted average of maturity of 60 days or less and an investment objective of a \$1.00 stable net asset value.
5. **Money Market Mutual Funds.** No-load money market mutual funds if the fund:
  - a. Is registered with and regulated by the Securities and Exchange Commission (SEC);
  - b. Provides a prospectus and other information required by federal law.
  - c. Invests exclusively in U.S. Treasuries or Agencies and/or repurchase agreements fully collateralized by such obligations;

d. Has a dollar-weighted average stated maturity of 90 days or less; and

e. Includes in its investment objectives the maintenance of a stable net asset value of \$1 per share.

6. **Other Investments.** Other as approved by the LVEDC Board of Directors and not prohibited by law.

#### **B. Prohibited Investments**

LVEDC Investment Officers and employees have no authority to invest in any of the following instruments which are strictly prohibited by the Public Funds Investment Act:

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; and
4. collateralized mortgage obligations whereby the interest rate is determined by an index that adjusts opposite to the changes in a market index.

#### **C. Length of Investments**

Generally, the LVEDC shall invest in instruments whose maturities do not exceed two (2) years at the time of purchase. Assets held in debt service funds, special assessment funds, capital projects funds and reserve funds may be invested in maturities exceeding two years as authorized by the LVEDC Board of Directors.

#### **D. Measuring Market Value**

The LVEDC's investment portfolio will be designed with the objective of using the 13-week U.S. Treasury Bill as a basis to determine whether

market yields are being achieved.

## **V. SELECTION OF BANKS AND DEALERS**

The LVEDC will only purchase investments from financial institutions and broker/dealer firms as approved by the LVEDC Board of Directors. Qualified broker/dealer firms are to be listed and reviewed by the LVEDC Board of Directors annually. All institutions and brokers/dealers are required to supply a Certification Form signed by a qualified representative of the firm stating that the LVEDC's investment policy has been reviewed and that reasonable procedures and controls are in place to preclude unauthorized investment transactions (Appendix A). Transactions are unauthorized unless this certification is on file with the LVEDC.

### **A. Depository**

- 1. Bidding Process.** Depositories shall be selected through the LVEDC's banking service procurement process, which shall include a formal request for proposals at least every five years. In selecting depositories, the LVEDC shall evaluate the credit worthiness of the institution and shall thoroughly review the institution's financial history and financial statements.
- 2. Insurability.** Depositories shall provide evidence that deposits are insured by the Federal Deposit Insurance Corporation (FDIC).

### **B. Investment Dealers**

A broker/dealer may be used by the LVEDC only if the broker/dealer is:

1. Included on the Federal Reserve Bank of New York's list of primary government securities dealers, or is licensed by the State of Texas and is recommended in writing by at least three Texas cities.
2. Regulated by the Securities and Exchange Commission (SEC).
3. A member in good standing of the National Association of Securities Dealers, Inc. (NASD).
4. Able to provide immediate disclosure to the City whenever the broker/dealer's capital position falls short of the capital adequacy standard.
5. Able to provide independent certification by an outside auditor or similar agency that the broker/dealer complied with the capital adequacy standard on its most recent year-end balance sheet date.

## **VI. SAFEKEEPING AND CUSTODY**

**A. Insurance or Collateral**

All investments of LVEDC funds other than direct purchases of U.S. Treasuries or U.S. Agencies shall be (1) guaranteed or insured by the FDIC or (2) be fully collateralized as required by the Texas Public Funds Collateral Act. Pledged collateral must maintain a market value equal to at least 102 percent of total deposits and investments, less an amount insured by the FDIC. Repurchase agreements shall be documented by a specific agreement noting the collateral pledged in each agreement.

Securities pledged as collateral must be held by an independent third party in the State of Texas. Evidence of pledged collateral shall be provided to the LVEDC and reviewed monthly to ensure the market value of the securities pledged equals or exceeds the value of total deposits and investments.

**B. Audit**

All collateral shall be subject to inspection and audit by the LVEDC.

**C. Delivery vs. Payment**

With the exception of investment pools and mutual funds, all investment transactions will be executed using the delivery versus payment method. That is, LVEDC funds shall not be released until verification has been made that the purchased security or collateral has been received by a third party/safekeeping agent (Trustee). The security or collateral shall be held in the name of or held on behalf of the LVEDC. The Trustee's records shall evidence the LVEDC's ownership of or explicit claim on the securities. The original copy of all safekeeping receipts shall be delivered to the LVEDC.

**VII. REPORTING REQUIREMENTS**

**A. Quarterly Reports**

Not less than quarterly, the Investment Officers shall prepare and submit to the LVEDC Board of Directors, an investment report that describes in detail the investment position of the LVEDC as of the date of the report. These reports will be prepared to allow the LVEDC Board of Directors to ascertain whether investment activities have conformed to the LVEDC's investment policy.

Quarterly investment reports will summarize recent market conditions, economic developments and anticipated investment conditions. Reports must be signed and dated by both the XXXXXX and the XXXXX and must contain the following statement: "This report is in full compliance with the investment strategies as established by the LVEDC Investment Policy and the Public Funds Investment Act."

