



**** PUBLIC NOTICE ****

**NOTICE OF A FINANCE AUDIT COMMITTEE
OF THE CITY OF CORINTH
REGULAR SESSION**

**Wednesday, December 13, 2017, 3:00 P.M.
City Hall
Conference Room - Suite 200
3300 Corinth Parkway
Corinth, Texas 76208**

* Pursuant to Texas Government Code Section 551.002, a quorum of the City Council of Corinth may attend the following meeting and may participate in discussion on the agenda items listed below, but will not take any action.

CALL TO ORDER

CONSENT AGENDA

1. Consider and act on minutes from the August 16, 2017 Regular Session.
2. Review and approve the Investment Policy for City of Corinth for FY 2017-2018.
3. Review and approve the Investment Policy for the Economic Development Corporation for FY 2017-2018.
4. Review and approve the Investment Policy for the Crime Control & Prevention District for FY 2017-2018.

BUSINESS AGENDA

5. Discuss and provide staff direction on the annual external audit and the Comprehensive Annual Financial Report (CAFR).
6. Discuss and approve the Fiscal Year 2016-2017 Annual Investment Report
7. Review and approve the Authorized Broker/Dealer List
8. Discuss the Fiscal Year 2016-2017 Summary of Rebutable Arbitrage.

CLOSED SESSION

If, during the course of the meeting, any discussion of any item on the agenda should need to be held in executive or closed session for the Committee to seek advice from the City Attorney as to the posted subject matter of this Committee Meeting, the Committee will convene in such executive or closed session, in accordance with the provisions of the Government Code, Title 5, Subchapter D Chapter 551, to consider one or more matters pursuant to the following:

Section 551.071. Private consultation with its attorney to seek advice about pending or contemplated litigation; and/or settlement offer; (2) and/or a matter in which the duty of the attorney to the government body under the Texas Disciplinary Rules of Professional Conduct of the State of Texas clearly conflicts with chapter 551.

Section 551.072. To deliberate the purchase, exchange, lease or value of real property if deliberation in an open meeting would have a detrimental effect on the position of the governmental body in negotiations with a third person.

Section 551.074. To deliberate the appointment, employment, evaluation, reassignment, duties, discipline, or dismissal of a public officer or employee; or to hear a complaint or charge against an officer or employee.

Section 551.087. To deliberate or discuss regarding commercial or financial information that the governmental body has received from a business prospect that the governmental body seeks to have locate, stay, or expand in or near the territory of the governmental body and with which the governmental body is conducting economic development negotiations; or to deliberate the offer of a financial or other incentive to a business prospect.

After discussion of any matters in executive session, any final action or vote taken will be in public by the Committee. The Committee shall have the right at any time to seek legal advice in Executive Session from its Attorney on any agenda item, whether posted for Executive Session or not.

RECONVENE IN OPEN SESSION TO TAKE ACTION, IF NECESSARY, ON EXECUTIVE SESSION ITEMS.

ADJOURN

Posted this ____ day of _____, 2017 at ____ on the bulletin board at Corinth City Hall.

Lee Ann Bunselmeyer, Finance and Administrative Services Director
City of Corinth, Texas

Finance Audit Committee Regular Session

Meeting Date: 12/13/2017

Title: August 16, 2017 Regular Session Minutes

Submitted For: Lee Ann Bunselmeyer, Acting City Manager

Submitted By: Chris Rodriguez, Financial Services Manager

Finance Review: N/A

Legal Review: N/A

AGENDA ITEM

Consider and act on minutes from the August 16, 2017 Regular Session.

AGENDA ITEM SUMMARY/BACKGROUND

Attached are minutes from the August 16, 2017 Regular Session. The minutes are in draft form and are not considered official until formally approved by the Finance Audit Committee.

RECOMMENDATION

Staff recommends approval of the August 16, 2017 Regular Session minutes.

Attachments

August 2017 Minutes

**STATE OF TEXAS
COUNTY OF DENTON
CITY OF CORINTH**

On this the 16th day of August 2017 the Finance Audit Committee of the City of Corinth, Texas met in a Regular Meeting at 3:00 P.M. at the Corinth City Hall, located at 3300 Corinth Parkway, Corinth, Texas. The meeting date, time, place and purposes as required by Title 5, Subchapter A, Chapter 551, Subchapter C, Section 551.041, Government Code, with the following members to wit:

Councilmembers Present:

Councilmember Lowell Johnson
Councilmember Joe Harrison

Citizen Members Present:

Dick Baker
Mike Taylor

Staff Committee Members Present:

Bob Hart, City Manager
Lee Ann Bunselmeyer, Director of Finance & Administrative Services

Staff Members Present:

Chris Rodriguez, Financial Services Manager

CALL TO ORDER

Councilmember Johnson called the meeting to order at 3:00 pm

CONSENT AGENDA

All matters listed under the Consent Agenda are considered to be routine and will be enacted in one motion. Should the Chairman, a Board Member, or a citizen desire discussion of any item, that item will be removed from the Consent Agenda and will be considered separately.

1) Consider and act on minutes from the April 19, 2017 Regular Session.

MOTION made by Councilmember Harrison to approve the Consent Agenda as presented.

Seconded by Councilmember Johnson.

AYES: Johnson, Harrison, Hart

NOES: None

MOTION CARRIED

BUSINESS AGENDA

2) Discuss and Provide staff direction on the annual external audit and the Comprehensive Annual Financial Report (CAFR).

No Action Taken.

3) Consider and act on the Comprehensive Monthly Financial Report (CMFR) for the month ending June 30, 2017.

MOTION made by Councilmember Harrison to approve the Comprehensive Monthly Financial Report (CMFR) for the month ending June 30, 2017 as presented.

Seconded by Councilmember Johnson.

AYES: Johnson, Harrison, Hart

NOES: None

MOTION CARRIED

4) Consider and act on the Fiscal Year 2016-17 Third Quarter Investment Report.

MOTION made by Councilmember Johnson to approve the FY 2016-17 Third Quarter Investment Report.

Seconded by Councilmember Harrison.

AYES: Johnson, Harrison, Hart

NOES: None

MOTION CARRIED

ADJOURN THE REGULAR MEETING

Councilmember Johnson adjourned the Regular Meeting at 3:53 pm.

Finance Audit Committee Regular Session

Meeting Date: 12/13/2017
Title: FY 2017-2018 City Investment Policy
Submitted For: Lee Ann Bunselmeyer, Acting City Manager
Submitted By: Chris Rodriguez, Financial Services Manager
Finance Review: N/A **Legal Review:** N/A

AGENDA ITEM

Review and approve the Investment Policy for City of Corinth for FY 2017-2018.

AGENDA ITEM SUMMARY/BACKGROUND

In accordance with Public Funds Investment Act, Chapter 2256 of the Texas Government Code, the city is required to annually adopt a formal written Investment Policy for the investment of public funds. The policy establishes investment parameters and guidelines for the investment program in order to achieve the goals of safety, liquidity, diversification, rate-of-return, and public trust, and designates the authorized investment officer responsible for the daily investment activity by the City.

As part of the annual process, staff reviews the policy and may recommend revisions to the existing policy, if needed. There are no revisions recommended.

RECOMMENDATION

Staff recommends approval of the City of Corinth's Investment Policy.

Attachments

2018 City Investment Policy

CITY OF CORINTH, TEXAS INVESTMENT POLICY

PREFACE

It is the policy of the City of Corinth (the "City") that after allowing for the anticipated cash flow requirements and giving due consideration to the safety and risks of investments, all available funds shall be invested in conformance with these legal and administrative guidelines to obtain a market rate-of-return.

Effective cash management is recognized as essential to good fiscal management. An active cash management and investment policy will be pursued to take advantage of investment interest as a viable and material source of revenue for City funds. The City's portfolio shall be designed and managed in a manner responsive to the public trust and shall be invested in conformance with State and Federal Regulations, applicable Bond Resolution requirements, and adopted investment policy. The City will invest public funds in a manner which will provide the maximum security and a market rate-of-return while meeting the daily cash flow demands of the City.

The City is required under the Public Funds Investment Act (Chapter 2256 of the Texas Government Code) to adopt a formal written investment policy for the investment of public funds. These policies serve to satisfy the statutory requirement (specifically the Public Funds Investment Act, Chapter 2256 of the Texas Government Code [the Act]) to define, adopt and review a formal investment strategy and policy.

I. PURPOSE

The purpose of this investment policy (the “policy”) is to set forth specific investment policy and strategy guidelines for the City in order to achieve the goals of safety, liquidity, rate-of-return, and public trust for all investment activities.

II. SCOPE

The investment policy shall govern the investment of all financial assets considered to be part of the City and includes the following separately invested funds or fund types: Operating, Reserve, Bond, Special and Capital Project Funds and any other funds which have been contractually delegated to the City for management purposes. The City may add or delete funds as may be required by law, or for proper accounting procedures. This policy does not include funds governed by approved trust agreements, or assets administered for the benefit of the City by outside agencies under retirement or deferred compensation programs. In addition to this policy, bond funds (including debt service and reserve funds) are governed by bond ordinances and are subject to the provisions of the Internal Revenue Code and applicable federal regulations governing the investment of bond proceeds. The City shall and will maintain responsibility for these funds to the extent required by: Federal and State law; the City Charter; and donor stipulations.

III. INVESTMENT OBJECTIVES

Funds of the City shall be invested in accordance with all applicable Texas statutes, this policy and any other approved, written administrative procedures. The five objectives of the City’s investment activities shall be as follows (in the order of priority):

- A. Safety - Preservation and safety of Principal. Safety of principal invested is the foremost objective in the investment decisions of the City. Each investment transaction shall seek to ensure the preservation of capital in the overall portfolio. The risk of loss shall be controlled by investing only in authorized securities as defined in this policy, by qualifying the financial institutions with which the City will transact, and by portfolio diversification. Safety is defined as the undiminished return of the principal on the City’s investments.
- B. Liquidity - The investment portfolio shall be managed to maintain liquidity to ensure that funds will be available to meet the City’s cash flow requirements and by investing in securities with active secondary markets. Investments shall be structured in such a manner as to provide liquidity necessary to pay obligations as they become due. A security may be liquidated prior to its stated maturity to meet unanticipated cash requirements or to otherwise favorably adjust the City’s portfolio.
- C. Diversification - Investment maturities shall be staggered throughout the budget cycle to provide cash flow based on the anticipated needs of the City. Diversifying the appropriate maturity structure will reduce market cycle risk.
- D. Market Rate-of-Return (Yield) - The City’s investment portfolio shall be designed to optimize a market rate-of-return on investments consistent with risk constraints and cash flow requirements of the portfolio. The investment portfolio shall be managed in a manner which seeks to attain a market rate-of-return throughout budgetary and economic cycles. The City will not attempt to consistently attain an unrealistic above

market rate-of-return, as this objective will subject the overall portfolio to greater risk. Therefore, the City's rate-of-return objective is secondary to those of safety and liquidity. Rate-of-return (yield) is defined as the annual income returned on an investment, expressed as a percentage.

- E. Public Trust - The Investment Officer(s) shall avoid any transactions that might impair public confidence in the City's ability to govern effectively. The governing body recognizes that in diversifying the 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. The prudence of the investment decision shall be measured in accordance with the tests set forth in Section 2256.006(b) of the Act.

IV. INVESTMENT STRATEGY

The City maintains a comprehensive and proactive cash management program which is designed to monitor and control all City funds to ensure maximum utilization and yield a market rate-of-return. The basic and underlying strategy of this program is that all of the City's funds are earning interest. It is the responsibility and obligation of the City to maintain a flexible approach and be prepared to modify the investment strategy as market conditions dictate. The investment strategy described is predicated on conditions as they now exist and are subject to change. The investment strategy emphasizes low credit risk, diversification, and the management of maturities. The strategy also considers the expertise and time constraints of the Investment Officers. The allowable investments as defined in Section VII of this policy reflect the avoidance of credit risk. Diversification refers to dividing investments among a variety of securities offering independent returns. This strategy uses local government investment pools to achieve diversification. The active management of maturities refers to structuring the maturity dates of the direct investments so that, while funds are initially invested for a longer period of time, some investments mature as cash needs require. The strategies for the City's investment activities shall be as follows:

Strategy No. 1

Diversifying the City's investment opportunities through the use of local government investment pools and money market mutual funds as authorized by the City Council. An investment pool is a professionally managed portfolio of shared assets created to invest public funds jointly on behalf of the governmental entities that participate in the pool and whose investment objectives in order of priority match those objectives of the City. Fund withdrawals are usually available from investment pools on a same-day basis, meaning the pools have a high degree of liquidity. Because of the size and expertise of their staff, investment pools are able to prudently invest in a variety of the investment types allowed by state law. In this manner, investment pools achieve desired diversification. The strategy of the City calls for the use of investment pools as a primary source of diversification and a supplemental source of liquidity. Funds that may be needed on a short-term basis but are in excess of the amount maintained at the depository bank are available for deposit in investment pools.

Strategy No. 2

Building a ladder of authorized securities with staggered maturities for all or part of the longer-term investable funds. The benefits of this ladder approach include the following:

- A. It is straight-forward and easily understood;
- B. It will assure the City that it will capture a reasonable portion of the yield curve; and,
- C. It provides predictable cash flow with scheduled maturities and reinvestment opportunities.

Strategy No. 3

Utilizing the services of a Professional Investment Advisor in order to maximize investment earnings and realize market opportunities when they become available. Other responsibilities of the Investment Advisor include, but are not limited to broker compliance, security selection, competitive bidding, investment reporting, and security documentation. The Investment Advisor must be registered with the Securities and Exchange Commission (SEC) under the Investment Advisor's Act of 1940, as well as, with the Texas State Securities Board and shall adhere to the spirit and philosophy of this policy and avoid recommending or suggesting transactions outside the "Standard of Care" under this policy.

Strategy No. 4

The City will utilize five general investment strategies designed to address the unique characteristics of specific fund-types (detailed strategies are presented in Attachment A):

- A. Investment strategies for operating funds and pooled funds containing operating funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio which will experience minimal volatility during economic cycles.
- B. Investment strategies for debt service funds shall have as the primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date(s).
- C. Investment strategies for debt service reserve funds shall have as the primary objective the ability to generate a dependable revenue stream to the appropriate debt service fund.
- D. Investment strategies for special projects and capital projects funds will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity.
- E. The investment maturity of bond proceeds (excluding reserve and debt service funds) shall generally be limited to the anticipated cash flow requirement or the "temporary period," as defined by Federal tax law. During the temporary period, bond proceeds may be invested at an unrestricted yield. After the expiration of the temporary period, bond proceeds subject to yield restriction shall be invested considering the anticipated cash flow requirements of the funds and market conditions to achieve compliance with the applicable regulations.

Strategy No. 5

The City generally intends to hold all of its securities until they mature and will accomplish this by maintaining sufficient liquidity in its portfolio so that it does not need to sell a security early. Should it become necessary to sell a security prior to maturity, where the sale proceeds are less than the current book value, the prior written consent of the City Manager must be obtained. Securities may be sold prior to maturity by the Director of Finance at or above their book value at any time, without the consent of the City Manager.

Strategy No. 6

All demand deposits of the City will be concentrated with one central depository. The City's depository procedure will maximize the City's ability to pool cash for investment purposes, and provide more manageable banking relationships. In addition, depositories not holding demand deposits of the City may be eligible to bid on City investments.

Strategy No. 7

This policy shall further seek to maintain good depository bank relationships while minimizing the cost of banking services. The City will seek to maintain a depository contract which will be managed to a level that minimizes the cost of the banking relationship to the City, while allowing the City to earn an appropriate return on idle demand deposits.

Strategy No. 8

A single pooled fund group, as defined in this policy, may be utilized at the discretion of the Investment Officer(s). However, earnings from investments will be allocated on a pro-rata cash basis to the individual funds and used in a manner that will best service the interests of the City.

Strategy No. 9

Procedures shall be established and implemented in order to maximize investable cash by decreasing the time between the actual collection and the deposit of receipts, and by the controlling of disbursements.

V. FINANCE AUDIT COMMITTEE

- A. Members - There is hereby created a Finance Audit Committee consisting of the City Manager, Director of Finance, a secondary Investment Officer designated by the Director of Finance, two members of the City Council and two citizens appointed by the City Council by majority vote.
- B. Scope - The Finance Audit Committee shall meet at least annually to determine general strategies and to monitor results. Included in its deliberations will be such topics as: economic outlook, portfolio diversification, maturity structure, potential risk to the City's funds, authorized brokers and dealers, and the target rate-of-return on the investment portfolio.
- C. Procedures - The Finance Audit Committee shall provide minutes of its meetings. Any two members of the Finance Audit Committee may request a special meeting, and four members shall constitute a quorum. The Finance Audit Committee shall establish its own rules of procedures.

VI. RESPONSIBILITY AND STANDARD OF CARE

- A.** The responsibility for the daily operation and management of the City's investments shall be outlined within this section.
1. Delegation of Authority - Management responsibility for the investment program is hereby delegated to the Director of Finance, who shall be authorized to deposit, withdraw, invest, transfer or manage the funds of the City and shall establish written procedures for the operation of the investment program, consistent with this policy. Such procedures shall include explicit delegation of authority to other persons responsible for investment transactions. All persons involved in investment activities will be referred to in this policy as "Investment Officers." No persons may engage in investment transactions, except as provided under the terms of this policy and the procedures established by the Director of Finance.
 2. The Director of Finance shall assume responsibility for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate Investment Officers. The system of controls shall be designed to provide reasonable assurance that ensures the assets of the City are protected from loss, theft or misuse. The concept of reasonable assurance recognizes that:
 - a. The cost of control should not exceed the benefits likely to be derived; and,
 - b. The valuation of costs and benefits requires estimates and judgments by management.
 3. The Director of Finance shall be designated as the primary Investment Officer for the City and shall be responsible for investment decisions and activities under the direction of the City Manager. The Director of Finance may delegate any phase of the investment program to a secondary Investment Officer. Both the Director of Finance and the designated secondary Investment Officer are responsible for daily investment decisions and activities. However, ultimate responsibility for investment decisions will rest with the Director of Finance.
- B.** Prudence - The standard of prudence to be applied by the Investment Officer shall be the "prudent investor" rule, which states, "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." In determining whether the Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the following:
1. The investment of all funds over which the Investment Officer had responsibility rather than a consideration as to the prudence of a single investment; and
 2. The investment decision was consistent with the written investment policy and procedures of the City.
- C.** Due Diligence - The Director of Finance, designated secondary Investment Officer, Mayor, City Council, City Manager, other Finance employees and citizen committee members acting in accordance with written policies and procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit

risk or market price changes, provided that these deviations are reported in a timely manner and that appropriate action is taken to control adverse developments.

D. Ethical Standards and Conflicts of Interest

1. All City Investment Officials having a direct or indirect role in the investment of City funds shall act as custodians of the public trust avoiding any transaction which might involve a conflict of interest, the appearance of a conflict of interest, or any activity which might otherwise discourage public confidence. Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair the ability to make impartial investment decisions.
2. An Investment Officer who has a personal business relationship with the depository bank or with any entity seeking to sell an investment to the City shall file a statement disclosing that personal business interest.
3. An Investment Officer has a personal business relationship with a business organization if:
 - a. The Investment Officer or one related to the Investment Officer within the second degree of affinity or consanguinity owns 10% or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;
 - b. Funds received by the Investment Officer or one related to the Investment Officer within the second degree of affinity or consanguinity from the business organization exceed 10% of the Investment Officers gross income for the prior year; or
 - c. The Investment Officer or one related to the Investment Officer within the second degree of affinity or consanguinity has acquired from the business organization during the prior year investments with a book value of \$2,500 or more for the personal account of the Investment Officer.
 - d. An Investment Officer who is related within the second degree of affinity or consanguinity to an individual seeking to sell an investment to the City shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the City Council.

- E. Training** - The City shall provide periodic training in investments for the investment personnel through courses and seminars offered by professional organizations and associations in order to ensure the quality and capability of the City's investment personnel making investment decisions in compliance with the Public Funds Investment Act (PFIA). The Investment Officers and the Finance Audit Committee members shall attend at least one training session containing at least 10 hours of instruction relating to the officer's responsibility under the PFIA within 12 months after assuming duties, and thereafter shall attend at least 8 hours of additional investment training in subsequent two-year periods which begin on the first day of the fiscal year and consist of the two consecutive fiscal years after that date. The Government

Finance Officers Association of Texas, the Government Treasurers Organization of Texas, the Texas Municipal League, or the North Central Texas Council of Governments are approved as independent training sources by the City Council.

VII. AUTHORIZED INVESTMENTS

- A. Generally - Safety of principal is the primary objective in investing public funds and can be accomplished by limiting credit risk and interest rate risk. Credit risk is the risk associated with the failure of a security issuer or backer to pay back principal and interest on a timely basis. Interest rate risk is the risk that the value of a portfolio will decline due to an increase in the general level of interest rates. In order to provide for safety of principal as the City's primary objective, only certain investments are authorized as acceptable investments for the City. The following list of authorized investments for the City intentionally excludes some investments authorized by state law. These restrictions are intended to limit possible risk and provide the maximum measure of safety to City funds. In the event an authorized investment loses its required minimum credit rating, all prudent measures will be taken to liquidate said investment. Additionally, the City is not required to liquidate investments that were authorized at the time of purchase.
- B. Authorized and Acceptable Investments - The authorized list of investment instruments is as follows:
1. Obligations of the United States or its agencies and instrumentalities or any obligation fully guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC), *excluding mortgage-backed securities*.
 2. Direct obligations of the State of Texas, or its agencies and instrumentalities, other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, excluding mortgage-related securities.
- C. Certificates of Deposit - A certificate of deposit issued by a depository institution that has its main office or branch office in this state, and is secured in accordance with the specific collateralization requirements contained in section XI.B of this policy. In addition, an investment in "bundled" or "shared" CDs made in accordance with the following conditions is permitted:
1. The funds are invested through a broker that has its main office or a branch office in this state selected from a list adopted by the City as required by Section 2256.025; or through a depository institution that has its main office or a branch office in this state and that is selected by the City;
 2. The selected broker or depository institution arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City.
 3. The full amount of the principal and accrued interest of each of the CD is insured by the United States or an instrumentality of the United States; and

4. The City appoints the depository institution, a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to SEC Rule 15c3-3, or an entity described in the Public Funds Collateral Act, Section 2257.041(d), as custodian for the City with respect to those CDs issued for the City's account.
- D. Eligible Local Government Investment Pools - AAA-rated public funds investment pools, with a weighted average maturity of 60 days or less, individually approved by formal Council resolution, which invest in instruments and follow practices allowed by the current law as defined in Section 2256.016 of the Texas Government Code. The 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. A public funds investment pool created to function as a money market mutual fund must mark to market daily and, stabilize at a \$1 net asset value.
 - E. Repurchase Agreements - Fully collateralized repurchase agreements having a defined termination date, placed through a primary government securities dealer or a financial institution doing business in the State of Texas, and fully secured by cash and obligations of the United States or its agencies and instrumentalities. This collateral must be pledged to the City and held in safekeeping with a third-party custodian approved by the City of Corinth. All collateral must be maintained at a market value of no less than the principal amount of the outstanding funds disbursed. All transactions shall be governed by signed Security Industry and Financial Markets Association, (SIFMA) Master Repurchase Agreement. Repurchase agreements must also be collateralized in accordance with State law as described in Section XI of this policy. Authorization under this section includes flexible repurchase agreements which may be used for specific investment of bond proceeds *but shall not include reverse repurchase agreements*.
 - F. Bankers' Acceptances, and Commercial Paper (LIMITED USE) - These investments are authorized for the City to the extent that they are contained in the portfolios of approved public funds investment pools or money market funds in which the City invests.
 - G. AAA-rated SEC-Regulated 2a7 No-Load Money Market Mutual Funds - An SEC-registered, no load money market mutual fund which has a dollar weighted average stated maturity of 60 days or less whose assets consist exclusively of the assets described in section VII.A. and whose investment objectives includes the maintenance of a stable net asset value of \$1 for each share: furthermore, it provides the City with a prospectus and other information required by the SEC Act of 1934 or the Investment Advisor Act of 1940 and which provides the City with a prospectus and other information required by the Securities Exchange Act of 1934 (15 USC Section 78a et. Seq.) or the Investment Company Act of 1990 (15 USC Section 80a-1 et. Seq.).
 - H. Unauthorized Securities - State law specifically prohibits investment in the following securities:
 1. An obligation whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security and pays no principal.

2. An obligation whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest.
3. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years.
4. Collateralized mortgage obligations, the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

VIII. DIVERSIFICATION

- A. Generally - Diversification of investment instruments shall be utilized to avoid incurring unreasonable risks resulting from over-concentration of investments in a specific maturity, a specific issue, or a specific class of securities. With the exception of U.S. Government securities (debt obligations issued by the U. S. Government, its agencies, or instrumentalities) as authorized in this policy, and authorized local government investment pools, no more than forty percent (40%) of the total investment portfolio will be invested in any one security type or with a single financial institution. Diversification of the portfolio considers diversification by maturity dates and diversification by investment instrument.
- B. Diversification by Maturities - The longer the maturity of investments, the greater their price volatility. Therefore, it is the City's policy to concentrate its investment portfolio in shorter-term securities in order to limit principal risks caused by change in interest rates. The City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow (including the anticipated cash flow requirements of bond proceeds within the temporary period), the City will not directly invest in securities maturing more than three (3) years from the date of purchase. However, the above described obligations, certificates, or agreements may be collateralized using longer date instruments. The City shall diversify the use of investment instruments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. Maturity scheduling shall be managed by the Investment Officer so that maturities of investments shall be timed to coincide with projected cash flow needs.

The entire City portfolio, or single pooled fund group if utilized, shall maintain a maximum average dollar-weighted maturity, based on the stated maturity date, of less than three hundred sixty five (365) days. Investment maturities for debt service interest and sinking funds and/or other types of reserve funds, whose use is never anticipated, shall maintain a maximum average dollar-weighted maturity, based on the stated maturity date, of less than three hundred sixty-five (365) days.

- C. Diversification by Investment Instrument - Diversification by investment instrument shall not exceed the following guidelines for each type of instrument:

	Maximum % of Portfolio
U.S. Treasury Obligations	100%
U.S. Government Agency Securities and Instrumentalities	100%
Authorized Local Government Investment Pool	50%
Local Government Obligations	10%
Fully Collateralized Certificates of Deposit	50%
Fully Collateralized Repurchase Agreements	25%
SEC-Regulated No-Load Money Market Mutual Fund	50%
U.S. Treasury & Agency Callables	30%

IX. SECURITY SWAPS

Security swaps may be considered as an investment option for the City. A swap out of one instrument into another is acceptable to increase yield, realign for disbursement dates, extend or shorten maturity dates and to improve market sector diversification. Swaps may be initiated by brokers/dealers who are on the City's approved list. A horizon analysis is required for each swap proving benefit to the City before the trade decision is made, which will accompany the investment file for record keeping.

X. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

- A. The Director of Finance will maintain a list of financial institutions authorized to provide investment services to the City. In addition, a list will also be maintained of approved broker/dealers authorized to provide investment services in the State of Texas. These will include financial institutions that qualify under Securities & Exchange Commission Rule 15-C3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by state laws.
- B. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Director of Finance with the following, as appropriate: audited financial statements, proof of Financial Industry Regulatory Authority certification trading resolution, proof of State registration, completed broker/dealer questionnaire and certification of having read the City's investment policy.
- C. The Finance Audit Committee shall be responsible for adopting the list of brokers and dealers of government securities. Their selection shall be among only primary government securities dealers that report directly to the New York Federal Reserve Bank, unless a comprehensive credit and capitalization analysis reveals that other firms are adequately financed to conduct public business. The Finance Audit Committee shall base its evaluation of security dealers and financial institutions upon:

1. Financial conditions, strength and capability to fulfill commitments;
 2. Overall reputation with other dealers or investors;
 3. Regulatory status of the dealer;
 4. Background and expertise of the individual representatives.
- D.** Investment Officers shall only conduct business with securities dealers approved by the Finance Audit Committee and will not purchase investments from any financial organization until the organization's registered principal has executed a written instrument stating that he or she has thoroughly reviewed the City's investment policy and acknowledges that reasonable procedures and controls have been implemented to preclude imprudent investment activities arising out of transactions between the organization and the City, except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards.
- E.** To guard against default possibilities under these conditions, and to assure diversification of bidders, business with any one issuer, or investment broker, should be limited to forty percent (40%) of the total portfolio at any point in time. In this way, bankruptcy, receivership or legal action would not immobilize the City's ability to meet payroll or other expenses.
- F.** All investments (governments or bank C.D.'s) will be solicited on a competitive basis with at least three (3) institutions. The Finance Audit Committee can approve exceptions on a case by case basis or on a general basis in the form of guidelines. These guidelines shall take into consideration the investment type maturity date, amount, and potential disruptiveness to the City's investment strategy. The investment will be made with the broker/dealer offering the best yield/quality to the City. The quotes may be accepted orally, in writing, electronically, or any combination of these methods.
- G.** An annual review of the financial condition and registrations of qualified financial organizations will be conducted by the Director of Finance.
- H.** A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the City invests.
- I.** If the City has contracted with a Registered Investment Advisor for the management of its funds, the advisor shall be responsible for performing due diligence on and maintaining a list of broker/dealers with which it shall transact business on behalf of the City. The advisor shall determine selection criteria and shall annually present a list of its authorized broker/dealers to the City for review and likewise shall execute the aforementioned written instrument stating that the advisor has reviewed the City's investment policy and has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities with the City. The advisor shall obtain and document competitive bids and offers on all transactions and present these to the City as part of its standard trade documentation.

- J. It is the policy of the City that all security transactions entered into with the City shall be conducted on a “Delivery-versus-Payment” basis through the Federal Reserve System. By doing this, City funds are not released until the City has received, through the Federal Reserve wire, the securities purchased. The City shall authorize the release of funds only after receiving notification from the safekeeping bank that a purchased security has been received in the safekeeping account of the City. The notification may be oral, but shall be confirmed in writing.

XI. SAFEKEEPING AND COLLATERALIZATION

- A. Safekeeping - All securities owned by the City shall be held by a third-party safekeeping agent selected by the City. The collateral for bank deposits will be held in the City’s name in the bank’s trust department, in a Federal Reserve Bank account in the City’s name, or third-party financial institutions doing business in the state of Texas, in accordance with state law. Original safekeeping receipts shall be obtained and held by the City. The City shall contract with a bank or banks for the safekeeping of securities either owned by the City as part of its investment portfolio or held as collateral to secure time deposits.

- B. Collateralization - Consistent with the requirements of the Public Funds Collateral Act, it is the policy of the City to require full collateralization of all City funds on deposit with a depository bank. The market value of the investments securing the deposit of funds shall be at least equal to 102% of the amount of the deposits of funds reduced to the extent that the deposits are insured by the Federal Deposit Insurance Corporation (FDIC). Securities pledged as collateral shall be held by an independent third party with whom the City has a current custodial agreement. The agreement is to specify the acceptable investment securities as collateral, including provisions relating to possession of the collateral, the substitution or release of investment securities, ownership of securities, and the method of valuation of securities. The safekeeping agreement must clearly state that the safekeeping bank is instructed to release purchased and collateral securities to the City in the event the City has determined that the depository bank has failed to pay on any matured investments in certificates of deposit, or has determined that the funds of the City are in jeopardy for whatever reason, including involuntary closure or change of ownership. A clearly marked evidence of ownership, e.g., safekeeping receipt, must be supplied to the City and retained by the City.
 - 1. The City may accept the following to insure or collateralize bank deposits:
 - 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. United States Treasuries & Agencies
 - c. Other securities as approved by the Finance Audit Committee
 - 2. For certificates of deposit and other evidences of deposit, collateral shall be at 102% of market value. The market value of collateral will always equal or exceed 102% of the principal plus accrued interest of deposits at financial institutions.
 - 3. Financial institutions with which the City invests or maintains other deposits shall provide monthly, and as requested by the Investment Officer, a listing of the

collateral pledged to the City, marked to current market prices. The listing shall include total pledged securities itemized by name, type, description, par value, current market value, maturity date, and Moody's or Standard & Poor's rating, if applicable. The City and the financial institution shall jointly assume the responsibility for ensuring that the collateral is sufficient.

C. Collateralized Deposits - Consistent with the requirements of State law, the City requires all bank deposits to be federally insured or collateralized with eligible securities. Financial institutions serving as City depositories will be required to sign a "Depository Agreement" with the City and the City's safekeeping agent. The collateralized deposit portion of the Agreement shall define the City's rights to the collateral in the event of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with Federal and State regulations, including:

1. Agreement must be in writing;
2. Agreement has to be executed by the Depository and the City contemporaneously with the acquisition of the asset;
3. Agreement must be approved by the Board of Directors or designated committee of the Depository and a copy of the meeting minutes must be delivered to the City; and
4. Agreement must be part of the Depository's "official record" continuously since its execution.

XII. INTERNAL CONTROL

The Investment Officer shall establish a system of written internal controls, which shall be reviewed annually by independent auditors. The controls shall be designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes, or imprudent actions. The internal controls are to be reviewed annually in conjunction with an external independent audit. This review will provide assurance of compliance with policies and procedures as specified by this policy. The City, in conjunction with its annual financial audit, shall perform a compliance audit of management controls and adherence to the City's established investment policy.

XIII. PERFORMANCE

The City's investment portfolio shall be designed to obtain a market rate-of-return on investments consistent with risk constraints and cash flow requirements of the City. This investment policy establishes "weighted average yield to maturity" as the standard portfolio performance measurement.

XIV. REPORTING

- A. Quarterly** - The Director of Finance shall prepare and submit a signed quarterly investment report to the Finance Audit Committee that summarizes current market conditions, economic developments, and anticipated investment conditions. The report shall summarize investment strategies employed in the most recent quarter and describe the portfolio in terms of investment securities, maturities, risk characteristics, and shall explain the total investment return for the quarter. The City shall also monitor the credit ratings on securities that require minimum ratings. This may be accomplished through staff research, or with the assistance of broker-dealers, investment advisors, banks or safekeeping agents.
- B. Annual Report** - Within 180 days of the end of the fiscal year, the Director of Finance shall present an annual report on the investment program and investment activity. This report may be presented as a component of the fourth quarter report to the City Manager and City Council. The quarterly reports prepared by the Director of Finance shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the City Council by that auditor.
- C. Methods** - The quarterly and annual investment reports shall include a succinct management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the past quarter. This management summary will be prepared in a manner which will allow the City to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will be prepared in compliance with generally accepted accounting principles. The report will be provided to the City Council. The report will include the following:
1. A listing of individual securities held at the end of the reporting period. This list will include the name of the fund or pooled group fund for which each individual investment was acquired;
 2. Unrealized gains or losses resulting from appreciation or depreciation by listing the beginning and ending book and market value of securities for the period. Market values shall be obtained from financial institutions or portfolio reporting services independent from the broker/dealer from which the security was purchased;
 3. Additions and changes to the market value during the period;
 4. Fully accrued interest for the reporting period;
 5. Average weighted yield to maturity of portfolio on entity investments as compared to applicable benchmarks;
 6. Listing of investments by maturity date;
 7. The percentage of the total portfolio which each type of investment represents; and

8. Statement of compliance of the City's investment portfolio with State Law and the investment strategy and policy approved by the City Council.
9. Market yield benchmark comparison of the average 90-day U. S. Treasury Bill auction yield during the reporting period.
10. The guidelines of retaining records for seven years as recommended in the *Texas State Library Municipal Records Manual* should be followed. The Director of Finance shall oversee the filing and/or storing of investment records.

XV. INVESTMENT POLICY ADOPTION AND AMENDMENT

The City's investment policy shall be adopted and amended by resolution of the City Council only. The City's written policies and procedures for investments are subject to review not less than annually to stay current with changing laws, regulations and needs of the City. The City Council, not less than annually, shall adopt a written instrument stating that it has reviewed the investment policy and investment strategies and that the written instrument so adopted shall record any changes made to either the policy or strategies.

Attachment A

CITY OF CORINTH, TEXAS Investment Strategy Statement

Operating Funds

1. Suitability - Any investment eligible in the investment policy is suitable for Operating Funds.
2. Safety of Principal - All investments shall be of high quality securities with no perceived default risk. Market price fluctuations will occur. However, by managing the weighted average days to maturity for the Operating Fund's portfolio to less than 270 days and restricting the maximum allowable maturity to three years, the price volatility of the overall portfolio will be minimized.
3. Marketability - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash flow requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage point will define an efficient secondary market.
4. Liquidity - The Operating Fund requires the greatest short-term liquidity of any of the Fund types. Short-term investment pools and money market mutual funds will provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.
5. Diversification - Investment maturities should be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of the City. Market cycle risk will be reduced by diversifying the appropriate maturity structure out through two years.
6. Yield - Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling three-month treasury-bill portfolio will be the minimum yield objective.

Reserve Funds

1. Suitability - Any investment eligible in the investment policy is suitable for Debt Service Reserve Funds. Bond resolution and loan documentation constraints and insurance company restrictions may create specific considerations in addition to the investment policy.
2. Safety of Principal - All investments shall be of high quality securities with no perceived default risk. Market price fluctuations will occur. However, managing Debt Service Reserve Fund maturities to not exceed the call provisions of the borrowing reduces the investment's market risk if the City's debt is redeemed and the Reserve Fund liquidated. The fund shall maintain a maximum average dollar-weighted maturity, based on the stated maturity date, of less than three hundred sixty-five (365) days. No stated final investment maturity shall exceed the shorter of the final maturity of the borrowing or three years. Annual mark-to-market requirements or specific maturity and average life limitations within the borrowing's documentation will influence the

attractiveness of market risk and reduce the opportunity for maturity extension.

3. Marketability - Securities with less active and efficient secondary markets are acceptable for Debt Service Reserve Funds.
4. Liquidity - Debt Service Reserve Funds have no anticipated expenditures. The Funds are deposited to provide annual debt service payment protection to the City's debt holders. The funds are "returned" to the City at the final debt service payment. Market conditions and arbitrage regulation compliance determine the advantage of security diversification and liquidity. Generally, if investment rates exceed the cost of borrowing, the City is best served by locking in investment maturities and reducing liquidity. If the borrowing cost cannot be exceeded, then concurrent market conditions will determine the attractiveness of locking in maturities or investing shorter and anticipating future increased yields.
5. Diversification - Market conditions and the arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for Debt Service Reserve Funds. At no time shall the final debt service payment date of the bond issue be exceeded in an attempt to bolster yield.
6. Yield - Achieving a positive spread to the applicable borrowing cost is the desired objective. Debt Service Reserve Fund portfolio management shall at all times operate within the limits of the investment policy's risk constraints.

Special Project and Capital Project Funds

1. Suitability - Any investment eligible in the investment policy is suitable for Special Project and Capital Project Funds.
2. Safety of Principal - All investments will be of high quality securities with no perceived default risk. Market fluctuations will however occur, by restricting the maximum maturity to three years, managing the weighted average days to less than 270 days, restricting the maximum allowable maturity to two years, and by managing Special Project and Capital Project Funds to balance the short term and long term anticipated cash flow requirements of the plant or equipment being depreciated, replaced or repaired, the market risk of the Fund portfolio will be minimized.
3. Marketability - The balancing of short-term and long-term cash flow needs requires the short-term portion of the Special Project and Capital Project Funds portfolio to have securities with active and efficient secondary markets. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage point will define an efficient secondary market. Securities with less active and efficient secondary markets are acceptable for the long-term portion of the portfolio.
4. Liquidity - Special Project and Capital Project Funds used as part of a CIP plan or scheduled repair and replacement program are reasonably predictable. However unanticipated needs or emergencies may arise. Selecting Investment maturities that provide greater cash flow than the anticipated needs will reduce the liquidity risk of unanticipated expenditures.

5. Diversification - Investment maturities should blend the short-term and long-term cash flow needs to provide adequate liquidity and yield enhancement and stability. A “barbell” maturity ladder may be appropriate.
6. Yield - Attaining a competitive market yield for comparable security-types and portfolio structures is the desired objective. The yield of an equally weighted, rolling six-month treasury-bill portfolio will be the minimum yield objective.

Bond Funds

1. Suitability - Any investment eligible in the investment policy is suitable for Bond Funds.
2. Safety of Principal - All investments will be of high quality securities with no perceived default risk. Market price fluctuations will occur. However, by managing Bond Funds to not exceed the shorter of three years or the anticipated expenditure schedule and maintaining a maximum average dollar-weighted maturity, based on the stated maturity date, of less than three hundred sixty-five (365) days the market risk of the overall portfolio will be minimized.
3. Marketability - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash flow requirement. Historical market “spreads” between the bid and offer prices of a particular security-type of less than a quarter of a percentage point will define an efficient secondary market.
4. Liquidity - Bond Funds used for capital improvements programs have reasonably predictable draw down schedules. Therefore investment maturities should generally follow the anticipated cash flow requirements. Investment pools and money market mutual funds will provide readily available funds generally equal to one month’s anticipated cash flow needs, or a competitive yield alternative for short term fixed maturity investments. A singular repurchase agreement may be utilized if disbursements are allowed in the amount necessary to satisfy any expenditure request. This investment structure is commonly referred to as a flexible repurchase agreement.
5. Diversification - Market conditions and arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for construction, loan and bond proceeds. Generally, when investment rates exceed the applicable cost of borrowing, the City is best served by locking in most investments. If the cost of borrowing cannot be exceeded, then concurrent market conditions will determine the attractiveness of diversifying maturities or investing in shorter and larger amounts. At no time shall the anticipated expenditure schedule be exceeded in an attempt to bolster yield.
6. Yield - Achieving a positive spread to the cost of borrowing is the desired objective, within the limits of the investment policy’s risk constraints. The yield of an equally weighted, rolling six-month treasury-bill portfolio will be the minimum yield objective for non-borrowed funds.

Attachment B

CITY OF CORINTH, TEXAS
Investment Policy

[SAMPLE]
TEXAS PUBLIC FUNDS INVESTMENT ACT
CERTIFICATION BY BUSINESS ORGANIZATION

This certification is executed on behalf of the City of Corinth, Texas (the "City") and _____ (the Business Organization), pursuant to the Public Funds Investment Act, Chapter 2256, Texas Government Code (the "Act") in connection with investment transactions conducted between the City and the Business Organization.

The undersigned Qualified Representative of the Business Organization hereby certifies on behalf of the Business Organization that:

1. The undersigned is a Qualified Representative of the Business Organization offering to enter an investment transaction with the Investor as such terms are used in the Public Funds Investment Act, Chapter 2256, Texas Government Code; and
2. The Qualified Representative of the Business Organization has received and reviewed the investment policy furnished by the City; and
3. The Qualified Representative of the Business Organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Business Organization and the City that are not authorized by the City's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards.

Qualified Representative of Business Organization

Firm: _____

Signature _____

Name: _____

Title: _____

Date: _____

Finance Audit Committee Regular Session

Meeting Date: 12/13/2017
Title: Economic Development Corporation's Investment Policy
Submitted For: Lee Ann Bunselmeyer, Acting City Manager
Submitted By: Chris Rodriguez, Financial Services Manager
Finance Review: N/A **Legal Review:** N/A

AGENDA ITEM

Review and approve the Investment Policy for the Economic Development Corporation for FY 2017-2018.

AGENDA ITEM SUMMARY/BACKGROUND

In accordance with the Public Funds Investment Act, Chapter 2256 of the Texas Government Code, the city is required to adopt a formal written Investment Policy annually for the investment of public funds. The policy establishes investment parameters and guidelines for the investment program in order to achieve the goals of safety, liquidity, diversification, rate-of-return, and public trust, and designates the authorized investment officer responsible for the daily investment activity by the City.

As part of the annual process, staff reviews the policy and may recommend revisions to the existing policy, if needed. There are no revisions recommended.

RECOMMENDATION

Staff recommends approval of the Economic Development Corporation's Investment Policy.

Attachments

2018 EDC Investment Policy

**CITY OF CORINTH, TEXAS
ECONOMIC DEVELOPMENT CORPORATION
INVESTMENT POLICY**

PREFACE

It is the policy of the City of Corinth the "City" and the Corinth Economic Development Corporation (the "EDC") that after allowing for the anticipated cash flow requirements and giving due consideration to the safety and risks of investments, all available funds shall be invested in conformance with these legal and administrative guidelines to obtain a market rate of return.

Effective cash management is recognized as essential to good fiscal management. An active cash management and investment policy will be pursued to take advantage of investment interest as a viable and material source of revenue for EDC funds. The EDC's portfolio shall be designed and managed in a manner responsive to the public trust and shall be invested in conformance with State and Federal Regulations, applicable Bond Resolution requirements, and adopted investment policy. The EDC will invest public funds in a manner which will provide the maximum security and a market rate of return while meeting the daily cash flow demands of the EDC.

The EDC is required under the Public Funds Investment Act (Chapter 2256 of the Texas Government Code) to adopt a formal written investment policy for the investment of public funds. These policies serve to satisfy the statutory requirement (specifically the Public Funds Investment Act, Chapter 2256 of the Texas Government Code [the Act]) to define, adopt and review a formal investment strategy and policy.

I. PURPOSE

The purpose of this investment policy (the “policy”) is to set forth specific investment policy and strategy guidelines for the EDC in order to achieve the goals of safety, liquidity, rate-of-return, and public trust for all investment activities.

II. SCOPE

The investment policy shall govern the investment of all financial assets considered to be part of the EDC and includes the following separately invested funds or fund types: Operating, Reserve, and Bond Funds, although the EDC has only operating funds. This policy does not include funds governed by approved trust agreements, or assets administered for the benefit of the EDC by outside agencies under retirement or deferred compensation programs. The City shall and will maintain responsibility for these funds to the extent required by: Federal and State law; the City Charter; and donor stipulations.