At a minimum, quarterly reports submitted to the LVEDC Board of Directors will include the following:

1. A summary statement of investment activity for each pooled fund group prepared in compliance with Generally Accepted Accounting Principles to include fully accrued interest for the reporting period. The summary shall also state the:
  - a. Beginning market value for the reporting period.
  - b. Additions and changes to the market value during the period.
  - c. Ending market value for the period.
2. State the book value and market value of each separately invested asset at the beginning and end of the reporting period by fund type.
3. State the maturity date of each separately invested asset that has a maturity date.

## **B. Annual Report**

Within sixty (60) days of the end of the fiscal year, the Investment Officers shall prepare a comprehensive annual report on the investment program and investment activity. This annual report will be presented to the LVEDC Board of Directors and will include investment activities for the entire fiscal year and shall suggest policy revisions and improvements that might enhance the investment program. At such time, the LVEDC Board of Directors shall pass an ordinance to document its review of the LVEDC's investment policies and strategies. This ordinance shall also document whether changes or revisions to investment policies and/or strategies are required.

## **VIII. INTERNAL CONTROLS AND ANNUAL REVIEW**

### **A. Internal Controls**

The LVEDC strives to effectively prevent the loss of public funds caused by fraud, misrepresentation by third parties, unanticipated changes in financial markets, employee error or imprudent actions by LVEDC employees. Internal controls have been designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. The following guidelines establish a system of internal controls over investment procedures for the LVEDC.

1. **Separation of Duties.** A separation of custodial, accounting and record keeping systems shall be maintained to the extent possible.
2. **Clear Delegation of Authority.** The XXXX and XXXXXX are charged with management responsibility for the investment program.
3. **Adequate Training and Development of Investment Officials.** All Investment Officials are to be educated in the area of investment management in order to make informed decisions.

4. **Control of Collusion.** All investment transactions must be approved by two duly authorized Investment Officers.
5. **Documentation of Investments.** Purchase and sales transactions, including telephone transactions, must be documented in writing and evidenced by the signatures of two duly authorized Investment Officers.. A copy of such documentation shall be placed in an investment transaction file to be maintained in the LVEDC files.
6. **Verification of all Interest Income and Security Purchase and Sell Computations.** All investment interest income, fees, gains and/or losses shall be recalculated monthly by the LVEDC Investment Officer.
7. **Reconciliation of Security Receipts with Subsidiary Records.** All security safekeeping receipts shall be reconciled to the general ledger monthly by the LVEDC Investment Officer.
8. **Custodial Safekeeping.** Securities purchased from any bank or dealer including appropriate collateral shall be placed with an independent third party for custodial safekeeping.
9. **Avoidance of Bearer-Form Securities.** Negotiable securities are more susceptible to misappropriation than book entry only securities and must be properly safeguarded against loss, destruction or fraud.

#### **B. Annual Review**

The LVEDC shall engage an external independent auditor to conduct an annual review of the LVEDC's investment policies, investment procedures, and quarterly and annual investment reports to ensure compliance with the Public Funds Investment Act. This audit is to be performed by a Certified Public Accountant in conjunction with the LVEDC's annual financial audit and shall be reported to the LVEDC Board of Directors during the same meeting at which the LVEDC's Comprehensive Annual Financial Report is presented.

The Public Funds Investment Act states that if the LVEDC's investment portfolio is limited to money market mutual funds, investment pools, or depository bank investments such as certificates of deposit or money market accounts, the LVEDC is not subject to this formal annual review.

## APPENDIX A

## **CERTIFICATION**

I hereby certify that I have personally read and understand the investment policy of the LVEDC and have implemented reasonable procedures and controls designed to fulfill these objectives and conditions. Transactions between this firm and the LVEDC will be directed toward precluding imprudent investment activities and protecting the LVEDC from credit and market risk.

This firm pledges due diligence in informing the LVEDC of foreseeable risks associated with financial transactions connected to this firm.

I attest that I am a qualified representative of this firm, authorized to sign on its behalf.

Firm

Signature

Name

Title

Date

## **GLOSSARY**

**AGENCIES:** Federal agency securities.

**ASKED:** The price at which securities are offered.

**BANKERS' ACCEPTANCE (BA):** A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

**BID:** The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

**BROKER:** A broker brings buyers and sellers together for a commission.

**CERTIFICATE OF DEPOSIT (CD):** A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

**COLLATERAL:** Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities by a bank to secure deposits of public monies.

**COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR):** The official annual report for the City of Leon Valley.

**COUPON:** (a) The annual rate of interest that bond issuers promises to pay the bondholder on the bond's face value. (B) A certificate attached to a bond evidencing due on a payment date.

**DEALER:** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling from his own account.

**DEBENTURE:** A bond secured only by the general credit of the issuer.

**DELIVERY VERSUS PAYMENT:** There are two (2) methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

**DISCOUNT:** The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price after sale also is considered to

be at a discount.

**DISCOUNT SECURITIES:** Non-interest bearing money market instruments that are issued a discount and redeemed at maturity for full face value, e.g. U.S. Treasury Bills.

**DIVERSIFICATION:** Dividing investment funds among a variety of securities offering independent returns.

**FEDERAL CREDIT AGENCIES.** Agencies of the Federal government set up to supply credit to various classes of agencies.