III. INVESTMENT OBJECTIVES

Funds of the EDC shall be invested in accordance with all applicable Texas statutes, this policy and any other approved, written administrative procedures. The five objectives of the EDC’s investment activities shall be as follows (in the order of priority):

- A. Safety – Preservation and safety of Principal. Safety of principal invested is the foremost objective in the investment decisions of the EDC. Each investment transaction shall seek to ensure the preservation of capital in the overall portfolio. The risk of loss shall be controlled by investing only in authorized securities as defined in this policy, by qualifying the financial institutions with which the EDC will transact, and by portfolio diversification. Safety is defined as the undiminished return of the principal on the EDC’s investments.
- B. Liquidity - The investment portfolio shall be managed to maintain liquidity to ensure that funds will be available to meet the EDC’s cash flow requirements and by investing in securities with active secondary markets. Investments shall be structured in such a manner as to provide liquidity necessary to pay obligations as they become due. A security may be liquidated prior to its stated maturity to meet unanticipated cash requirements or to otherwise favorably adjust the EDC’s portfolio.
- C. Diversification - Investment maturities shall be staggered throughout the budget cycle to provide cash flow based on the anticipated needs of the EDC. Diversifying the appropriate maturity structure will reduce market cycle risk.
- D. Market Rate-of-Return (Yield) - The EDC’s investment portfolio shall be designed to optimize a market rate-of-return on investments consistent with risk constraints and cash flow requirements of the portfolio. The investment portfolio shall be managed in a manner which seeks to attain a market rate-of-return throughout budgetary and economic cycles. The EDC will not attempt to consistently attain an unrealistic above market rate-of-return, as this objective will subject the overall portfolio to greater risk. Therefore, the EDC’s rate-of-return objective is secondary to those of safety and liquidity. Rate-of-return (yield) is defined as the annual income returned on an investment, expressed as a percentage.
- E. Public Trust - The Investment Officer(s) shall avoid any transactions that might impair public confidence in the EDC’s ability to govern effectively. The governing body recognizes that in diversifying the 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. The prudence of the investment decision shall be measured in accordance with the tests set forth in Section 2256.006(b) of the Act.

IV. INVESTMENT STRATEGY

The City maintains a comprehensive and proactive cash management program which is designed to monitor and control all EDC funds to ensure maximum utilization and yield a market rate of return. The basic and underlying strategy of this program is that all of the EDC's funds are earning interest. It is the responsibility and obligation of the City to maintain a flexible approach and be prepared to modify the investment strategy as market conditions dictate. The investment strategy described is predicated on conditions as they now exist and are subject to change. The investment strategy emphasizes low credit risk, diversification, and the management of maturities. The strategy also considers the expertise and time constraints of the Investment Officers. The allowable investments as defined in Section VII of this policy reflect the avoidance of credit risk. Diversification refers to dividing investments among a variety of securities offering independent returns. This strategy uses local government investment pools to achieve diversification. The active management of maturities refers to structuring the maturity dates of the direct investments so that, while funds are initially invested for a longer period of time, some investments mature as cash needs require. The strategies for the EDC's investment activities shall be as follows:

Strategy No. 1

Diversifying the EDC's investment opportunities through the use of local government investment pools and money market mutual funds as authorized by the EDC Board, and the City Council. An investment pool is a professionally managed portfolio of shared assets created to invest public funds jointly on behalf of the governmental entities that participate in the pool and whose investment objectives in order of priority match those objectives of the EDC. Fund withdrawals are usually available from investment pools on a same-day basis, meaning the pools have a high degree of liquidity. Because of the size and expertise of their staff, investment pools are able to prudently invest in a variety of the investment types allowed by state law. In this manner, investment pools achieve desired diversification. The strategy of the EDC calls for the use of investment pools as a primary source of diversification and a supplemental source of liquidity. Funds that may be needed on a short-term basis but are in excess of the amount maintained at the depository bank are available for deposit in investment pools.

Strategy No. 2

Building a ladder of authorized securities with staggered maturities for all or part of the longer-term investable funds. The benefits of this ladder approach include the following:

- A. It is straight-forward and easily understood;
- B. It will assure the EDC that it will capture a reasonable portion of the yield curve; and,
- C. It provides predictable cash flow with scheduled maturities and reinvestment opportunities.

Strategy No. 3

Utilizing the services of a Professional Investment Advisor in order to maximize investment earnings and realize market opportunities when they become available. Other responsibilities of the Investment Advisor include, but are not limited to broker compliance,

security selection, competitive bidding, investment reporting, and security documentation. The Investment Advisor must be registered with the Securities and Exchange Commission (SEC) under the Investment Advisor's Act of 1940 as well as with the Texas State Securities Board and shall adhere to the spirit and philosophy of this policy and avoid recommending or suggesting transactions outside the "Standard of Care" under this policy.

Strategy No. 4

The EDC will utilize a general investment strategy designed to address the unique characteristics of specific fund-types (detailed strategies are presented in Attachment A):

- A.** Investment strategies for operating funds and pooled funds containing operating funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio which will experience minimal volatility during economic cycles.
- B.** Investment strategies for reserve funds shall have as the primary objective the ability to generate a dependable revenue stream to the appropriate reserve fund.
- C.** Investment strategies for special projects and capital projects funds will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity.
- D.** The investment maturity of bond proceeds (excluding reserve and debt service funds) shall generally be limited to the anticipated cash flow requirement or the "temporary period," as defined by Federal tax law. During the temporary period, bond proceeds may be invested at an unrestricted yield. After the expiration of the temporary period, bond proceeds subject to yield restriction shall be invested considering the anticipated cash flow requirements of the funds and market conditions to achieve compliance with the applicable regulations.

Strategy No. 5

The EDC generally intends to hold all of its securities until they mature and will accomplish this by maintaining sufficient liquidity in its portfolio so that it does not need to sell a security early. Should it become necessary to sell a security prior to maturity, where the sale proceeds are less than the current book value, the prior written consent of the EDC Executive Director, or the City Manager must be obtained. Securities may be sold prior to maturity by the Director of Finance at or above their book value at any time, without the consent of the City Manager.

Strategy No. 6

All demand deposits of the EDC will be concentrated with one central depository, so long as, the FDIC insurance limits are not exceeded. The City's depository procedure will maximize the EDC's ability to pool cash for investment purposes, and provide more manageable banking relationships. In addition, depositories not holding demand deposits of the EDC may be eligible to bid on EDC investments.

Strategy No. 7

This policy shall further seek to maintain good depository bank relationships while minimizing the cost of banking services. The City will seek to maintain a depository contract which will be managed to a level that minimizes the cost of the banking relationship to the EDC, while allowing the EDC to earn an appropriate return on idle demand deposits.

Strategy No. 8

A single pooled fund group of EDC funds, as defined in this policy, may be utilized at the discretion of the Investment Officer. However, earnings from investments will be allocated on a pro-rata cash basis to the individual funds and used in a manner that will best service the interests of the EDC.

Strategy No. 9

Procedures shall be established and implemented in order to maximize investable cash by decreasing the time between the actual collection and the deposit of receipts, and by the controlling of disbursements.

V. FINANCE AUDIT COMMITTEE

- A. Members** – There is hereby created a Finance Audit Committee consisting of the City Manager, Director of Finance, a secondary Investment Officer designated by the Director of Finance, two members of the City Council and two citizens appointed by the City Council by majority vote.
- B. Scope** – The Finance Audit Committee shall meet at least annually to determine general strategies and to monitor results. Included in its deliberations will be such topics as: economic outlook, portfolio diversification, maturity structure, potential risk to the EDC's funds, authorized brokers and dealers, and the target rate ~~of~~ return on the investment portfolio.
- C. Procedures** – The Finance Audit Committee shall provide minutes of its meetings. Any two members of the Finance Audit Committee may request a special meeting, and four members shall constitute a quorum. The Finance Audit Committee shall establish its own rules of procedures.

VI. RESPONSIBILITY AND STANDARD OF CARE

- A.** The responsibility for the daily operation and management of the EDC's investments shall be outlined within this section.
 - 1. Delegation of Authority** - Management responsibility for the investment program is hereby delegated to the Director of Finance, who shall be authorized to deposit, withdraw, invest, transfer or manage the funds of the City and shall establish written procedures for the operation of the investment program, consistent with this policy. Such procedures shall include explicit delegation of authority to other persons responsible for investment transactions. All persons involved in investment activities will be referred to in this policy as "Investment Officers." No persons may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Director of Finance.
 - 2.** The Director of Finance shall assume responsibility for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate Investment Officials. The system of controls shall be designed to provide reasonable assurance that ensures the assets of the City are protected from loss, theft or misuse. The concept of reasonable assurance recognizes that:
 - a.** The cost of control should not exceed the benefits likely to be derived; and,
 - b.** The valuation of costs and benefits requires estimates and judgments by management.

3. The Director of Finance shall be designated as the primary Investment Officer for the City and shall be responsible for investment decisions and activities under the direction of the City Manager. The Director of Finance may delegate any phase of the investment program to a secondary Investment Officer. Both the Director of Finance and the designated secondary Investment Officer are responsible for daily investment decisions and activities. However, ultimate responsibility for investment decisions will rest with the Director of Finance.
- B. Prudence** - The standard of prudence to be applied by the Investment Officer shall be the "prudent investor" rule, which states, "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." In determining whether the Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the following:
1. The investment of all funds over which the Investment Officer had responsibility rather than a consideration as to the prudence of a single investment; and
 2. The investment decision was consistent with the written investment policy and procedures of the EDC.
- C. Due Diligence** - The Director of Finance, designated secondary Investment Officer, Mayor, City Council, City Manager, other Finance employees and the citizen committee members acting in accordance with written policies and procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, provided that these deviations are reported in a timely manner and that appropriate action is taken to control adverse developments.
- D. Ethical Standards and Conflicts of Interest**
1. All EDC Investment Officers having a direct or indirect role in the investment of EDC funds shall act as custodians of the public trust avoiding any transaction which might involve a conflict of interest, the appearance of a conflict of interest, or any activity which might otherwise discourage public confidence. Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair the ability to make impartial investment decisions.
 2. An Investment Officer who has a personal business relationship with the depository bank or with any entity seeking to sell an investment to the EDC shall file a statement disclosing that personal business interest.
 3. An Investment Officer has a personal business relationship with a business organization if:
 - a. The Investment Officer or person related to the Investment Officer by the second degree of affinity or consanguinity owns 10% or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;

- b. Funds received by the Investment Officer or person related to the investment officer by the second degree of affinity or consanguinity from the business organization exceed 10% of the Investment Officer's gross income for the prior year; or
 - c. The Investment Officer or person related to the Investment Officer by the second degree of affinity or consanguinity has acquired from the business organization during the prior year investments with a book value of \$2,500 or more for the personal account of the Investment Officer.
 - d. An Investment Officer who is related within the second degree of affinity or consanguinity to an individual seeking to sell an investment to the EDC shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the City Council.
- E. Training - The City shall provide periodic training in investments for the investment personnel through courses and seminars offered by professional organizations and associations in order to ensure the quality and capability of the EDC's investment personnel making investment decisions in compliance with Public Funds Investment Act (PFIA). The Investment Officers and Finance Audit Committee members shall attend at least one training session containing at least 10 hours of instruction relating to the officer's responsibility under the PFIA within 12 months after assuming duties, and thereafter shall attend at least 8 hours of additional investment training in subsequent two-year periods which begin on the first day of the fiscal year and consist of the two consecutive fiscal years after that date. The Government Finance Officers Association of Texas, the Government Treasurers Organization of Texas, the Texas Municipal League, or the North Central Texas Council of Governments are approved as independent training sources by the City Council.

VII. AUTHORIZED INVESTMENTS

- A. Generally - Safety of principal is the primary objective in investing public funds and can be accomplished by limiting credit risk and interest rate risk. Credit risk is the risk associated with the failure of a security issuer or backer to pay back principal and interest on a timely basis. Interest rate risk is the risk that the value of a portfolio will decline due to an increase in the general level of interest rates. In order to provide for safety of principal as the EDC's primary objective, only certain investments are authorized as acceptable investments for the EDC. The following list of authorized investments for the EDC intentionally excludes some investments authorized by state law. These restrictions are intended to limit possible risk and provide the maximum measure of safety to EDC funds. In the event an authorized investment loses its required minimum credit rating, all prudent measures will be taken to liquidate said investment. Additionally, the EDC is not required to liquidate investments that were authorized at the time of purchase.
- B. Authorized and Acceptable Investments - The authorized list of investment instruments is as follows:
1. Obligations of the United States or its agencies and instrumentalities, or any obligation fully guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC), *excluding mortgage-backed securities*.
 2. Direct obligations of the State of Texas, or its agencies and instrumentalities,

other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, excluding mortgage-related securities.

- C. Certificates of Deposit – A certificate of deposit issued by a depository institution that has its main office or branch office in this state, and is secured in accordance with the specific collateralization requirements contained in section XI, B of this policy. –In addition, an investment in "bundled" or "shared" CDs made in accordance with the following conditions is permitted:
1. The funds are invested through a broker that has its main office or a branch office in this state selected from a list adopted by the City as required by Section 2256.025; or through a depository institution that has its main office or a branch office in this state and that is selected by the City;
 2. The selected broker or depository institution arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City.
 3. The full amount of the principal and accrued interest of each of the CD is insured by the United States or an instrumentality of the United States;
 4. The City appoints the depository institution, a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to SEC Rule 15c3-3, or an entity described in the Public Funds Collateral Act, Section 2257.041(d), as custodian for the City with respect to those CDs issued for the City's account.
- D. Eligible Local Government Investment Pools - AAA-rated public funds investment pools, with a weighted average maturity of 60 days or less, individually approved by formal Council resolution, which invest in instruments and follow practices allowed by the current law as defined in Section 2256.016 of the Texas Government Code. The 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. A public funds investment pool created to function as a money market mutual fund must mark to market daily and stabilize at a \$1 net asset value.
- E. Repurchase Agreements - Fully collateralized repurchase agreements having a defined termination date, placed through a primary government securities dealer or a financial institution doing business in the State of Texas, and fully secured by cash and obligations of the United States or its agencies and instrumentalities. This collateral must be pledged to the EDC and held in safekeeping with a third-party custodian approved by the City. All collateral must be maintained at a market value of no less than the principal amount of the outstanding funds disbursed. All transactions shall be governed by signed Security Industry and Financial Markets Association (SIFMA) Master Repurchase Agreement. Repurchase agreements must also be collateralized in accordance with State law as described in Section XI of this policy. Authorized under this section includes flexible repurchase agreements which may be used for specific investment of bond proceeds but *shall not include reverse purchase agreements*.
- F. Bankers' Acceptances, and Commercial Paper (LIMITED USE) - These investments are authorized for the EDC to the extent that they are contained in the portfolios of

approved public funds investment pools or money market funds in which the EDC invests.

- G. AAA-rated SEC-Regulated 2a7 No-Load Money Market Mutual Funds** - An SEC-registered, no load money market mutual fund which has a dollar weighted average stated maturity of 60 days or less whose assets consist exclusively of the assets described in section VII.A and whose investment objectives includes the maintenance of a stable net asset value of \$1 for each share: furthermore, it provides the EDC with a prospectus and other information required by the SEC Act of 1934 or the Investment Advisor Act of 1940 and which provides the EDC with a prospectus and other information required by the Securities Exchange Act of 1934 (15 USC. Section 78a et. Seq.) & the Investment Company Act of 1990 (15 USC Section 80a-1 et. Seq.).
- H. Unauthorized Securities** - State law specifically prohibits investment in the following securities:
1. An obligation whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security and pays no principal.
 2. An obligation whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest.
 3. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years.
 4. Collateralized mortgage obligations, the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

VIII. DIVERSIFICATION

- A. Generally** - Diversification of investment instruments shall be utilized to avoid incurring unreasonable risks resulting from over-concentration of investments in a specific maturity, a specific issue, or a specific class of securities. With the exception of U.S. Government securities (debt obligations issued by the U. S. Government, its agencies, or instrumentalities) as authorized in this policy, and authorized local government investment pools, no more than forty percent (40%) of the total investment portfolio will be invested in any one security type or with a single financial institution. Diversification of the portfolio considers diversification by maturity dates and diversification by investment instrument.
- B. Diversification by Maturities** - The longer the maturity of investments, the greater their price volatility. Therefore, it is the EDC's policy to concentrate its investment portfolio in shorter-term securities in order to limit principal risks caused by change in interest rates. The EDC will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow (including the anticipated cash flow requirements of bond proceeds within the temporary period), the EDC will not directly invest in securities maturing more than two (2) years from the date of purchase. However, the above described obligations, certificates, or agreements may be collateralized using longer date instruments. The EDC shall diversify the use of investment instruments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. Maturity scheduling shall be managed by the Investment Officer so that maturities of investments shall be timed to coincide with projected cash flow needs.

The entire EDC portfolio, or single pooled fund group if utilized, shall maintain a maximum average dollar-weighted maturity, based on the stated maturity date, of less than two hundred seventy (270) days. Investment maturities for debt service interest and sinking funds and/or other types of reserve funds, whose use is never anticipated, shall maintain a maximum average dollar-weighted maturity, based on the stated maturity date, of less than three hundred sixty-five (365) days.

- C. Diversification by Investment Instrument - Diversification by investment instrument shall not exceed the following guidelines for each type of instrument:

	Maximum % of Portfolio
U.S. Treasury Obligations	100%
U.S. Government Agency Securities and Instrumentalities	100%
Authorized Local Government Investment Pool	100%
Local Government Obligations	10%
Fully Insured Certificates of Deposit	50%
Fully Collateralized Repurchase Agreements	25%
SEC-Regulated No-Load Money Market Mutual Fund	100%
U.S. Treasury & Agency Callables	30%

IX. SECURITY SWAPS

Security swaps may be considered as an investment option for the EDC. A swap out of one instrument into another is acceptable to increase yield, realign for disbursement dates, extend or shorten maturity dates and improve market sector diversification. Swaps may be initiated by brokers/dealers who are on the City's approved list. A horizon analysis is required for each swap proving benefit to the EDC before the trade decision is made, which will accompany the investment file for record keeping.

X. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

- A. The Director of Finance will maintain a list of financial institutions authorized to provide investment services to the City. In addition, a list will also be maintained of approved broker/dealers authorized to provide investment services in the State of Texas. These will include financial institutions that qualify under Securities & Exchange Commission Rule 15-C3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by state laws.
- B. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Director of Finance with the following, as appropriate: audited financial statements, proof of Financial Industry Regulatory Authority certification, trading resolution, proof of State registration, completed broker/dealer questionnaire and certification of having read the EDC's investment policy.
- C. The Finance Audit Committee shall be responsible for adopting the list of brokers and dealers of government securities. Their selection shall be among only primary government securities dealers that report directly to the New York Federal Reserve Bank, unless a comprehensive credit and capitalization analysis reveals that other firms are adequately financed to conduct public business. The Finance Audit Committee shall base its evaluation of security dealers and financial institutions upon:

1. Financial conditions, strength and capability to fulfill commitments;
 2. Overall reputation with other dealers or investors;
 3. Regulatory status of the dealer;
 4. Background and expertise of the individual representatives.
- D.** Investment Officers shall only conduct business with securities dealers approved by the Finance Audit Committee and will not purchase investments from any financial organization until the organization's registered principal has executed a written instrument stating that he or she has thoroughly reviewed the EDC's investment policy and acknowledges that reasonable procedures and controls have been implemented to preclude imprudent investment activities arising out of transactions between the organization and the EDC, except to the extent that this authorization is dependent on an analysis of the makeup of the EDC's entire portfolio or requires an interpretation of subjective investment standards.
- E.** To guard against default possibilities under these conditions, and to assure diversification of bidders, business with any one issuer, or investment broker, should be limited to forty percent (40%) of the total portfolio at any point in time. In this way, bankruptcy, receivership or legal action would not immobilize the EDC's ability to meet payroll or other expenses.
- F.** All investments (governments or bank C.D.'s) will be solicited on a competitive basis with at least three (3) institutions. The Finance Audit Committee can approve exceptions on a case by case basis or on a general basis in the form of guidelines. These guidelines shall take into consideration the investment type maturity date, amount, and potential disruptiveness to the EDC's investment strategy. The investment will be made with the broker/dealer offering the best yield/quality to the EDC. The quotes may be accepted orally, in writing, electronically, or any combination of these methods.
- G.** An annual review of the financial condition and registrations of qualified financial organizations will be conducted by the Director of Finance.
- H.** A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the EDC invests.
- I.** If the City has contracted with a Registered Investment Advisor for the management of its funds, the advisor shall be responsible for performing due diligence on and maintaining a list of broker/dealers with which it shall transact business on behalf of the EDC. The advisor shall determine selection criteria and shall annually present a list of its authorized broker/dealers to the City for review and likewise shall execute the aforementioned written instrument stating that the advisor has reviewed the EDC's investment policy and has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities with the EDC. The advisor shall obtain and document competitive bids and offers on all transactions and present these to the City as part of its standard trade documentation.
- J.** It is the policy of the City that all security transactions entered into with the EDC shall be conducted on a "Delivery-versus-Payment" basis through the Federal Reserve System. By doing this, EDC funds are not released until the City has received, through the Federal Reserve wire, the securities purchased. The City shall authorize the

release of funds only after receiving notification from the safekeeping bank that a purchased security has been received in the safekeeping account of the EDC. The notification may be oral, but shall be confirmed in writing.

XI. SAFEKEEPING AND COLLATERALIZATION

- A. Safekeeping** - All securities owned by the EDC shall be held by a third-party safekeeping agent selected by the EDC's Investment Officer. Bank deposits will be held in the EDC's name in the bank's trust department, in a Federal Reserve Bank account in the EDC's name, or third-party financial institutions doing business in the state of Texas, in accordance with state law. Original safekeeping receipts shall be obtained and held by the City and the EDC. The City and the EDC shall contract with a bank or banks for the safekeeping of securities either owned by the EDC as part of its investment portfolio or held as collateral to secure time deposits, if collateralized time deposits are specifically authorized by the board.
- B. Collateralized Deposits** - Consistent with the requirements of State law, the EDC requires all bank deposits to be federally insured. If the board and the City do agree that collateralized accounts are acceptable in specific situations the provisions above may be amended for EDC accounts.

XII. INTERNAL CONTROL

The Investment Officer shall establish a system of written internal controls, which shall be reviewed annually by independent auditors. The controls shall be designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes, or imprudent actions. The internal controls are to be reviewed annually in conjunction with an external independent audit. This review will provide assurance of compliance with policies and procedures as specified by this policy. The City, in conjunction with its annual financial audit, shall perform a compliance audit of management controls and adherence to the EDC's established investment policy.

XIII. PERFORMANCE

The EDC's investment portfolio shall be designed to obtain a market rate-of-return on investments consistent with risk constraints and cash flow requirements of the EDC. This investment policy establishes "weighted average yield to maturity" as the standard portfolio performance measurement.

XIV. REPORTING

- A. Quarterly** - The Director of Finance shall prepare and submit a signed quarterly investment report to the Economic Development Board and the Finance Audit Committee that summarizes current market conditions, economic developments, and anticipated investment conditions. The report shall summarize investment strategies employed in the most recent quarter and describe the portfolio in terms of investment securities, maturities, risk characteristics, and shall explain the total investment return for the quarter. The City shall also monitor the credit ratings on securities that require minimum ratings. This may be accomplished through staff research, or with the assistance of broker-dealers, investment advisors, banks or safekeeping agents.
- B. Annual Report** - Within 180 days of the end of the fiscal year, the Director of Finance shall present an annual report on the investment program and investment activity. This report may be presented as a component of the fourth quarter report to the Economic

Development Board, City Manager and the City Council. The quarterly reports prepared by the Director of Finance shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the City Council by that auditor.

C. Methods - The quarterly and annual investment reports shall include a succinct management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the past quarter. This management summary will be prepared in a manner which will allow the EDC to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will be prepared in compliance with generally accepted accounting principles. The report will include the following:

1. A listing of individual securities held at the end of the reporting period. This list will include the name of the fund or pooled group fund for which each individual investment was acquired;
2. Unrealized gains or losses resulting from appreciation or depreciation by listing the beginning and ending book and market value of securities for the period. Market values shall be obtained from financial institutions or portfolio reporting services independent from the broker/dealer from which the security was purchased;
3. Additions and changes to the market value during the period;
4. Fully accrued interest for the reporting period;
5. Average weighted yield to maturity of portfolio on entity investments as compared to applicable benchmarks;
6. Listing of investments by maturity date;
7. The percentage of the total portfolio which each type of investment represents; and
8. Statement of compliance of the EDC's investment portfolio with State Law and the investment strategy and policy approved by the City Council.
9. Market yield benchmark comparison of the average 90-day U. S. Treasury Bill auction yield during the reporting period.
10. The guidelines of retaining records for seven years as recommended in the *Texas State Library Municipal Records Manual* should be followed. The Director of Finance shall oversee the filing and/or storing of investment records.

XV. INVESTMENT POLICY ADOPTION AND AMENDMENT

The EDC's investment policy shall be reviewed by the Economic Development Board and formally adopted and amended by resolution by the City Council. The City's written policies and procedures for investments are subject to review not less than annually to stay current with changing laws, regulations and needs of the City. The City Council, not less than annually, shall adopt a written instrument stating that it has reviewed the investment policy and investment strategies and that the written instrument so adopted shall record any changes made to either the policy or strategies.

Attachment A

CITY OF CORINTH, TEXAS
Economic Development Corporation
Investment Strategy Statement

Operating Funds

1. Suitability - Any investment eligible in the investment policy is suitable for Operating Funds.
2. Safety of Principal - All investments shall be of high quality securities with no perceived default risk. Market price fluctuations will occur. However, by managing the weighted average days to maturity for the Operating Fund's portfolio to less than 270 days and restricting the maximum allowable maturity to two years, the price volatility of the overall portfolio will be minimized.
3. Marketability - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash flow requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage point will define an efficient secondary market.
4. Liquidity - The Operating Fund requires the greatest short-term liquidity of any of the Fund types. Short-term investment pools and money market mutual funds will provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.
5. Diversification - Investment maturities should be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of the EDC. Market cycle risk will be reduced by diversifying the appropriate maturity structure out through two years.
6. Yield - Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling three-month treasury-bill portfolio will be the minimum yield objective.

Reserve Funds

1. Suitability - Any investment eligible in the investment policy is suitable for Debt Service Reserve Funds. Bond resolution and loan documentation constraints and insurance company restrictions may create specific considerations in addition to the investment policy.
2. Safety of Principal - All investments shall be of high quality securities with no perceived default risk. Market price fluctuations will occur. However, managing Debt Service Reserve Fund maturities to not exceed the call provisions of the borrowing reduces the investment's market risk if the EDC's debt is redeemed and the Reserve Fund liquidated. The fund shall maintain a maximum average dollar-weighted maturity, based on the stated maturity date, of less than three hundred sixty-five (365) days. No stated final investment maturity shall exceed the shorter of the final maturity of the borrowing or two years. Annual mark-to-market requirements or specific maturity and average life limitations within the borrowing's documentation will influence the attractiveness of market risk and reduce the opportunity for maturity extension.

3. Marketability - Securities with less active and efficient secondary markets are acceptable for Debt Service Reserve Funds.
4. Liquidity - Debt Service Reserve Funds have no anticipated expenditures. The Funds are deposited to provide annual debt service payment protection to the City's debt holders. The funds are "returned" to the EDC at the final debt service payment. Market conditions and arbitrage regulation compliance determine the advantage of security diversification and liquidity. Generally, if investment rates exceed the cost of borrowing, the EDC is best served by locking in investment maturities and reducing liquidity. If the borrowing cost cannot be exceeded, then concurrent market conditions will determine the attractiveness of locking in maturities or investing shorter and anticipating future increased yields.
5. Diversification - Market conditions and the arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for Debt Service Reserve Funds. At no time shall the final debt service payment date of a bond issue, if any, be exceeded in an attempt to bolster yield.
6. Yield - Achieving a positive spread to the applicable borrowing cost is the desired objective. Debt Service Reserve Fund portfolio management shall at all times operate within the limits of the investment policy's risk constraints.

Bond Funds

1. Suitability - Any investment eligible in the Investment Policy is suitable for Bond Funds.
2. Safety of Principal - All investments will be of high quality securities with no perceived default risk. Market price fluctuations will occur. However, by managing Bond Funds to not exceed the shorter of two years or the anticipated expenditure schedule and maintaining a maximum average dollar-weighted maturity, based on the stated maturity date, of less than three hundred sixty-five (365) days the market risk of the overall portfolio will be minimized.
3. Marketability - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash flow requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage point will define an efficient secondary market.
4. Liquidity - Bond Funds used for capital improvements programs have reasonably predictable draw down schedules. Therefore investment maturities should generally follow the anticipated cash flow requirements. Investment pools and money market mutual funds will provide readily available funds generally equal to one month's anticipated cash flow needs, or a competitive yield alternative for short term fixed maturity investments. A singular repurchase agreement may be utilized if disbursements are allowed in the amount necessary to satisfy any expenditure request. This investment structure is commonly referred to as a flexible repurchase agreement.
5. Diversification - Market conditions and arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for construction, loan and bond proceeds. Generally, when investment rates exceed the applicable cost of borrowing, the EDC is best served by locking in most investments. If the cost of borrowing cannot be exceeded, then concurrent market conditions will determine the attractiveness of diversifying maturities or investing in shorter and larger amounts.

At no time shall the anticipated expenditure schedule be exceeded in an attempt to bolster yield.

6. Yield - Achieving a positive spread to the cost of borrowing is the desired objective, within the limits of the investment policy's risk constraints. The yield of an equally weighted, rolling six-month treasury-bill portfolio will be the minimum yield objective for non-borrowed funds.

Attachment B

CITY OF CORINTH, TEXAS
Investment Policy

[SAMPLE]
TEXAS PUBLIC FUNDS INVESTMENT ACT
CERTIFICATION BY BUSINESS ORGANIZATION

This certification is executed on behalf of the City of Corinth, Texas (the "City") and _____ (the Business Organization), pursuant to the Public Funds Investment Act, Chapter 2256, Texas Government Code (the "Act") in connection with investment transactions conducted between the City and the Business Organization.

The undersigned Qualified Representative of the Business Organization hereby certifies on behalf of the Business Organization that:

1. The undersigned is a Qualified Representative of the Business Organization offering to enter an investment transaction with the Investor as such terms are used in the Public Funds Investment Act, Chapter 2256, Texas Government Code; and
2. The Qualified Representative of the Business Organization has received and reviewed the investment policy furnished by the City; and
3. The Qualified Representative of the Business Organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Business Organization and the City that are not authorized by the City's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards.

Qualified Representative of Business Organization

Firm: _____

Signature _____

Name: _____

Title: _____

Date: _____

Finance Audit Committee Regular Session

Meeting Date: 12/13/2017
Title: Crime Control & Prevention District Investment Policy
Submitted For: Lee Ann Bunselmeyer, Acting City Manager
Submitted By: Chris Rodriguez, Financial Services Manager
Finance Review: N/A **Legal Review:** N/A

AGENDA ITEM

Review and approve the Investment Policy for the Crime Control & Prevention District for FY 2017-2018.

AGENDA ITEM SUMMARY/BACKGROUND

In accordance with the Public Funds Investment Act, Chapter 2256 of the Texas Government Code, the city is required to adopt a formal written Investment Policy for the investment of public funds. The policy establishes investment parameters and guidelines for the investment program in order to achieve the goals of safety, liquidity, diversification, rate-of-return, and public trust, and designates the authorized investment officer responsible for the daily investment activity by the City.

As part of the annual process, staff reviews the policy and may recommend revisions to the existing policy, if needed. There are no revisions recommended.

RECOMMENDATION

Staff recommends approval of the Crime Control & Prevention District Investment Policy.

Attachments

2018 CCD Investment Policy

**CORINTH, TEXAS
CORINTH CRIME CONTROL AND PREVENTION DISTRICT
INVESTMENT POLICY**

PREFACE

It is the policy of the City of Corinth (the "City") and the Corinth Crime Control and Prevention District (the "DISTRICT") that after allowing for the anticipated cash flow requirements and giving due consideration to the safety and risks of investments, all available funds shall be invested in conformance with these legal and administrative guidelines to obtain a market rate-of-return.

Effective cash management is recognized as essential to good fiscal management. An active cash management and investment policy will be pursued to take advantage of investment interest as a viable and material source of revenue for DISTRICT funds. The DISTRICT's portfolio shall be designed and managed in a manner responsive to the public trust and shall be invested in conformance with State and Federal Regulations, applicable Bond Resolution requirements, and adopted investment policy. The DISTRICT will invest public funds in a manner which will provide the maximum security and a market rate-of-return while meeting the daily cash flow demands of the DISTRICT.

Pursuant to Subchapter E of Chapter 363 of the Local Government Code, the DISTRICT designates the City of Corinth to invest its funds in accordance with the provisions and requirements of this policy and § 363.206(c) of the Texas Local Gov't Code.

I. PURPOSE

The purpose of this investment policy (the “policy”) is to set forth specific investment policy and strategy guidelines for the DISTRICT in order to achieve the goals of safety, liquidity, rate-of-return, and public trust for all investment activities.

II. SCOPE

The investment policy shall govern the investment of all financial assets considered to be part of the DISTRICT and includes the following separately invested funds or fund types: Operating, Reserve, and Bond Funds, although the DISTRICT has only operating funds. This policy does not include funds governed by approved trust agreements, or assets administered for the benefit of the DISTRICT by outside agencies under retirement or deferred compensation programs. The City shall and will maintain responsibility for these funds to the extent required by: Federal and State law; the City Charter; and donor stipulations.

III. INVESTMENT OBJECTIVES

Funds of the DISTRICT shall be invested in accordance with all applicable Texas statutes, this policy and any other approved, written administrative procedures. The five objectives of the DISTRICT’s investment activities shall be as follows (in the order of priority):

- A. Safety – Preservation and safety of Principal. Safety of principal invested is the foremost objective in the investment decisions of the DISTRICT. Each investment transaction shall seek to ensure the preservation of capital in the overall portfolio. The risk of loss shall be controlled by investing only in authorized securities as defined in this policy, by qualifying the financial institutions with which the DISTRICT will transact, and by portfolio diversification. Safety is defined as the undiminished return of the principal on the DISTRICT’s investments
- B. Liquidity -The investment portfolio shall be managed to maintain liquidity to ensure that funds will be available to meet the DISTRICT’s cash flow requirements and by investing in securities with active secondary markets. Investments shall be structured in such a manner as to provide liquidity necessary to pay obligations as they become due. A security may be liquidated prior to its stated maturity to meet unanticipated cash requirements or to otherwise favorably adjust the DISTRICT’s portfolio.
- C. Diversification - Investment maturities shall be staggered throughout the budget cycle to provide cash flow based on the anticipated needs of the DISTRICT. Diversifying the appropriate maturity structure will reduce market cycle risk.
- D. Market Rate-of-Return (Yield) - The DISTRICT’s investment portfolio shall be designed to optimize a market rate-of-return on investments consistent with risk constraints and cash flow requirements of the portfolio. The investment portfolio shall be managed in a manner which seeks to attain a market rate-of-return throughout budgetary and economic cycles. The DISTRICT will not attempt to consistently attain an unrealistic above market rate-of-return as this objective will subject the overall portfolio to greater risk. Therefore, the DISTRICT’s rate-of-return objective is secondary to those of safety and liquidity. Rate-of-return (yield) is defined as the annual income returned on an investment, expressed as a percentage.

- E. Public Trust - The Investment Officer(s) shall avoid any transactions that might impair public confidence in the DISTRICT's ability to govern effectively. The governing body recognizes that in diversifying the 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. The prudence of the investment decision shall be measured in accordance with the tests set forth in Section 2256.006(b) of the Act.

IV. **INVESTMENT STRATEGY**

The City maintains a comprehensive and proactive cash management program which is designed to monitor and control all DISTRICT funds to ensure maximum utilization and yield a market rate-of-return. The basic and underlying strategy of this program is that all of the DISTRICT's funds are earning interest. It is the responsibility and obligation of the City to maintain a flexible approach and be prepared to modify the investment strategy as market conditions dictate. The investment strategy described is predicated on conditions as they now exist and are subject to change. The investment strategy emphasizes low credit risk, diversification, and the management of maturities. The strategy also considers the expertise and time constraints of the Investment Officers. The allowable investments as defined in Section VII of this policy reflect the avoidance of credit risk. Diversification refers to dividing investments among a variety of securities offering independent returns. This strategy uses local government investment pools to achieve diversification. The active management of maturities refers to structuring the maturity dates of the direct investments so that, while funds are initially invested for a longer period of time, some investments mature as cash needs require. The strategies for the DISTRICT's investment activities shall be as follows:

Strategy No. 1

Diversifying the DISTRICT's investment opportunities through the use of local government investment pools and money market mutual funds as authorized by the City Council. An investment pool is a professionally managed portfolio of shared assets created to invest public funds jointly on behalf of the governmental entities that participate in the pool and whose investment objectives in order of priority match those objectives of the DISTRICT. Fund withdrawals are usually available from investment pools on a same-day basis, meaning the pools have a high degree of liquidity. Because of the size and expertise of their staff, investment pools are able to prudently invest in a variety of the investment types allowed by state law. In this manner, investment pools achieve desired diversification. The strategy of the DISTRICT calls for the use of investment pools as a primary source of diversification and a supplemental source of liquidity. Funds that may be needed on a short-term basis but are in excess of the amount maintained at the depository bank are available for deposit in investment pools.

Strategy No. 2

Building a ladder of authorized securities with staggered maturities for all or part of the longer-term investable funds. The benefits of this ladder approach include the following:

- A. It is straight-forward and easily understood;
- B. It will assure the DISTRICT that it will capture a reasonable portion of the yield curve; and,
- C. It provides predictable cash flow with scheduled maturities and reinvestment opportunities.

Strategy No. 3

Utilizing the services of a Professional Investment Advisor in order to maximize investment earnings and realize market opportunities when they become available. Other responsibilities of the Investment Advisor include, but are not limited to broker compliance, security selection, competitive bidding, investment reporting, and security documentation. The Investment Advisor must be registered with the Securities and Exchange Commission (SEC) under the Investment Advisor's Act of 1940 as well as with the Texas State Securities Board and shall adhere to the spirit and philosophy of this policy and avoid recommending or suggesting transactions outside the "Standard of Care" under this policy.

Strategy No. 4

The DISTRICT will utilize a general investment strategy designed to address the unique characteristics of specific fund-types (detailed strategies are presented in Attachment A):

- A. Investment strategies for operating funds and pooled funds containing operating funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio which will experience minimal volatility during economic cycles.
- B. Investment strategies for reserve funds shall have as the primary objective the ability to generate a dependable revenue stream to the appropriate reserve fund.
- C. Investment strategies for special projects and capital projects funds will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity.
- D. The investment maturity of bond proceeds (excluding reserve and debt service funds) shall generally be limited to the anticipated cash flow requirement or the "temporary period," as defined by Federal tax law. During the temporary period, bond proceeds may be invested at an unrestricted yield. After the expiration of the temporary period, bond proceeds subject to yield restriction shall be invested considering the anticipated cash flow requirements of the funds and market conditions to achieve compliance with the applicable regulations.

Strategy No. 5

The DISTRICT generally intends to hold all of its securities until they mature and will accomplish this by maintaining sufficient liquidity in its portfolio so that it does not need to sell a security early. Should it become necessary to sell a security prior to maturity, where the sale proceeds are less than the current book value, the prior written consent of the City Manager must be obtained. Securities may be sold prior to maturity by the Director of Finance at or above their book value at any time, without the consent of the City Manager.

Strategy No. 6

All demand deposits of the DISTRICT will be concentrated with one central depository. The City's depository procedure will maximize the DISTRICT's ability to pool cash for investment purposes, and provide more manageable banking relationships. In addition, depositories not holding demand deposits of the DISTRICT may be eligible to bid on DISTRICT investments.

Strategy No. 7

This policy shall further seek to maintain good depository bank relationships while minimizing the cost of banking services. The City will seek to maintain a depository contract which will be managed to a level that minimizes the cost of the banking relationship to the DISTRICT, while allowing the DISTRICT to earn an appropriate return on idle demand deposits.

Strategy No. 8

A single pooled fund group, as defined in this policy, may be utilized at the discretion of the Investment Officer. However, earnings from investments will be allocated on a pro-rata cash basis to the individual funds and used in a manner that will best service the interests of the DISTRICT.

Strategy No. 9

Procedures shall be established and implemented in order to maximize investable cash by decreasing the time between the actual collection and the deposit of receipts, and by the controlling of disbursements.

V. FINANCE AUDIT COMMITTEE

- A. Members - There is hereby created a Finance Audit Committee consisting of the City Manager, Director of Finance, a secondary Investment Officer designated by the Director of Finance, two members of the City Council and two citizens appointed by the City Council by majority vote.
- B. Scope - The Finance Audit Committee shall meet at least annually to determine general strategies and to monitor results. Included in its deliberations will be such topics as: economic outlook, portfolio diversification, maturity structure, potential risk to the DISTRICT's funds, authorized brokers and dealers, and the target rate-of-return on the investment portfolio.
- C. Procedures - The Finance Audit Committee shall provide minutes of its meetings. Any two members of the Finance Audit Committee may request a special meeting, and four members shall constitute a quorum. The Finance Audit Committee shall establish its own rules of procedures.

VI. RESPONSIBILITY AND STANDARD OF CARE

- A. The responsibility for the daily operation and management of the DISTRICT's investments shall be outlined within this section.

1. Delegation of Authority - Management responsibility for the investment program is hereby delegated to the Director of Finance, who shall be authorized to deposit, withdraw, invest, transfer or manage the funds of the DISTRICT and shall establish written procedures for the operation of the investment program, consistent with this policy. Such procedures shall include explicit delegation of authority to other persons responsible for investment transactions. All persons involved in investment activities will be referred to in this policy as "Investment Officers." No persons may engage in investment transactions, except as provided under the terms of this policy and the procedures established by the Director of Finance.
 2. The Director of Finance shall assume responsibility for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate Investment Officers. The system of controls shall be designed to provide reasonable assurance that ensures the assets of the DISTRICT are protected from loss, theft or misuse. The concept of reasonable assurance recognizes that:
 - a. The cost of control should not exceed the benefits likely to be derived; and,
 - b. The valuation of costs and benefits requires estimates and judgments by management.
 3. The Director of Finance shall be designated as the primary Investment Officer for the DISTRICT and shall be responsible for investment decisions and activities under the direction of the City Manager. The Director of Finance may delegate any phase of the investment program to a secondary Investment Officer. Both the Director of Finance and the designated secondary Investment Officer are responsible for daily investment decisions and activities. However, ultimate responsibility for investment decisions will rest with the Director of Finance.
- B. Prudence** - The standard of prudence to be applied by the Investment Official shall be the "prudent investor" rule, which states, "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." In determining whether the Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the following:
1. The investment of all funds over which the Investment Officer had responsibility rather than a consideration as to the prudence of a single investment; and
 2. The investment decision was consistent with the written investment policy and procedures of the DISTRICT.
- C. Due Diligence** - The Director of Finance, designated secondary Investment Officer, Mayor, City Council, City Manager, other Finance employees and citizen committee members acting in accordance with written policies and procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, provided that these deviations are reported in a timely manner and that appropriate action is taken to control adverse developments.

D. Ethical Standards and Conflicts of Interest

1. All DISTRICT Investment Officers having a direct or indirect role in the investment of DISTRICT funds shall act as custodians of the public trust avoiding any transaction which might involve a conflict of interest, the appearance of a conflict of interest, or any activity which might otherwise discourage public confidence. Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair the ability to make impartial investment decisions.
2. An Investment Officer who has a personal business relationship with the depository bank or with any entity seeking to sell an investment to the DISTRICT shall file a statement disclosing that personal business interest.
3. An Investment Officer has a personal business relationship with a business organization if:
 - a. The Investment Officer or one related to the Investment Officer within the second degree of affinity or consanguinity owns 10% or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;
 - b. Funds received by the Investment Officer or one related to the Investment Officer within the second degree of affinity or consanguinity from the business organization exceed 10% of the Investment Official's gross income for the prior year; or
 - c. The Investment Officer or one related to the Investment Officer within the second degree of affinity or consanguinity has acquired from the business organization during the prior year investments with a book value of \$2,500 or more for the personal account of the Investment Officer.
 - d. An Investment Officer who is related within the second degree of affinity or consanguinity to an individual seeking to sell an investment to the DISTRICT shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the City Council.

- E. Training** - The City shall provide periodic training in investments for the investment personnel through courses and seminars offered by professional organizations and associations in order to ensure the quality and capability of the DISTRICT'S investment personnel making investment decisions in compliance with the Public Funds Investment Act (PFIA). The Investment Officials and the Finance Audit Committee members shall attend at least one training session containing at least 10 hours of instruction relating to the officer's responsibility under the PFIA within 12 months after assuming duties, and thereafter shall attend at least 8 hours of additional investment training in subsequent two-year periods which begin on the first day of the fiscal year and consist of the two consecutive fiscal years after that date. The Government Finance Officers Association of Texas, the Government Treasurers Organization of Texas, the Texas Municipal League, or the North Central Texas

Council of Governments are approved as independent training sources by the City Council.

VII. AUTHORIZED INVESTMENTS

- A. Generally - Safety of principal is the primary objective in investing public funds and can be accomplished by limiting credit risk and interest rate risk. Credit risk is the risk associated with the failure of a security issuer or backer to pay back principal and interest on a timely basis. Interest rate risk is the risk that the value of a portfolio will decline due to an increase in the general level of interest rates. In order to provide for safety of principal as the DISTRICT's primary objective, only certain investments are authorized as acceptable investments for the DISTRICT. The following list of authorized investments for the DISTRICT intentionally excludes some investments authorized by state law. These restrictions are intended to limit possible risk and provide the maximum measure of safety to DISTRICT funds. In the event an authorized investment loses its required minimum credit rating, all prudent measures will be taken to liquidate said investment. Additionally, the DISTRICT is not required to liquidate investments that were authorized at the time of purchase.
- B. Authorized and Acceptable Investments - The authorized list of investment instruments is as follows:
1. Obligations of the United States or its agencies and instrumentalities or any obligation fully guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC), *excluding mortgage-backed securities*.
 2. Direct obligations of the State of Texas, or its agencies and instrumentalities Other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, excluding mortgage-related securities.
- C. Certificates of Deposit – A certificate of deposit issued by a depository institution that has its main office or branch office in this state, and is secured in accordance with the specific collateralization requirements contained in section XI.B of this policy. In addition, an investment in “bundled” or “shared” CDs made in accordance with the following conditions is permitted:
1. The funds are invested through a broker that has its main office or a branch office in this state selected from a list adopted by the City as required by Section 2256.025; or through a depository institution that has its main office or a branch office in this state and that is selected by the City;
 2. The selected broker or depository institution arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City.
 3. The full amount of the principal and accrued interest of each of the CD is insured by the United States or an instrumentality of the United States; and

4. The City appoints the depository institution, a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to SEC Rule 15c3-3, or an entity described in the Public Funds Collateral Act, Section 2257.041(d), as custodian for the City with respect to those CDs issued for the City's account.
- D. Eligible Local Government Investment Pools – AAA-rated public funds investment pools, with a weighted average maturity of 60 days or less, individually approved by formal Council resolution, which invest in instruments and follow practices allowed by the current law as defined by Section 2256.016 of the Texas Government Code. The 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. A public funds investment pool created to function as a money market mutual fund must mark to market daily and, stabilize at a \$1 net asset value.
 - E. Repurchase Agreements – Fully collateralized repurchase agreements having a defined termination date, placed through a primary government securities dealer or a financial institution doing business in the State of Texas, and fully secured by cash and obligations of the United States or its agencies and instrumentalities. This collateral must be pledged to the DISTRICT and held in safekeeping with a third-party custodian approved by the City. All collateral must be maintained at a market value of no less than the principal amount of the outstanding funds disbursed. All transactions shall be governed by signed Security Industry and Financial Markets Association, (SIFMA) Master Repurchase Agreement. Repurchase agreements must also be collateralized in accordance with State law as described in Section XI of this policy. Authorization under this section includes flexible repurchase agreements which may be used for specific investment of bond proceeds *but shall not include reverse repurchase agreements*.
 - F. Bankers' Acceptances and Commercial Paper (LIMITED USE) – These investments are authorized for the DISTRICT to the extent that they are contained in the portfolios of approved public funds investment pools or money market funds in which the DISTRICT invests.
 - G. AAA-rated SEC-Regulated 2a7 No-Load Money Market Mutual Funds – An SEC-registered, no load money market mutual fund which has a dollar weighted average stated maturity of 60 days or less whose assets consist exclusively of the assets described in section VII.A and whose investment objectives includes the maintenance of a stable net asset value of \$1 for each share; furthermore, it provides the DISTRICT with a prospectus and other information required by the SEC act of 1934 or the Investment Advisor Act of 1940 and which provides the DISTRICT with a prospectus and other information required by the Securities Exchange Act of 1934 (15 USC Section 78a et. Seq.) of the Investment Company Act of 1990 (15 USC Section 80a-1 et. Seq.).
 - H. Unauthorized Securities – State law specifically prohibits investment in the following securities:
 1. An obligation whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security and pays no principal.

2. An obligation whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest.
3. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years.
4. Collateralized mortgage obligations, the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

VIII. DIVERSIFICATION

- A. Generally** - Diversification of investment instruments shall be utilized to avoid incurring unreasonable risks resulting from over-concentration of investments in a specific maturity, a specific issue, or a specific class of securities. With the exception of U.S. Government securities (debt obligations issued by the U. S. Government, its agencies, or instrumentalities) as authorized in this policy, and authorized local government investment pools, no more than forty percent (40%) of the total investment portfolio will be invested in any one security type or with a single financial institution. Diversification of the portfolio considers diversification by maturity dates and diversification by investment instrument.
- B. Diversification by Maturities** - The longer the maturity of investments, the greater their price volatility. Therefore, it is the DISTRICT's policy to concentrate its investment portfolio in shorter-term securities in order to limit principal risks caused by change in interest rates. The DISTRICT will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow (including the anticipated cash flow requirements of bond proceeds within the temporary period), the DISTRICT will not directly invest in securities maturing more than two (2) years from the date of purchase. However, the above described obligations, certificates, or agreements may be collateralized using longer date instruments. The DISTRICT shall diversify the use of investment instruments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. Maturity scheduling shall be managed by the Investment Officer so that maturities of investments shall be timed to coincide with projected cash flow needs.

The entire DISTRICT portfolio, or single pooled fund group if utilized, shall maintain a maximum average dollar-weighted maturity, based on the stated maturity date, of less than two hundred seventy (270) days. Investment maturities for debt service interest and sinking funds and/or other types of reserve funds, whose use is never anticipated, shall maintain a maximum average dollar-weighted maturity, based on the stated maturity date, of less than three hundred sixty-five (365) days.

- C. Diversification by Investment Instrument** - Diversification by investment instrument shall not exceed the following guidelines for each type of instrument:

	Maximum % of Portfolio
U.S. Treasury Obligations	100%
U.S. Government Agency Securities and Instrumentalities	100%
Authorized Local Government Investment Pool	100%

Local Government Obligations	10%
Fully Collateralized Certificates of Deposit	50%
Fully Collateralized Repurchase Agreements	25%
SEC-Regulated No-Load Money Market Mutual Fund	100%
U.S. Treasury & Agency Callables	30%

IX. SECURITY SWAPS

Security swaps may be considered as an investment option for the DISTRICT. A swap out of one instrument into another is acceptable to increase yield, realign for disbursement dates, extend or shorten maturity dates and improve market sector diversification. Swaps may be initiated by brokers/dealers who are on the City’s approved list. A horizon analysis is required for each swap proving benefit to the DISTRICT before the trade decision is made, which will accompany the investment file for record keeping.

X. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS.

A. The Director of Finance will maintain a list of financial institutions authorized to provide investment services to the City. In addition, a list will also be maintained of approved broker/dealers authorized to provide investment services in the State of Texas. These will include financial institutions that qualify under Securities & Exchange Commission Rule 15-C3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by state laws.

B. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Director of Finance with the following, as appropriate: audited financial statements, proof of Financial Industry Regulatory Authority certification, trading resolution, proof of State registration, completed broker/dealer questionnaire and certification of having read the DISTRICT’s investment policy.

C. The Finance Audit Committee shall be responsible for adopting the list of brokers and dealers of government securities. Their selection shall be among only primary government securities dealers that report directly to the New York Federal Reserve Bank, unless a comprehensive credit and capitalization analysis reveals that other firms are adequately financed to conduct public business. The Finance Audit Committee shall base its evaluation of security dealers and financial institutions upon:

1. Financial conditions, strength and capability to fulfill commitments;
2. Overall reputation with other dealers or investors;
3. Regulatory status of the dealer;
4. Background and expertise of the individual representatives.

D. Investment Officers shall only conduct business with securities dealers approved by the Finance Audit Committee and will not purchase investments from any financial organization until the organization’s registered principal has executed a written instrument stating that he or she has thoroughly reviewed the DISTRICT’s investment policy and acknowledges that reasonable procedures and controls have been

implemented to preclude imprudent investment activities arising out of transactions between the organization and the DISTRICT, except to the extent that this authorization is dependent on an analysis of the makeup of the DISTRICT's entire portfolio or requires an interpretation of subjective investment standards.

- E.** To guard against default possibilities under these conditions, and to assure diversification of bidders, business with any one issuer, or investment broker, should be limited to forty percent (40%) of the total portfolio at any point in time. In this way, bankruptcy, receivership or legal action would not immobilize the DISTRICT's ability to meet payroll or other expenses.
- F.** All investment (governments or bank C.D.'s) will be solicited on a competitive basis with at least three (3) institutions. The Finance Audit Committee can approve exceptions on a case by case basis or on a general basis in the form of guidelines. These guidelines shall take into consideration the investment type maturity date, amount, and potential disruptiveness to the DISTRICT's investment strategy. The investment will be made with the broker/dealer offering the best yield/quality to the DISTRICT. The quotes may be accepted orally, in writing, electronically, or any combination of these methods.
- G.** An annual review of the financial condition and registration of qualified financial organizations will be conducted by the Director of Finance.
- H.** A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the DISTRICT invests.
- I.** If the City has contracted with a Registered Investment Advisor for the management of its funds, the advisor shall be responsible for performing due diligence on and maintaining a list of broker/dealers with which it shall transact business on behalf of the DISTRICT. The advisor shall determine selection criteria and shall annually present a list of its authorized broker/dealers to the CITY for review and likewise shall execute the aforementioned written instrument stating that the advisor has reviewed the DISTRICT's investment policy and has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities with the DISTRICT. The advisor shall obtain and document competitive bids and offers on all transactions and present these to the City as part of its standard trade documentation.
- J.** It is the policy of the City that all security transactions entered into with the DISTRICT shall be conducted on a "Delivery-versus-Payment basis through the Federal Reserve System. By doing this, DISTRICT funds are not released until the City has received, through the Federal Reserve wire, the securities purchased. The City shall authorize the release of funds only after receiving notification from the safekeeping bank that a purchased security has been received in the safekeeping account of the DISTRICT. The notification may be oral, but shall be confirmed in writing.
 - 1. Financial conditions, strength and capability to fulfill commitments;
 - 2. Overall reputation with other dealers or investors;
 - 3. Regulatory status of the dealer;

4. Background and expertise of the individual representatives.

XI. SAFEKEEPING AND COLLATERALIZATION

- A. Safekeeping** - All securities owned by the DISTRICT shall be held by a third-party safekeeping agent selected by the City. The collateral for bank deposits will be held in the City's name in the bank's trust department, in a Federal Reserve Bank account in the City's name, or third-party financial institutions doing business in the state of Texas, in accordance with state law. Original safekeeping receipts shall be obtained and held by the City. The City shall contract with a bank or banks for the safekeeping of securities either owned by the City as part of its investment portfolio or held as collateral to secure time deposits.
- B. Collateralization** - Consistent with the requirements of the Public Funds Collateral Act, it is the policy of the City to require full collateralization of all City funds on deposit with a depository bank. The market value of the investments securing the deposit of funds shall be at least equal to 102% of the amount of the deposits of funds reduced to the extent that the deposits are insured by the Federal Deposit Insurance Corporation (FDIC). Securities pledged as collateral shall be held by an independent third party with whom the City has a current custodial agreement. The agreement is to specify the acceptable investment securities as collateral, including provisions relating to possession of the collateral, the substitution or release of investment securities, ownership of securities, and the method of valuation of securities. The safekeeping agreement must clearly state that the safekeeping bank is instructed to release purchased and collateral securities to the City in the event the City has determined that the depository bank has failed to pay on any matured investments in certificates of deposit, or has determined that the funds of the City are in jeopardy for whatever reason, including involuntary closure or change of ownership. A clearly marked evidence of ownership, e.g., safekeeping receipt, must be supplied to the City and retained by the City.
 1. The City may accept the following to insure or collateralize bank deposits:
 - 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. United States Treasuries & Agencies
 - c. Other securities as approved by the Finance Audit Committee
 2. For certificates of deposit and other evidences of deposit, collateral shall be at 102% of market value. The market value of collateral will always equal or exceed 102% of the principal plus accrued interest of deposits at financial institutions.
 3. Financial institutions with which the City invests or maintains other deposits shall provide monthly, and as requested by the Investment Officer, a listing of the collateral pledged to the City, marked to current market prices. The listing shall include total pledged securities itemized by name, type, description, par value, current market value, maturity date, and Moody's or Standard & Poor's rating, if applicable. The City and the financial institution shall jointly assume the responsibility for ensuring that the collateral is sufficient.

- C. Collateralized Deposits - Consistent with the requirements of State law, the City requires all bank deposits to be federally insured or collateralized with eligible securities. Financial institutions serving as City depositories will be required to sign a "Depository Agreement" with the City and the City's safekeeping agent. The collateralized deposit portion of the Agreement shall define the City's rights to the collateral in the event of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with Federal and State regulations, including:
1. Agreement must be in writing;
 2. Agreement has to be executed by the Depository and the City contemporaneously with the acquisition of the asset;
 3. Agreement must be approved by the Board of Directors or designated committee of the Depository and a copy of the meeting minutes must be delivered to the City; and
 4. Agreement must be part of the Depository's "official record" continuously since its execution.

XII. INTERNAL CONTROL

The Investment Officer shall establish a system of written internal controls, which shall be reviewed annually by independent auditors. The controls shall be designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes, or imprudent actions. The internal controls are to be reviewed annually in conjunction with an external independent audit. This review will provide assurance of compliance with policies and procedures as specified by this policy. The City, in conjunction with its annual financial audit, shall perform a compliance audit of management controls and adherence to the DISTRICT's established investment policy.

XIII. PERFORMANCE

The DISTRICT's investment portfolio shall be designed to obtain a market rate-of-return on investments consistent with risk constraints and cash flow requirements of the DISTRICT. This investment policy establishes "weighted average yield to maturity" as the standard portfolio performance measurement.

XIV. REPORTING

- A. Quarterly - The Director of Finance shall prepare and submit a signed quarterly investment report to the Corinth Crime Control and Prevention District Board and the Finance Audit Committee that summarizes current market conditions, economic developments, and anticipated investment conditions. The report shall summarize investment strategies employed in the most recent quarter and describe the portfolio in terms of investment securities, maturities, risk characteristics, and shall explain the total investment return for the quarter. The City shall also monitor the credit ratings on securities that require minimum ratings. This may be accomplished through staff research, or with the assistance of broker-dealers, investment advisors, banks or safekeeping agents.

- B. Annual Report** - Within 180 days of the end of the fiscal year, the Director of Finance shall present an annual report on the investment program and investment activity. This report may be presented as a component of the fourth quarter report to the Corinth Crime Control and Prevention District Board, City Manager and the City Council. The quarterly reports prepared by the Director of Finance shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the City Council by that auditor.
- C. Methods** - The quarterly and annual investment reports shall include a succinct management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the past quarter. This management summary will be prepared in a manner which will allow the DISTRICT to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will be prepared in compliance with generally accepted accounting principles. The report will include the following:
1. A listing of individual securities held at the end of the reporting period. This list will include the name of the fund or pooled group fund for which each individual investment was acquired;
 2. Unrealized gains or losses resulting from appreciation or depreciation by listing the beginning and ending book and market value of securities for the period. Market values shall be obtained from financial institutions or portfolio reporting services independent from the broker/dealer from which the security was purchased;
 3. Additions and changes to the market value during the period;
 4. Fully accrued interest for the reporting period;
 5. Average weighted yield to maturity of portfolio on entity investments as compared to applicable benchmarks;
 6. Listing of investments by maturity date;
 7. The percentage of the total portfolio which each type of investment represents; and
 8. Statement of compliance of the DISTRICT's investment portfolio with State Law and the investment strategy and policy approved by the City Council.
 9. Market yield benchmark comparison of the average 90-day U. S. Treasury Bill auction yield during the reporting period.
 10. The guidelines of retaining records for seven years as recommended in the *Texas State Library Municipal Records Manual* should be followed. The Director of Finance shall oversee the filing and/or storing of investment records.

XV. INVESTMENT POLICY ADOPTION AND AMENDMENT

The DISTRICT's investment policy shall be reviewed by the Corinth Crime Control and

Prevention District and formally adopted and amended by resolution by the City Council. The CITY's written policies and procedures for investments are subject to review not less than annually to stay current with changing laws, regulations and needs of the CITY. The City Council, not less than annually, shall adopt a written instrument stating that it has reviewed the investment policy and investment strategies and that the written instrument so adopted shall record any changes made to either the policy or strategies.

Attachment A

CITY OF CORINTH, TEXAS Corinth Crime Control and Prevention District Investment Strategy Statement

Operating Funds

1. Suitability - Any investment eligible in the investment policy is suitable for Operating Funds.
2. Safety of Principal - All investments shall be of high quality securities with no perceived default risk. Market price fluctuations will occur. However, by managing the weighted average days to maturity for the Operating Fund's portfolio to less than 270 days and restricting the maximum allowable maturity to two years, the price volatility of the overall portfolio will be minimized.
3. Marketability - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash flow requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage point will define an efficient secondary market.
4. Liquidity - The Operating Fund requires the greatest short-term liquidity of any of the Fund types. Short-term investment pools and money market mutual funds will provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.
5. Diversification - Investment maturities should be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of the DISTRICT. Market cycle risk will be reduced by diversifying the appropriate maturity structure out through two years.
6. Yield - Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling three-month treasury-bill portfolio will be the minimum yield objective.

Reserve Funds

1. Suitability - Any investment eligible in the investment policy is suitable for Debt Service Reserve Funds. Bond resolution and loan documentation constraints and insurance company restrictions may create specific considerations in addition to the investment policy.
2. Safety of Principal - All investments shall be of high quality securities with no perceived default risk. Market price fluctuations will occur. However, managing Debt Service Reserve Fund maturities to not exceed the call provisions of the borrowing reduces the investment's market risk if the DISTRICT debt is redeemed and the Reserve Fund liquidated. The fund shall maintain a maximum average dollar-weighted maturity, based on the stated maturity date, of less than three hundred sixty-five (365) days. No stated final investment maturity shall exceed the shorter of the final maturity of the

borrowing or two years. Annual mark-to-market requirements or specific maturity and average life limitations within the borrowing's documentation will influence the attractiveness of market risk and reduce the opportunity for maturity extension.

3. Marketability - Securities with less active and efficient secondary markets are acceptable for Debt Service Reserve Funds.
4. Liquidity – Debt Service Reserve Funds have no anticipated expenditures. The Funds are deposited to provide annual debt service payment protection to the DISTRICT's debt holders. The funds are "returned" to the DISTRICT at the final debt service payment. Market conditions and arbitrage regulation compliance determine the advantage of security diversification and liquidity. Generally, if investment rates exceed the cost of borrowing, the DISTRICT is best served by locking in investment maturities and reducing liquidity. If the borrowing cost cannot be exceeded, then concurrent market conditions will determine the attractiveness of locking in maturities or investing shorter and anticipating future increased yields.
5. Diversification - Market conditions and the arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for Debt Service Reserve Funds. At no time shall the final debt service payment date of the bond issue be exceeded in an attempt to bolster yield.
6. Yield - Achieving a positive spread to the applicable borrowing cost is the desired objective. Debt Service Reserve Fund portfolio management shall at all times operate within the limits of the investment policy's risk constraints.

Bond Funds

1. Suitability - Any investment eligible in the investment policy is suitable for Bond Funds.
2. Safety of Principal - All investments will be of high quality securities with no perceived default risk. Market price fluctuations will occur. However, by managing Bond Funds to not exceed the shorter of two years or the anticipated expenditure schedule and maintaining a maximum average dollar-weighted maturity, based on the stated maturity date, of less than three hundred sixty-five (365) days the market risk of the overall portfolio will be minimized.
3. Marketability - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash flow requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage point will define an efficient secondary market.
4. Liquidity – Bond Funds used for capital improvements programs have reasonably predictable draw down schedules. Therefore investment maturities should generally follow the anticipated cash flow requirements. Investment pools and money market mutual funds will provide readily available funds generally equal to one month's anticipated cash flow needs, or a competitive yield alternative for short term fixed maturity investments. A singular repurchase agreement may be utilized if disbursements are allowed in the amount necessary to satisfy any expenditure request. This investment structure is commonly referred to as a flexible repurchase agreement.

5. Diversification - Market conditions and arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for construction, loan and bond proceeds. Generally, when investment rates exceed the applicable cost of borrowing, the DISTRICT is best served by locking in most investments. If the cost of borrowing cannot be exceeded, then concurrent market conditions will determine the attractiveness of diversifying maturities or investing in shorter and larger amounts. At no time shall the anticipated expenditure schedule be exceeded in an attempt to bolster yield.
6. Yield - Achieving a positive spread to the cost of borrowing is the desired objective, within the limits of the investment policy's risk constraints. The yield of an equally weighted, rolling six-month treasury-bill portfolio will be the minimum yield objective for non-borrowed funds.

Attachment B

CITY OF CORINTH, TEXAS
Investment Policy

[SAMPLE]
TEXAS PUBLIC FUNDS INVESTMENT ACT
CERTIFICATION BY BUSINESS ORGANIZATION

This certification is executed on behalf of the CITY of Corinth, Texas (the "CITY") and _____ (the Business Organization), pursuant to the Public Funds Investment Act, Chapter 2256, Texas Government Code (the "Act") in connection with investment transactions conducted between the CITY and the Business Organization.

The undersigned Qualified Representative of the Business Organization hereby certifies on behalf of the Business Organization that:

1. The undersigned is a Qualified Representative of the Business Organization offering to enter an investment transaction with the Investor as such terms are used in the Public Funds Investment Act, Chapter 2256, Texas Government Code; and
2. The Qualified Representative of the Business Organization has received and reviewed the investment policy furnished by the CITY; and
3. The Qualified Representative of the Business Organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Business Organization and the CITY that are not authorized by the CITY's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the CITY's entire portfolio or requires an interpretation of subjective investment standards.

Qualified Representative of Business Organization

Firm: _____

Signature _____

Name: _____

Title: _____

Date: _____

Finance Audit Committee Regular Session

Meeting Date: 12/13/2017
Title: Annual Audit and Comprehensive Annual Report Discussion
Submitted By: Lee Ann Bunselmeyer, Director
Finance Review: N/A **Legal Review:** N/A

AGENDA ITEM

Discuss and provide staff direction on the annual external audit and the Comprehensive Annual Financial Report (CAFR).

AGENDA ITEM SUMMARY/BACKGROUND

The City of Corinth's Home Rule Charter, Section 9.12, states that at the close of the fiscal year an independent audit must be made on all accounts of the City by a certified public accountant. Davis Kinard & Co, in their third year as the City's independent audit firm, will perform the audit for fiscal year 2016-2017 which ends on September 30, 2017.

The tentative audit timeline is listed below:

September 11, 2017	Auditors begin Interim Fieldwork
September 30, 2017	City's fiscal year end
October-December 7, 2017	City staff analyze the financials, make year end entries and prepare the CAFR.
December 8, 2017	City staff close the books and provide a trial balance to the auditors
December 11, 2017	Auditors begin fieldwork
December 13, 2017	Preliminary Audit discussions with Finance Audit Committee
February 21, 2018	Post-Audit meeting with Finance Audit Committee and presentation of CAFR
March 15, 2018	Presentation of CAFR to City Council

RECOMMENDATION

No action to be taken on this item.

Finance Audit Committee Regular Session

Meeting Date: 12/13/2017
Title: Annual Investment Report
Submitted For: Lee Ann Bunselmeyer, Director
Submitted By: Chris Rodriguez, Financial Services Manager
Finance Review: N/A **Legal Review:** N/A

AGENDA ITEM

Discuss and approve the Fiscal Year 2016-2017 Annual Investment Report

AGENDA ITEM SUMMARY/BACKGROUND

In accordance with Public Funds Investment Act, Chapter 2256, Section 02399(a), of the Texas Government Code, the investment officer must prepare and submit to the governing body a written report of the investment transactions within 180 days of the end of the fiscal year. The report must summarize current market conditions, economic developments, and anticipated investment conditions and include the following:

1. A listing of individuals securities held at the end of the reporting period. This list will include the name of the fund or pooled group fund for which each individual investment was acquired.
2. Unrealized gain or losses resulting from appreciation or depreciation by listing the beginning and ending book and market value of securities for the period. Market values shall be obtained from financial institutions or portfolio reporting services, independent from the broker/dealer from which the security was purchased.
3. Additions and changes to the market value during the period.
4. Fully accrued interest for the reporting period.
5. Average weighted yield to maturity of portfolio on entity investments, as compared to applicable benchmarks.
6. Listing of investments by maturity date.
7. The percentage of the total portfolio which each type of investment represents; and
8. Statement of compliance of the City's investment portfolio with State Law and the investment strategy and policy approved by the City Council.
9. Market yield benchmark comparison of the average 90-days U.S. Treasury Bill auction yield during the reporting period.

The investment report must be formally reviewed at least annually by an independent auditor and the results of the review must be reports. Exhibit B includes the independent review by First Southwest Asset Management on November 14, 2017.

RECOMMENDATION

Staff recommends the acceptance of the Annual Investment Report.

Attachments

Annual Investment Report

City of Corinth, Texas

ANNUAL INVESTMENT REPORT

For Fiscal Year Ended September 30, 2017



Bob Hart
City Manager

Lee Ann Bunselmeyer
*Director of Finance &
Administrative Services*

Prepared By:
Chris Rodriguez
Financial Services Manager



December 13, 2017

TO: Honorable Mayor and Members of the City Council

The Annual Investment Report is written in accordance with state statutes, specifically the Public Funds Investment Act, section 2256 of the Texas Government Code. This report is presented to comply with the City's investment policy that states "within one hundred (180) days of the end of the fiscal year, the Director of Finance shall present an annual report on the investment program and investment activity. This report may be presented as a component of the fourth quarter report to the City Manager and City Council."

I. STATUTORY AND POLICY REQUIREMENTS

On January 9, 2017, a resolution was passed to adopt a formal investment policy for the City of Corinth. The Investment Policy is required by state law to be reviewed each year. The policy designates the Director of Finance as being responsible for the City's investment program. The Director of Finance is also responsible for establishing written procedures for the operation of the program. These procedures include the explicit delegation of authority to persons who carry out the daily investment transactions. The Director of Finance has made this delegation of authority to the Financial Services Manager. Investment officials have the authority to invest all funds for the City of Corinth, the Corinth Crime Control and Prevention District and Corinth Economic Development Corporation with the exception of funds contributed to the Texas Municipal Retirement System (TMRS); other funds established by the City for deferred employee compensation; and revenue bond escrow funds. These funds are managed by outside investment managers and administrators and are monitored by the Finance Department.

The funds of the City of Corinth, Texas, are invested in compliance with Article. 842(a-1) entitled the "Public Funds Investment Act" of the Texas Government Code. Staff annually reviews the policy guidelines and objectives to ensure compliance with the changes in state law, and with the investment strategies adopted by the City Council as summarized below in order of importance.

1) Safety – Preservation and safety of Principal.

Safety of principal invested is the foremost objective in the investment decisions of the City. Each investment transaction shall seek to ensure the preservation of capital in the overall portfolio. The risk of loss shall be controlled by investing only in authorized securities as defined in this Policy, by qualifying the financial institutions and broker with which the City will transact, and by portfolio diversification. Safety is defined as the undiminished return of the principal on the City's investments.

2) Liquidity.

The investment portfolio shall be managed to maintain liquidity to ensure that funds will be available to meet the City's cash flow requirements and by investing in securities with active secondary markets. Investments shall be structured in such a manner as to provide liquidity necessary to pay obligations as they become due. A security may be liquidated prior to its stated maturity to meet unanticipated cash requirements or to otherwise favorably adjust the City's portfolio.

3) Diversification.

Investment maturities shall be staggered throughout the budget cycle to provide cash flow based on the anticipated needs of the City. Diversifying the appropriate maturity structure will reduce market cycle risk.

4) Market Rate-of-Return (Yield).

The City's investment portfolio shall be designed to optimize a market rate-of-return on investments consistent with risk constraints and cash flow requirements of the portfolio. The investment portfolio shall be managed in a manner which seeks to attain a market rate of return throughout budgetary and economic cycles. The City will not attempt to consistently attain an unrealistic above market rate-of-return, as this objective will subject the overall portfolio to greater risk. Therefore, the City's rate of return objective is secondary to those of safety and liquidity. Rate of return (yield) is defined as the annual income returned on an investment, expressed as a percentage.

5) Public Trust

The Investment Officer shall avoid any transactions that might impair public confidence in the City's ability to govern effectively. The governing body recognizes that in diversifying the 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. The prudence of the investment decision shall be measured in accordance with the tests set forth in Section 2256.006(b) of the Act.

II. BANK DEPOSITORY

Depository services support the objectives of the City's cash and investment management program. Those objectives are to maximize investment yield after satisfying the goals of safety and liquidity. A depository services contract is required for municipalities and the City of Corinth contracts with NorthStar Bank (purchased in October 2017 by Independent Bank). Frost Bank serves as the City's safekeeping institution and acts as a third-party custodian.

There are five significant cash management services that are provided to the City. These services are (1) a control concentration/sweep account, (2) the on-line cash management system, (3) positive pay, (4) safekeeping services, and (5) Courier service that includes daily pick-up and delivery of city deposits at various remote locations. These automated services facilitate full utilization of available cash thus maximizing interest income. The NorthStar bank contract was renewed on June 1, 2014 for a two-year period with an additional option for three one-year renewals. There is one remaining renewal on the current bank contract.

III. INVESTMENT ACCOUNTING METHODOLOGY

The accounts of the City of Corinth are maintained on a funds basis or account groups, each of which is considered a separate accounting entity. Each fund is invested separately, as long as it maintains a sufficient fund balance. The investment activity of each fund is summarized in the tables presented in this report.

The enclosed Annual Investment Report is compliant with the investment strategies adopted by the City Council as well as in accordance with the relevant provisions of the Tex. Gov't Code Ch. 2256. The objectives adopted by the City Council will continue to drive the investment program in the next fiscal year to achieve optimum protection of public funds.

Lee Ann Bunselmeyer
Director of Finance & Admin Services

Chris Rodriguez
Financial Services Manager

CITY OF CORINTH
ANNUAL INVESTMENT REPORT
For Period Ending September 30, 2017

Security Type	Par Value	Book Value	Market Value	% of Mkt to Book
U. S. Federal Agency-Coupon	\$ 6,592,000	\$ 6,600,058	\$ 6,586,541	99.80%
U.S. Federal Agency -Callable	8,650,000	8,649,836	8,619,709	99.65%
Managed Pools	3,708,072	3,708,072	3,708,072	100.00%
Money Market	289,209	289,209	289,209	100.00%
Bank Cash	9,043,310	9,043,310	9,043,310	100.00%
	<u>\$ 28,282,591</u>	<u>\$ 28,290,486</u>	<u>\$ 28,246,842</u>	<u>99.85%</u>

PORTFOLIO SUMMARY REPORT

Beginning Par Value as of 9/30/2016	\$ 24,023,945
Beginning Book Value as of 9/30/2016	\$ 24,028,014
Beginning Market Value as of 9/30/2016	\$ 24,021,666
WAM at Beginning Date (Days)	241
Ending Par Value as of 9/30/2017	\$ 28,282,591
Ending Book Value as of 9/30/2017	\$ 28,290,486
Ending Market Value as of 9/30/2017	\$ 28,246,842
WAM at Ending Date (Days)	191
Change to Market Value ⁽¹⁾	\$ 4,225,176

⁽¹⁾ The net increase in the Market Value is due to the receipt of \$5 million in bond proceeds for the 2017 Certificates of Obligation that were issued in August 2017 and capital expenditures for the new Public Safety Facility.

This report is prepared in accordance with Chapter 2256 of the Public Funds Investment Act ("PFIA") Section 2256.023(a) which states that "Not less than quarterly, the investment officer shall prepare and submit to the governing body of the entity a written report of the investment transactions for all funds covered by this chapter for the preceding reporting period."

The investment portfolio complied with the PFIA and the City's approved Investment Policy and Strategy throughout the period.

Lee Ann Bunselmeyer
Director of Finance & Administrative Services

Chris Rodriguez
Financial Services Manager

Scott McIntyre
First Southwest Asset Management

INVESTMENT STRATEGIES COMPLIANCE REPORT
For Period Ending September 30, 2017

OPERATING FUNDS

The investment strategy for operating funds and commingled pools containing operating funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to structure a portfolio, which will minimize volatility during economic cycles. This may be accomplished by purchasing high quality, short-term securities, which will compliment each other in a laddered maturity structure. A dollar-weighted average maturity of 270 days or less will be maintained and calculated by using the stated final maturity date of each security.

Beginning Book Value as of 9/30/2016	\$	10,736,163
Beginning Market Value as of 9/30/2016	\$	10,736,152
WAM at Beginning Date (Days)		142
Ending Book Value as of 9/30/2017	\$	11,769,102
Ending Market Value as of 9/30/2017	\$	11,751,393
Unrealized Gain/(Loss)	\$	(17,709)
Change to Market Value ⁽¹⁾	\$	1,015,241
WAM at Ending Date (Days)		176
WAM Policy Benchmark ≤		270

⁽¹⁾ The net increase in the Market Value for the Operating Funds is due to an increase in the collection of Developmental Fees and the posting of fourth quarter revenues (fire services, sales tax).

DEBT SERVICE RESERVE FUND

Investment strategies for debt service reserve and contingency funds shall have as the primary objective the ability to generate a dependable revenue stream to the appropriate fund from securities with a low degree of volatility. Securities should be of high quality and, except as may be required by the bond ordinance specific to an individual issue, of short to intermediate-term maturities. Volatility shall be further controlled through the purchase of securities carrying the highest coupon available, within the desired maturity and quality range, without paying a premium, if at all possible. Such securities will tend to hold their value during economic cycles. A dollar weighted average maturity of 365 days or less will be maintained and calculated by using the stated final maturity date of each security.

Beginning Book Value as of 9/30/2016	\$	274,178
Beginning Market Value as of 9/30/2016	\$	274,178
WAM at Beginning Date (Days)		1
Ending Book Value as of 9/30/2017	\$	289,209
Ending Market Value as of 9/30/2017	\$	289,209
Unrealized Gain/(Loss)	\$	-
Change to Market Value ⁽²⁾	\$	15,031
WAM at Ending Date (Days)		1
WAM Policy Benchmark ≤		365

⁽²⁾ No significant change.

INVESTMENT STRATEGIES COMPLIANCE REPORT
For Period Ending September 30, 2017

BOND/CAPITAL PROJECT FUNDS

Investment strategies for bond funds will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. These portfolios should include at least 10% in highly liquid securities to allow for flexibility and unanticipated project outlays. The stated final maturity dates of securities held should not exceed the estimated project completion date. A dollar weighted average maturity of 365 days or less will be maintained and calculated by using the stated final maturity of each security.

Beginning Book Value as of 9/30/2016	\$	12,679,241
Beginning Market Value as of 9/30/2016	\$	12,672,955
WAM at Beginning Date (Days)		336
Ending Book Value as of 9/30/2017	\$	14,548,186
Ending Market Value as of 9/30/2017	\$	14,522,401
Unrealized Gain/(Loss)	\$	(25,785)
Change to Market Value ⁽¹⁾	\$	1,849,446
WAM at Ending Date (Days)		219
WAM Policy Benchmark \leq		365

⁽¹⁾ The net increase in the Market Value is due to the receipt of \$5 million in bond proceeds and capital expenditures for the new Public Safety Facility. The current bank account balance for the bond funds is \$3,549,549.

SPECIAL REVENUE FUNDS

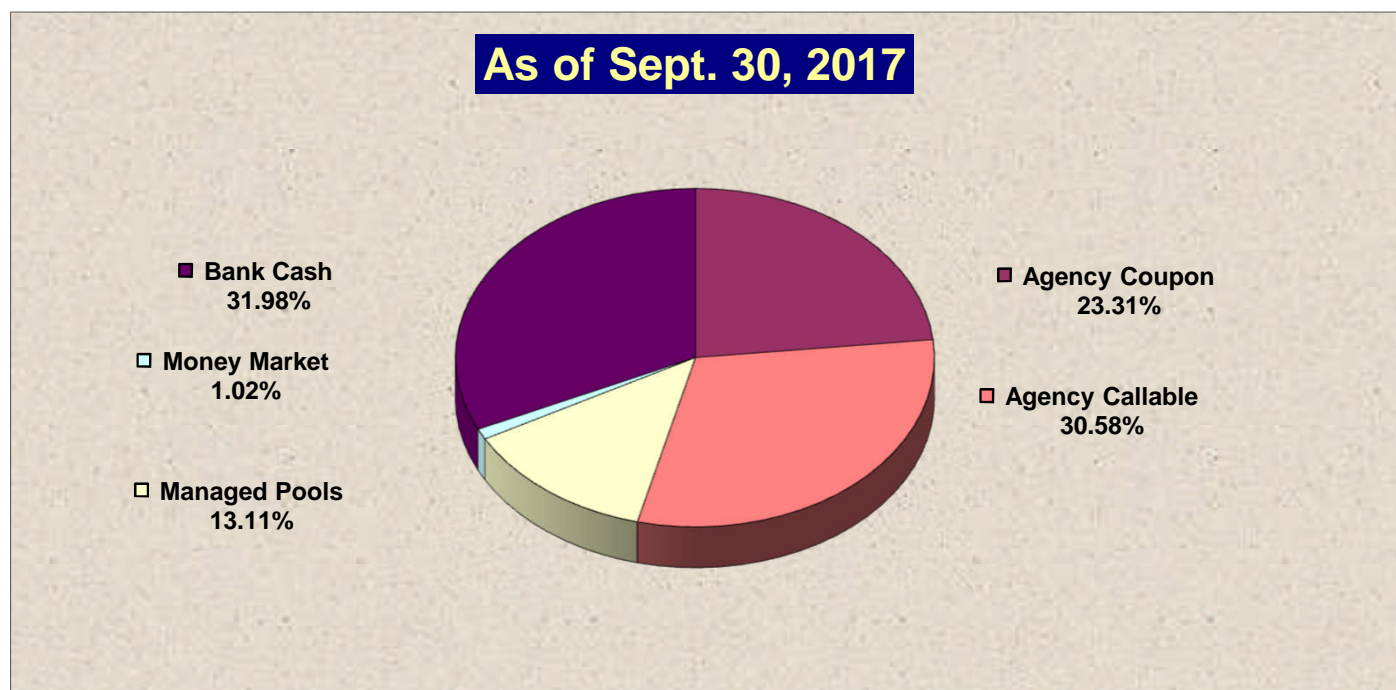
Investment strategies for construction projects or special revenue fund portfolios will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. These portfolios should include at least 10% in highly liquid securities to allow for flexibility and unanticipated project outlays. The stated final maturity dates of securities held should not exceed the estimated project completion date. A dollar weighted average maturity of 270 days or less will be maintained and calculated by using the stated final maturity of each security.

Beginning Book Value as of 9/30/2016	\$	338,432
Beginning Market Value as of 9/30/2016	\$	338,382
WAM at Beginning Date (Days)		43
Ending Book Value as of 9/30/2017	\$	1,683,988
Ending Market Value as of 9/30/2017	\$	1,683,838
Unrealized Gain/(Loss)	\$	(150)
Change to Market Value ⁽²⁾	\$	1,345,456
WAM at Ending Date (Days)		159
WAM Policy Benchmark \leq		270

⁽²⁾ The net increase in the Market Value is due to the receipt of Water, Wastewater and Roadway impact fee revenue related to increased building permits and development.

ANNUAL INVESTMENT REPORT
Portfolio Summary By Market Sector

Market Sector	Dec. 31, 2016	Mar. 31, 2017	June 30, 2017	Sept. 30, 2017
U.S. Federal Agency -Coupon	\$ 4,025,000	\$ 7,092,000	\$ 7,092,000	\$ 6,592,000
U.S. Federal Agency-Callable	7,500,000	8,000,000	8,500,000	8,650,000
Managed Pools	5,929,213	5,937,636	4,698,068	3,708,072
Money Market	2,560,606	288,705	288,957	289,209
Bank Cash	7,084,881	7,275,886	6,264,088	9,043,310
Total Par Value:	\$ 27,099,700	\$ 28,594,227	\$ 26,843,113	\$ 28,282,591



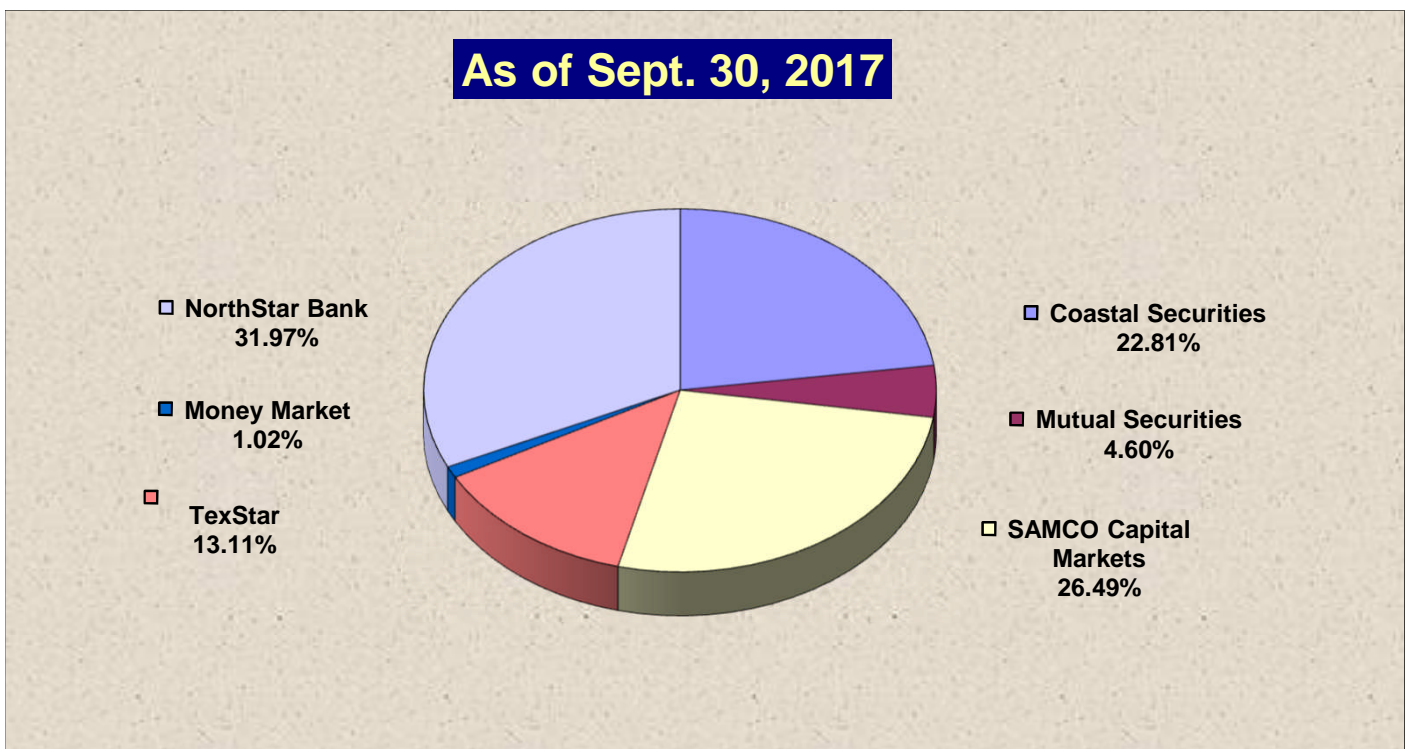
The portfolio is restricted to U.S. Treasuries, U.S. Agencies, bonds issued by Texas public entities and rated AA or better, fully insured/collateralized certificates of deposit, and fully collateralized repurchase agreements. The investments are diversified by security type to protect interest income from the volatility of interest rates and to protect the portfolio from the risk of principal loss in any one market.

Performance Indicators	Policy Benchmark	Dec. 31, 2016	Mar. 31, 2017	June 30, 2017	Sept. 30, 2017
Average Yield to Maturity		0.688%	0.840%	0.966%	1.073%
\geq Policy Benchmark-(Six Month T-Bill)		0.625%	0.875%	1.047%	1.160%
Callable Securities \leq	30.00%	27.68%	27.98%	31.67%	30.58%
Investment By Type \leq					
U.S. Treasuries	100.00%	0.00%	0.00%	0.00%	0.00%
U.S. Agencies	100.00%	42.53%	52.77%	58.08%	53.89%
Certificates of Deposit	100.00%	0.00%	0.00%	0.00%	0.00%
Managed Pools	50.00%	21.88%	20.77%	17.50%	13.11%
Money Market	100.00%	9.45%	1.01%	1.08%	1.02%
Cash	100.00%	26.14%	25.45%	23.34%	31.98%

Note: The portfolio is slightly above the benchmark for callable securities for the year. The Average Yield to Maturity is slightly below the Policy Benchmark for September 30th.

ANNUAL INVESTMENT REPORT
Portfolio Summary By Broker/Dealer

Dealers/Brokers	Dec. 31, 2016	Mar. 31, 2017	June 30, 2017	Sept. 30, 2017
Broker/Dealer				
Coastal Securities	\$ 3,450,000	\$ 5,950,000	\$ 6,450,000	\$ 6,450,000
Mutual Securities	2,300,000	2,300,000	2,300,000	1,300,000
SAMCO Capital Markets	5,775,000	6,842,000	6,842,000	7,492,000
Total Broker/Dealer	\$ 11,525,000	\$ 15,092,000	\$ 15,592,000	\$ 15,242,000
Managed Pools/ Depository Bank				
TexStar	\$ 5,929,213	\$ 5,937,636	\$ 4,698,068	\$ 3,708,072
Money Market	2,560,606	288,705	288,957	289,209
NorthStar Bank	7,084,881	7,275,886	6,264,088	9,043,310
Total Managed Pools/Depository Bank	\$ 15,574,700	\$ 13,502,227	\$ 11,251,113	\$ 13,040,591
Total Par Value:	\$ 27,099,700	\$ 28,594,227	\$ 26,843,113	\$ 28,282,591

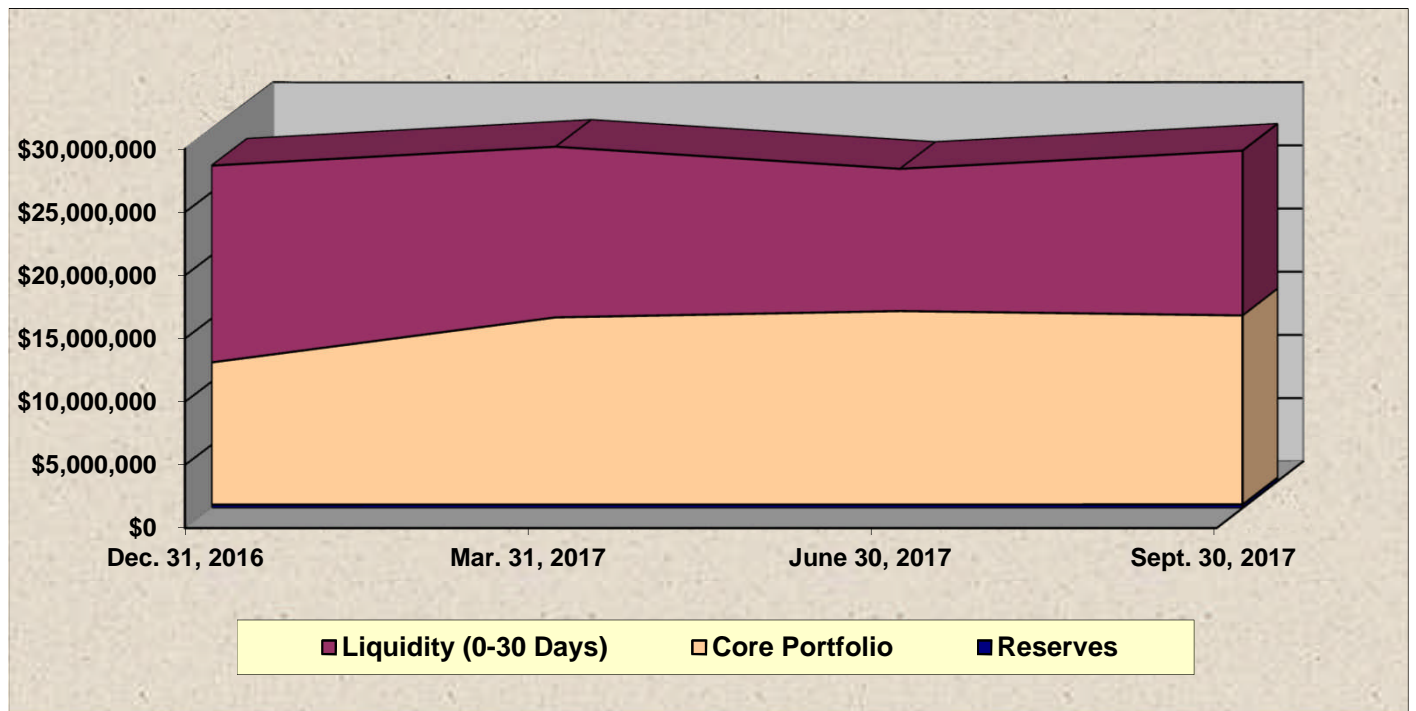


To guard against default possibilities, and to promote diversification of bidders, business with any one issuer, or investment broker, is limited to forty (40%) percent of the total portfolio at any point in time. As shown in the table below, the portfolio adhered to this provision throughout the quarter.

Performance Indicators	Policy Benchmark	Dec. 31, 2016	Mar. 31, 2017	June 30, 2017	Sept. 30, 2017
Highest Broker Percent ≤	40.00%	21.31%	23.93%	25.49%	26.49%

ANNUAL INVESTMENT REPORT
Portfolio Summary By Maturity

Maturity Time Frame	Dec. 31, 2016	Mar. 31, 2017	June 30, 2017	Sept. 30, 2017
0-30 Days	\$ 15,574,700	\$ 13,502,227	\$ 11,251,114	\$ 13,040,591
31-90 Days	250,000	-	1,000,000	3,300,000
91-180 Days	-	-	3,300,000	2,005,000
181-270 Days	-	1,300,000	2,675,000	170,000
271-360 Days	1,300,000	5,675,000	-	1,500,000
361-450 Days	4,005,000	-	1,000,000	2,047,000
451-540 Days	-	1,000,000	2,047,000	4,720,000
541 Days & Over	5,970,000	7,117,000	5,570,000	1,500,000
	\$ 27,099,700	\$ 28,594,227	\$ 26,843,114	\$ 28,282,591



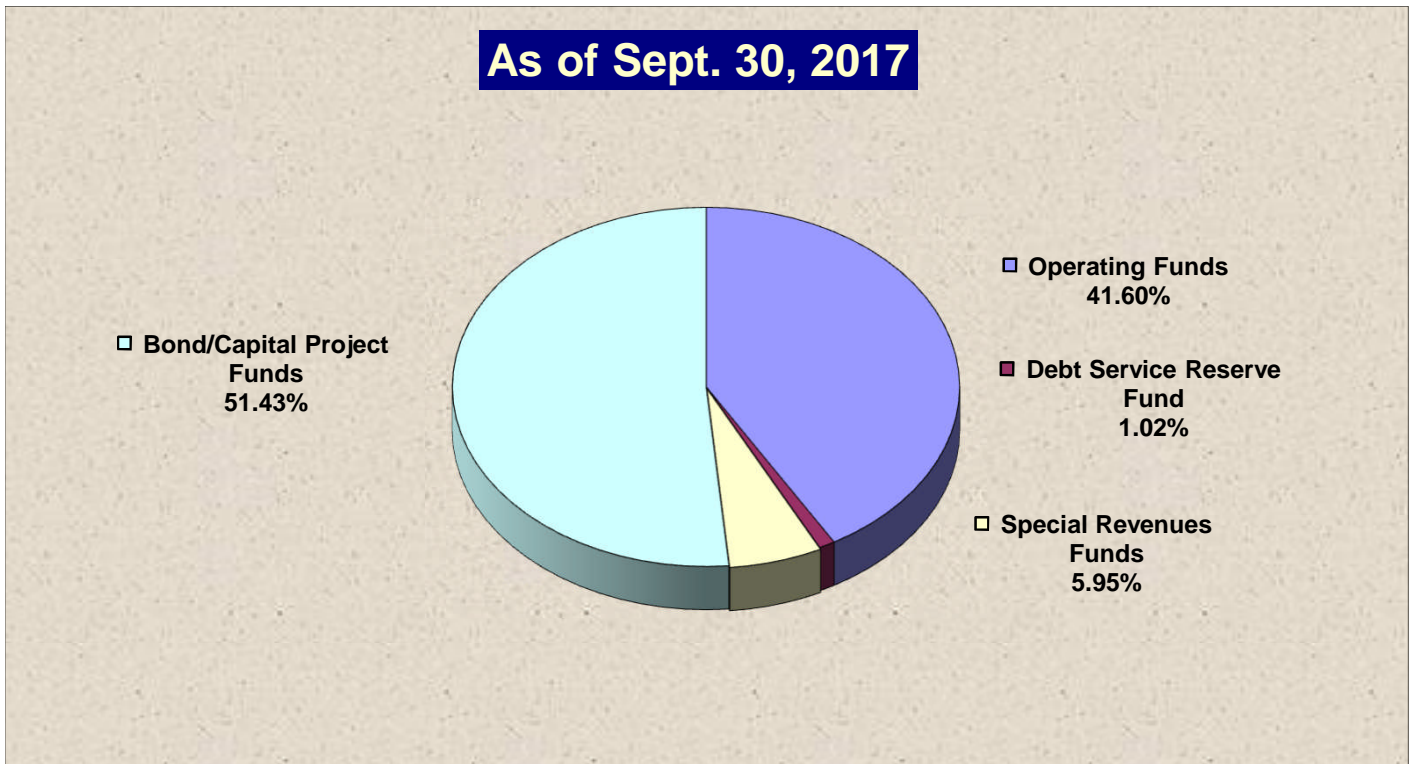
The risk of market price volatility is minimized through maturity diversification. The maturities on our investments are staggered over a series of three-month increments to provide cash flow based on the anticipated needs of the City. Liquidity is achieved by matching investment maturities with forecasted cash flow requirements and by investing in securities with active secondary markets. Short-term investment pools and money market funds provide daily liquidity and are utilized as a competitive yield alternative to fixed maturity investments.

Performance Indicators	Policy Benchmark	Dec. 31, 2016	Mar. 31, 2017	June 30, 2017	Sept. 30, 2017
Weighted Avg. Maturity ≤	365 Days	226	252	234	191
Maturities ≤30 days ≥	5.00%	57.47%	47.22%	41.91%	46.11%

Note: The portfolio is within the benchmark limits for the Weighted Average Maturity and liquidity is at 46% at the end of the fiscal year.

ANNUAL INVESTMENT REPORT
Portfolio Summary By Fund Type

Fund Type	Dec. 31, 2016	Mar. 31, 2017	June 30, 2017	Sept. 30, 2017
Operating Funds	\$ 14,001,514	\$ 16,576,329	\$ 15,816,301	\$ 11,766,287
Debt Service Reserve Fund	274,481	288,705	288,957	289,209
Special Revenues Funds	138,596	-	-	1,682,037
Bond/Capital Project Funds	12,685,109	11,729,193	10,737,856	14,545,058
	<u>\$ 27,099,700</u>	<u>\$ 28,594,227</u>	<u>\$ 26,843,114</u>	<u>\$ 28,282,591</u>



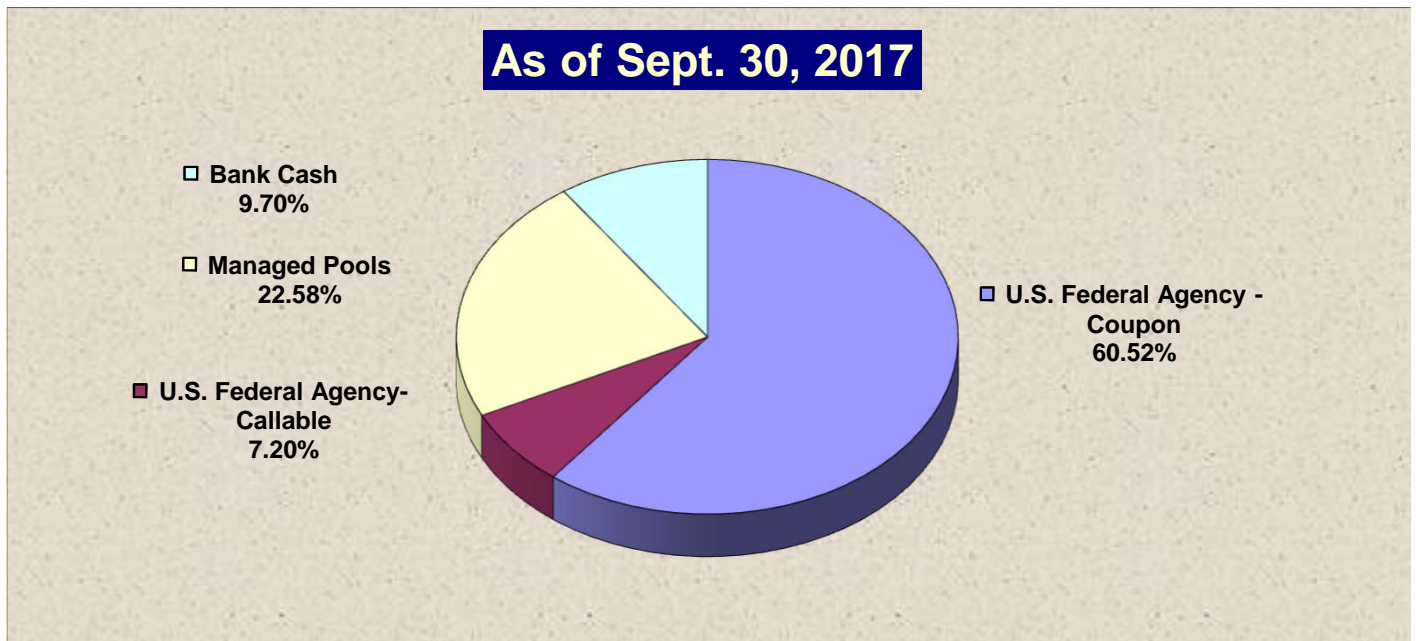
As shown in the graph above, the investments in the portfolio are distributed by fund type. Preservation and safety of principal of these investments is the most important strategy. All investments shall be high quality securities with no perceived default risk. Market fluctuations will occur; however, by managing the weighted-average days to maturity (WAM) for each fund type, losses are minimized.

Performance Indicators	Policy	Dec. 31, 2016	Mar. 31, 2017	June 30, 2017	Sept. 30, 2017
	Benchmark				
WAM by Fund ≤					
Operating Funds	270 Days	179	239	217	176
Debt Service Reserve Funds	365 Days	1	1	1	1
Special Revenue Funds	270 Days	1	0	0	159
Bond Funds	365 Days	286	276	267	219

Note: The Weighted Average Maturity for all Funds are below the policy benchmark as of September 30, 2017.

ANNUAL INVESTMENT REPORT
Economic Development Corporation

Market Sector	Dec. 31, 2016	Mar. 31, 2017	June 30, 2017	Sept. 30, 2017
U.S. Federal Agency -Coupon	\$ 1,765,000	\$ 1,765,000	\$ 1,480,000	\$ 2,100,000
U.S. Federal Agency-Callable	750,000	750,000	750,000	250,000
Managed Pools	354,785	355,328	781,515	783,477
Bank Cash	189,436	296,220	286,473	336,545
Total Par Value:	\$ 3,059,221	\$ 3,166,548	\$ 3,297,988	\$ 3,470,022



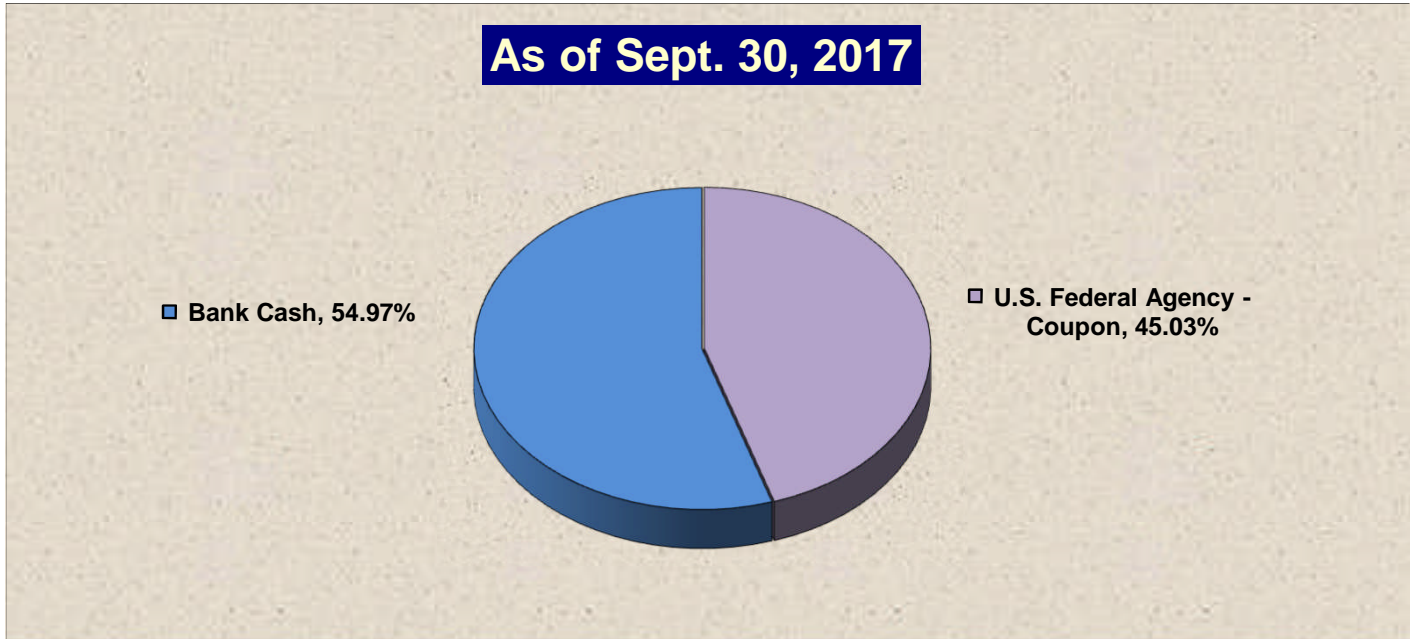
The portfolio is restricted to U.S. Treasuries, U.S. Agencies, bonds issued by Texas public entities and rated AA or better, fully insured/collateralized certificates of deposit, and fully collateralized repurchase agreements. The investments are diversified by security type to protect interest income from the volatility of interest rates and to protect the portfolio from the risk of principal loss in any one market.

Performance Indicators	Policy Benchmark	Dec. 31, 2016	Mar. 31, 2017	June 30, 2017	Sept. 30, 2017
Average Yield to Maturity		0.889%	0.893%	1.001%	1.094%
≥ Policy Benchmark-(Six Month T-Bill)		0.625%	0.875%	1.047%	1.160%
Callable Securities ≤	30.00%	24.52%	23.69%	22.74%	7.20%
Investment By Type ≤					
U.S. Treasuries	100.00%	0.00%	0.00%	0.00%	0.00%
U.S. Agencies	100.00%	82.21%	79.42%	67.61%	67.72%
Managed Pools	100.00%	11.60%	11.22%	23.70%	22.58%
Money Market	100.00%	0.00%	0.00%	0.00%	0.00%
Cash	100.00%	6.19%	9.35%	8.69%	9.70%
Weighted Avg. Maturity ≤	270 Days	301	220	214	230
Maturities ≤30 days ≥	5.00%	17.79%	20.58%	32.38%	32.28%

Note: The portfolio exceeds the policy benchmark for the Average Yield to Maturity for all four quarters of the fiscal year. The liquidity for the portfolio is 32% at the end of the fiscal year.

ANNUAL INVESTMENT REPORT
Street Maintenance Sales Tax

Market Sector	Dec. 31, 2016	Mar. 31, 2017	June 30, 2017	Sept. 30, 2017
U.S. Federal Agency -Coupon	\$ 200,000	\$ 200,000	\$ 400,000	\$ 400,000
Money Market	225,920	-	-	-
Bank Cash	267,430	599,681	483,682	488,347
Total Par Value:	<u>\$ 693,350</u>	<u>\$ 799,681</u>	<u>\$ 883,682</u>	<u>\$ 888,347</u>



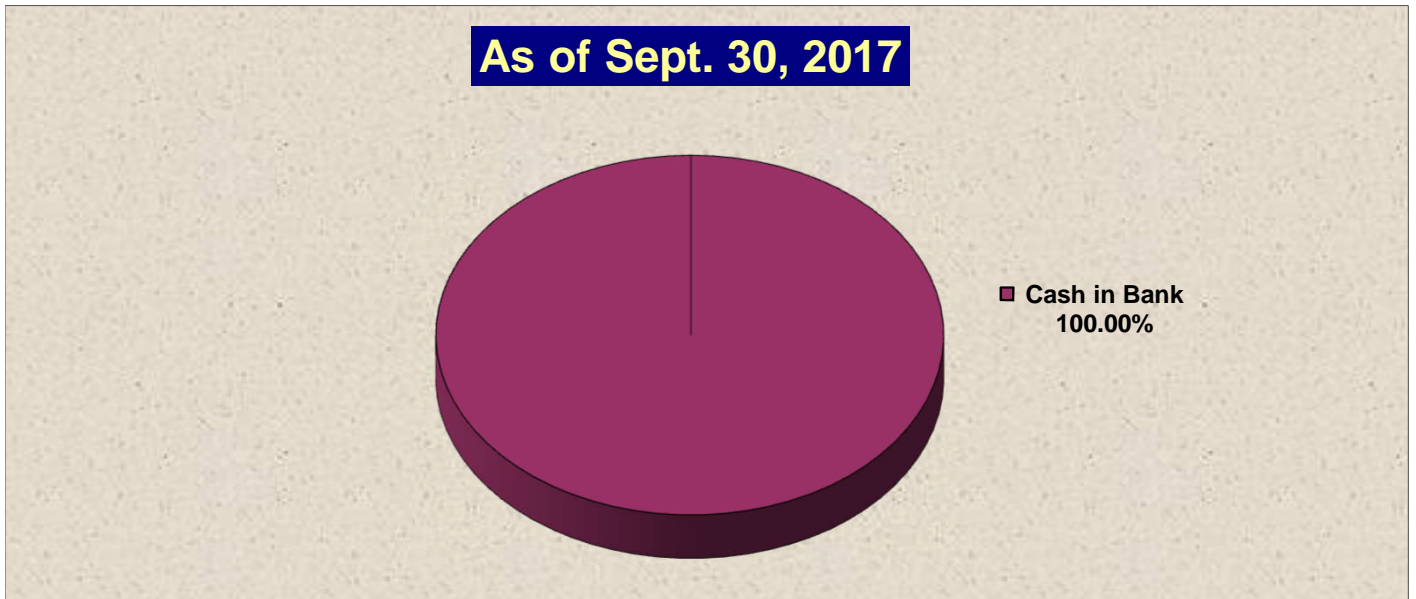
The portfolio is restricted to U.S. Treasuries, U.S. Agencies, bonds issued by Texas public entities and rated AA or better, fully insured/collateralized certificates of deposit, and fully collateralized repurchase agreements. The investments are diversified by security type to protect interest income from the volatility of interest rates and to protect the portfolio from the risk of principal loss in any one market.

Performance Indicators	Policy Benchmark	Dec. 31, 2016	Mar. 31, 2017	June 30, 2017	Sept. 30, 2017
Average Yield to Maturity		0.551%	0.679%	0.949%	1.060%
≥ Policy Benchmark-(Six Month T-Bill)		0.625%	0.875%	1.047%	1.160%
Callable Securities ≤	30.00%	0.00%	0.00%	0.00%	0.00%
Investment By Type ≤					
U.S. Treasuries	100.00%	0.00%	0.00%	0.00%	0.00%
U.S. Agencies	100.00%	28.85%	25.01%	45.27%	45.03%
Managed Pools	100.00%	0.00%	0.00%	0.00%	0.00%
Money Market	100.00%	32.58%	0.00%	0.00%	0.00%
Cash	100.00%	38.57%	74.99%	54.73%	54.97%
Weighted Avg. Maturity ≤	270 Days	110	73	194	151
Maturities ≤30 days ≥	5.00%	71.15%	74.99%	54.73%	54.97%

Note: The portfolio is within the policy benchmark for the Average Yield to Maturity for the fiscal year. The liquidity for the portfolio is 55% at the end of the fiscal year.

ANNUAL INVESTMENT REPORT
Crime Control & Prevention District

Market Sector	Dec. 31, 2016	Mar. 31, 2017	June 30, 2017	Sept. 30, 2017
U.S. Federal Agency -Coupon Cash in Bank	\$ - 233,323	\$ - 218,735	\$ - 251,742	\$ - 299,739
Total Par Value:	\$ 233,323	\$ 218,735	\$ 251,742	\$ 299,739



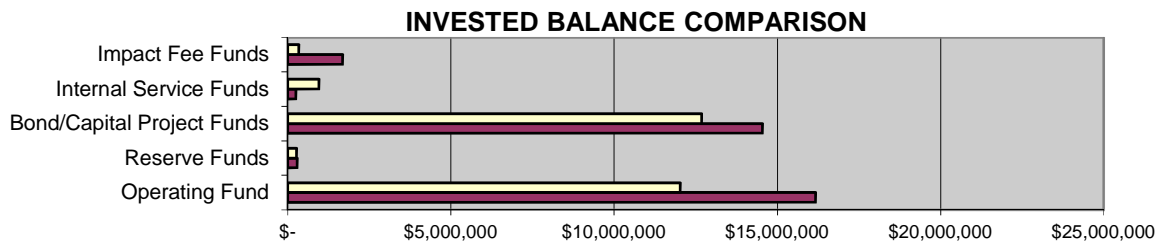
The portfolio is restricted to U.S. Treasuries, U.S. Agencies, bonds issued by Texas public entities and rated AA or better, fully insured/collateralized certificates of deposit, and fully collateralized repurchase agreements. The investments are diversified by security type to protect interest income from the volatility of interest rates and to protect the portfolio from the risk of principal loss in any one market.

Performance Indicators	Policy Benchmark	Dec. 31, 2016	Mar. 31, 2017	June 30, 2017	Sept. 30, 2017
Average Yield to Maturity		0.510%	0.665%	0.890%	1.093%
≥ Policy Benchmark-(Six Month T-Bill)		0.625%	0.875%	1.047%	1.160%
Callable Securities ≤	30.00%	0.00%	0.00%	0.00%	0.00%
Investment By Type ≤					
U.S. Treasuries	100.00%	0.00%	0.00%	0.00%	0.00%
U.S. Agencies	100.00%	0.00%	0.00%	0.00%	0.00%
Managed Pools	100.00%	0.00%	0.00%	0.00%	0.00%
Cash	100.00%	100.00%	100.00%	100.00%	100.00%
Weighted Avg. Maturity ≤	270 Days	1	1	1	1

Note: Due to liquidity needs, the fund balance is not invested. All funds are held in the bank account.

CITY OF CORINTH
INVESTED BALANCE COMPARISON
(For Periods Ending September 30)

Fund Name	Actual 2016-17	Actual 2015-16	Variance
OPERATING FUNDS			
100 General Fund	\$ 4,922,000	\$ 2,978,413	\$ 1,943,587
110 Water/Sewer Operations	1,811,724	1,684,515	127,209
120 Storm Water Utility Fund	800,839	698,732	102,107
130 Economic Development Corporation	3,470,022	3,113,689	356,333
131 Crime Control & Prevention District	299,739	173,691	126,048
132 Street Maintenance Sales Tax	888,347	626,989	261,358
Independent Bank Cash	3,981,724	2,751,925	1,229,799
	<u>\$ 16,174,396</u>	<u>\$ 12,027,954</u>	<u>\$ 4,146,442</u>
RESERVE FUNDS			
200 Debt Service	\$ 289,209	\$ 274,178	\$ 15,032
	<u>\$ 289,209</u>	<u>\$ 274,178</u>	<u>\$ 15,032</u>
BOND / CAPITAL PROJECTS FUNDS			
193 General Fund Capital Expenditure Fund	\$ 1,455,000	\$ 1,777,420	\$ (322,420)
194 Utility Capital Expenditure Fund	-	339,612	(339,612)
706 GF Capital Projects - 2016 C.O.	7,539,655	10,561,519	(3,021,863)
709 GF Capital Projects - 2017 C.O.	2,000,853	-	2,000,853
Independent Bank Cash	3,549,549	-	3,549,549
	<u>\$ 14,545,058</u>	<u>\$ 12,678,551</u>	<u>\$ 1,866,507</u>
INTERNAL SERVICE FUNDS			
300 General Fund Vehicle Replacement	-	-	-
301 Fire Vehicle Replacement	-	75,652	(75,652)
302 Technology Replacement	-	-	-
310 Utility Vehicle Replacement	250,000	100,595	149,405
311 Utility Meter Replacement	-	776,350	(776,350)
	<u>\$ 250,000</u>	<u>\$ 952,597</u>	<u>\$ (702,597)</u>
IMPACT FEE FUNDS			
610 Water/Sewer Impact Fees	170,000	100,000	70,000
611 Wastewater Impact Fees	-	100,000	(100,000)
620 Storm Drainage Impact Fees	-	-	-
630 Roadway Impact Fees	-	-	-
699 Street Escrow Fund	-	138,442	(138,442)
Independent Bank Cash	1,512,037	-	1,512,037
	<u>\$ 1,682,037</u>	<u>\$ 338,442</u>	<u>\$ 1,343,595</u>
	<u><u>\$ 32,940,700</u></u>	<u><u>\$ 26,271,721</u></u>	<u><u>\$ 6,668,978</u></u>

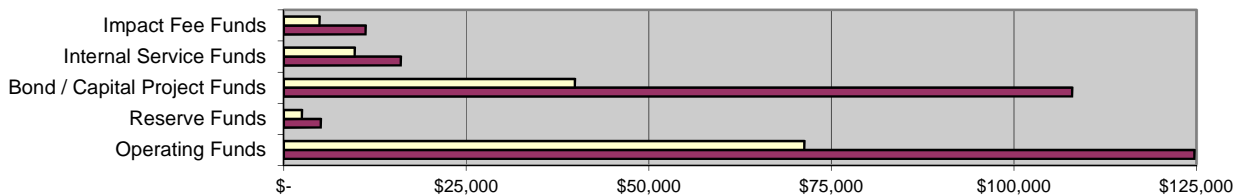


	Operating Fund	Reserve Funds	Bond/Capital Project Funds	Internal Service Funds	Impact Fee Funds
2015-16	12,027,954	274,178	12,678,551	\$952,597	\$338,442
2016-17	16,174,396	289,209	14,545,058	\$250,000	\$1,682,037

CITY OF CORINTH
INTEREST EARNINGS COMPARISON
(For Periods Ending September 30)

Fund Name	Actual 2016-17	Actual 2015-16	Variance
OPERATING FUNDS:			
100 General Fund	65,390	40,124	25,266
110 Water/Sewer Operations	14,632	7,363	7,269
120 Storm Water Utility Fund	6,400	2,720	3,680
130 Economic Development Corporation	29,498	18,128	11,370
131 Crime Control & Prevention District	2,033	689	1,344
132 Street Maintenance Sales Tax	6,788	2,302	4,486
	<u>\$ 124,741</u>	<u>\$ 71,326</u>	<u>\$ 53,415</u>
RESERVE FUNDS:			
200 Debt Service	\$ 5,081	\$ 2,484	\$ 2,597
	<u>\$ 5,081</u>	<u>\$ 2,484</u>	<u>\$ 2,597</u>
BOND /CAPITAL PROJECTS FUNDS			
193 General Fund Capital Expenditure Fund	17,620	11,774	5,846
194 Utility Capital Expenditure Fund	3,468	3,040	428
703 Streets - 2007 C.O.	878	350	528
704 All Departmental - 2007 C.O.	-	14	(14)
705 Fire - 2010 C.O.	-	85	(85)
706 GF Capital Projects - 2016 C.O.	82,653	23,820	58,834
709 GF Capital Projects - 2017 C.O.	3,376	-	3,376
800 Water - 2007 C.O.	-	56	(56)
801 Wastewater - 2007 C.O.	-	51	(51)
802 Drainage - 2007 C.O.	-	702	(702)
	<u>\$ 107,995</u>	<u>\$ 39,892</u>	<u>\$ 68,103</u>
INTERNAL SERVICE FUNDS			
300 General Fund Vehicle Replacement	944	189	756
301 Fire Vehicle Replacement	2,863	559	2,304
302 Technology Replacement	306	113	193
310 Utility Vehicle Replacement	3,965	1,962	2,003
311 Utility Meter Replacement	7,970	6,902	1,068
	<u>\$ 16,048</u>	<u>\$ 9,725</u>	<u>\$ 6,324</u>
IMPACT FEE FUNDS			
610 Water/Sewer Impact Fees	3,571	1,702	1,869
611 Wastewater Impact Fees	2,920	1,470	1,450
620 Storm Drainage Impact Fees	766	340	426
630 Roadway Impact Fees	2,762	935	1,826
630 Street Escrow	1,205	453	752
	<u>\$ 11,223</u>	<u>\$ 4,900</u>	<u>\$ 6,323</u>
	<u><u>\$ 265,088</u></u>	<u><u>\$ 128,327</u></u>	<u><u>\$ 136,761</u></u>

INTEREST EARNINGS COMPARISON



	Operating Funds	Reserve Funds	Bond / Capital Project Funds	Internal Service Funds	Impact Fee Funds
2015-16	\$71,326	\$2,484	\$39,892	\$9,725	\$4,900
2016-17	\$124,741	\$5,081	\$107,995	\$16,048	\$11,223

City of Corinth, Texas

ANNUAL INVESTMENT REPORT

For Fiscal Year Ended September 30, 2017



APPENDIX A

**Investment Report
For Month Ending September 30, 2017**



City of Corinth portfolio
Texas Compliance Change in Val Report
Sorted by Fund
October 1, 2016 - September 30, 2017

City of Corinth
 3300 Corinth Parkway
 Corinth, TX 76208
 -9404983200

Inv #	Issuer	Fund	Purch Date	Interest Accrual	Beginning Book Value				Ending Book Value
Cusip	Par Value	YTM	Mat Date	Interest Received	Beginning Market Value	Purchases/ Additions	Redemptions	Change in Value	Ending Market Value
Fund: Pooled Cash									
10012	NTHSTR	00	10/01/2016	49,334.08	4,418,517.05	10,399,033.09	5,774,240.10	4,624,792.99	9,043,310.04
SYS10012	9,043,310.04	1.092	/ /	0.00	4,418,517.05	10,399,033.09	5,774,240.10	4,624,792.99	9,043,310.04
Sub Totals For: Fund: Pooled Cash				49,334.08	4,418,517.05	10,399,033.09	5,774,240.10	4,624,792.99	9,043,310.04
				0.00	4,418,517.05	10,399,033.09	5,774,240.10	4,624,792.99	9,043,310.04
Fund: Pooled Cash- Crime C									
10323	NTHSTR	00A	10/01/2016	1,733.77	202,786.16	143,859.67	46,906.54	96,953.13	299,739.29
SYS10322	299,739.29	1.092	/ /	0.00	202,786.16	143,859.67	46,906.54	96,953.13	299,739.29
Sub Totals For: Fund: Pooled Cash- Crime C				1,733.77	202,786.16	143,859.67	46,906.54	96,953.13	299,739.29
				0.00	202,786.16	143,859.67	46,906.54	96,953.13	299,739.29
Fund: Pooled Cash-Eco Dev									
10021	NTHSTR	00B	10/01/2016	1,360.17	194,258.06	361,056.15	218,768.83	142,287.32	336,545.38
SYS10021	336,545.38	0.890	/ /	0.00	194,258.06	361,056.15	218,768.83	142,287.32	336,545.38
Sub Totals For: Fund: Pooled Cash-Eco Dev				1,360.17	194,258.06	361,056.15	218,768.83	142,287.32	336,545.38
				0.00	194,258.06	361,056.15	218,768.83	142,287.32	336,545.38
Fund: Pooled Cash - Street									
10401	NTHSTR	00C	10/01/2016	3,038.14	213,122.43	507,488.81	232,264.54	275,224.27	488,346.70
SYS10042	488,346.70	1.092	/ /	0.00	213,122.43	507,488.81	232,264.54	275,224.27	488,346.70
Sub Totals For: Fund: Pooled Cash - Street				3,038.14	213,122.43	507,488.81	232,264.54	275,224.27	488,346.70
				0.00	213,122.43	507,488.81	232,264.54	275,224.27	488,346.70

Fund: General Fund

Portfolio CITY

City of Corinth portfolio
Texas Compliance Change in Val Report
October 1, 2016 - September 30, 2017

Inv #	Issuer	Fund	Purch Date	Interest Accrual	Beginning Book Value				Ending Book Value
Cusip	Par Value	YTM	Mat Date	Interest Received	Beginning Market Value	Purchases/ Additions	Redemptions	Change in Value	Ending Market Value
10553	FHLMC	100	06/28/2016	5,977.77	1,000,000.00	0.00	1,000,000.00	-1,000,000.00	0.00
3134G9WU7	0.00	0.000	12/28/2017	8,044.44	999,700.00	0.00	1,000,000.00	-999,700.00	0.00
10580	FHLMC	100	06/30/2017	556.11	0.00	275,000.00	0.00	275,012.22	275,012.22
3134G9WU7	275,000.00	0.799	12/28/2017	0.00	0.00	275,000.00	0.00	274,819.72	274,819.72
10590	FNMA	100	09/30/2017	5.00	0.00	149,621.19	0.00	149,791.94	149,791.94
3136G3AG0	150,000.00	1.381	02/26/2019	0.00	0.00	149,621.19	0.00	149,315.00	149,315.00
10592	FFCB	100	09/30/2017	19.10	0.00	500,000.00	0.00	500,343.75	500,343.75
3133EHYJ6	500,000.00	1.374	09/12/2019	0.00	0.00	500,000.00	0.00	498,643.75	498,643.75
10140	TXSTAR	100	10/01/2016	0.00	0.00	0.00	0.00	0.00	0.00
SYS10140	0.00	0.366	/ /	0.00	0.00	0.00	0.00	0.00	0.00
10327	NTHSTR	100	10/01/2016	204.41	328,412.58	80,176.46	408,589.04	-328,412.58	0.00
SYS10327	0.00	0.450	/ /	176.46	328,412.58	80,176.46	408,589.04	-328,412.58	0.00
10495	FHLB	100	01/07/2014	1,510.42	999,651.51	0.00	1,000,000.00	-999,651.51	0.00
3130A0C65	0.00	0.000	12/28/2016	3,125.00	1,000,700.00	0.00	1,000,000.00	-1,000,700.00	0.00
10523	FHLB	100	01/02/2015	5,220.83	500,000.00	0.00	500,000.00	-500,000.00	0.00
3130A3Q80	0.00	0.000	09/29/2017	5,250.00	500,200.00	0.00	500,000.00	-500,200.00	0.00
10574	FNMA	100	03/20/2017	974.90	0.00	146,942.67	0.00	146,960.92	146,960.92
3136G2H91	147,000.00	1.273	11/20/2018	306.25	0.00	146,942.67	0.00	146,661.90	146,661.90
10563	FHLB	100	12/19/2016	4,504.17	0.00	498,590.00	0.00	499,159.66	499,159.66
313382CU5	500,000.00	1.297	11/27/2018	2,523.61	0.00	498,590.00	0.00	498,150.00	498,150.00
10565	FHLB	100	12/20/2016	4,090.11	0.00	400,100.00	0.00	400,060.64	400,060.64
3130AAHG6	400,000.00	1.297	12/14/2018	2,532.67	0.00	400,100.00	0.00	399,440.00	399,440.00
10564	FFCB	100	12/20/2016	9,756.94	0.00	1,000,000.00	0.00	1,000,000.00	1,000,000.00
3133EGW35	1,000,000.00	1.250	12/20/2018	6,250.00	0.00	1,000,000.00	0.00	996,000.00	996,000.00

City of Corinth portfolio
Texas Compliance Change in Val Report
October 1, 2016 - September 30, 2017

Inv #	Issuer	Fund	Purch Date	Interest Accrual	Beginning Book Value				Ending Book Value
Cusip	Par Value	YTM	Mat Date	Interest Received	Beginning Market Value	Purchases/ Additions	Redemptions	Change in Value	Ending Market Value
10556	FNMA	100	08/05/2016	1,605.00	150,987.29	0.00	0.00	-537.64	150,449.65
3136G16Y0	150,000.00	0.824	12/26/2018	1,431.12	150,638.88	0.00	0.00	-1,343.88	149,295.00
10567	FFCB	100	01/03/2017	4,764.44	0.00	499,850.00	0.00	499,905.83	499,905.83
3133EG2S3	500,000.00	1.295	01/03/2019	3,200.00	0.00	499,850.00	0.00	498,750.00	498,750.00
10569	FHLB	100	01/17/2017	4,409.72	0.00	500,000.00	0.00	500,000.00	500,000.00
3130AAMC9	500,000.00	1.250	01/17/2019	3,125.00	0.00	500,000.00	0.00	498,850.00	498,850.00
10570	FFCB	100	02/01/2017	4,333.33	0.00	500,000.00	0.00	500,000.00	500,000.00
3133EG5Q4	500,000.00	1.300	02/01/2019	3,250.00	0.00	500,000.00	0.00	498,750.00	498,750.00
10572	FHLMC	100	02/14/2017	2,128.13	0.00	300,000.00	0.00	300,000.00	300,000.00
3134GAX90	300,000.00	1.125	02/14/2020	1,687.50	0.00	300,000.00	0.00	299,880.00	299,880.00
Sub Totals For: Fund: General Fund				50,060.38	2,979,051.38	4,850,280.32	2,908,589.04	1,942,633.23	4,921,684.61
				40,902.05	2,979,651.46	4,850,280.32	2,908,589.04	1,928,903.91	4,908,555.37
Fund: Utility Fund									
10527	FHLB	110	09/30/2015	192.29	149,992.75	0.00	150,000.00	-149,992.75	0.00
3130A3PC2	0.00	0.000	12/12/2016	487.50	149,955.00	0.00	150,000.00	-149,955.00	0.00
10533	FFCB	110	01/27/2016	2,625.00	300,000.00	0.00	0.00	0.00	300,000.00
3133EFWC7	300,000.00	0.875	11/27/2017	2,625.00	300,240.00	0.00	0.00	-390.00	299,850.00
10581	FHLMC	110	06/30/2017	758.33	0.00	375,000.00	0.00	375,016.67	375,016.67
3134G9WU7	375,000.00	0.799	12/28/2017	0.00	0.00	375,000.00	0.00	374,754.17	374,754.17
10557	FNMA	110	08/05/2016	2,889.00	271,777.13	0.00	0.00	-967.76	270,809.37
3136G16Y0	270,000.00	0.824	12/26/2018	2,576.02	271,149.98	0.00	0.00	-2,418.98	268,731.00
10211	TXSTAR	110	10/01/2016	4,623.74	612,405.98	4,318.36	0.00	4,318.36	616,724.34
SYS10211	616,724.34	1.038	/ /	4,318.36	612,405.98	4,318.36	0.00	4,318.36	616,724.34
10358	NTHSTR	110	10/01/2016	1,023.85	352,109.43	266,037.68	618,147.11	-352,109.43	0.00
SYS10358	0.00	0.450	/ /	1,037.68	352,109.43	266,037.68	618,147.11	-352,109.43	0.00

City of Corinth portfolio
Texas Compliance Change in Val Report
October 1, 2016 - September 30, 2017

Inv #	Issuer	Fund	Purch Date	Interest Accrual	Beginning Book Value				Ending Book Value
Cusip	Par Value	YTM	Mat Date	Interest Received	Beginning Market Value	Purchases/ Additions	Redemptions	Change in Value	Ending Market Value
10018	TXPOOL	110	10/01/2016	0.00	0.00	0.00	0.00	0.00	0.00
SYS10018	0.00	5.271	/ /	0.00	0.00	0.00	0.00	0.00	0.00
10023	FEDER	110	10/01/2016	0.00	0.00	0.00	0.00	0.00	0.00
SYS10023	0.00	5.190	/ /	0.00	0.00	0.00	0.00	0.00	0.00
10588	FHLB	110	09/01/2017	416.67	0.00	252,000.00	0.00	251,839.14	251,839.14
313375K48	250,000.00	2.153	09/14/2018	180.56	0.00	252,000.00	0.00	251,500.00	251,500.00
Sub Totals For: Fund: Utility Fund				12,528.88	1,686,285.29	897,356.04	768,147.11	128,104.23	1,814,389.52
				11,225.12	1,685,860.39	897,356.04	768,147.11	125,699.12	1,811,559.51
Fund: Drainage Fund									
10528	FHLB	120	09/30/2015	192.29	149,992.75	0.00	150,000.00	-149,992.75	0.00
3130A3PC2	0.00	0.000	12/12/2016	487.50	149,955.00	0.00	150,000.00	-149,955.00	0.00
10582	FHLMC	120	06/30/2017	707.77	0.00	350,000.00	0.00	350,015.56	350,015.56
3134G9WU7	350,000.00	0.799	12/28/2017	0.00	0.00	350,000.00	0.00	349,770.56	349,770.56
10558	FNMA	120	08/05/2016	1,605.00	150,987.29	0.00	0.00	-537.64	150,449.65
3136G16Y0	150,000.00	0.824	12/26/2018	1,431.12	150,638.88	0.00	0.00	-1,343.88	149,295.00
10302	TXSTAR	120	10/01/2016	2,255.47	298,732.47	2,106.51	0.00	2,106.51	300,838.98
SYS10302	300,838.98	1.038	/ /	2,106.51	298,732.47	2,106.51	0.00	2,106.51	300,838.98
10332	NTHSTR	120	10/01/2016	183.89	100,000.00	184.93	100,184.93	-100,000.00	0.00
SYS10332	0.00	0.450	/ /	184.93	100,000.00	184.93	100,184.93	-100,000.00	0.00
Sub Totals For: Fund: Drainage Fund				4,944.42	699,712.51	352,291.44	250,184.93	101,591.68	801,304.19
				4,210.06	699,326.35	352,291.44	250,184.93	100,578.19	799,904.54
Fund: Economic Development									
10593	FAMC	130	09/30/2017	12.50	0.00	500,000.00	0.00	500,737.50	500,737.50
3132X0NNS6	500,000.00	0.898	02/01/2018	0.00	0.00	500,000.00	0.00	500,137.50	500,137.50

City of Corinth portfolio
Texas Compliance Change in Val Report
October 1, 2016 - September 30, 2017

Inv #	Issuer	Fund	Purch Date	Interest Accrual	Beginning Book Value				Ending Book Value
Cusip	Par Value	YTM	Mat Date	Interest Received	Beginning Market Value	Purchases/ Additions	Redemptions	Change in Value	Ending Market Value
10566	FHLB	130	12/20/2016	3,578.85	0.00	350,087.50	0.00	350,053.06	350,053.06
3130AAHG6	350,000.00	1.297	12/14/2018	2,216.08	0.00	350,087.50	0.00	349,510.00	349,510.00
10007	TXPOOL	130	10/01/2016	5,018.08	953,467.85	429,684.99	599,676.04	-169,991.05	783,476.80
SYS10007	783,476.80	1.015	/ /	4,684.99	953,467.85	429,684.99	599,676.04	-169,991.05	783,476.80
10379	NTHSTR	130	10/01/2016	0.00	0.00	0.00	0.00	0.00	0.00
SYS10379	0.00	0.250	/ /	0.00	0.00	0.00	0.00	0.00	0.00
10542	FAMC	130	03/08/2016	16,489.69	598,411.44	0.00	585,000.00	-598,411.44	0.00
30769QAA8	0.00	0.000	04/19/2017	29,981.26	599,157.00	0.00	585,000.00	-599,157.00	0.00
10541	FHLMC	130	02/25/2016	3,600.00	500,000.00	0.00	500,000.00	-500,000.00	0.00
3134G8L49	0.00	0.000	08/25/2017	4,000.00	499,200.00	0.00	500,000.00	-499,200.00	0.00
10543	FHLB	130	03/11/2016	5,275.67	381,802.31	0.00	380,000.00	-381,802.31	0.00
313378PK1	0.00	0.000	09/28/2017	5,320.00	382,090.00	0.00	380,000.00	-382,090.00	0.00
10534	FFCB	130	01/27/2016	3,937.50	450,000.00	0.00	0.00	0.00	450,000.00
3133EFWC7	450,000.00	0.875	11/27/2017	3,937.50	450,360.00	0.00	0.00	-585.00	449,775.00
10583	FHLB	130	08/15/2017	734.73	0.00	499,125.00	0.00	500,312.54	500,312.54
313381EC5	500,000.00	1.285	12/06/2018	0.00	0.00	499,125.00	0.00	500,252.08	500,252.08
10578	FFCB	130	04/17/2017	1,804.00	0.00	300,000.00	0.00	300,000.00	300,000.00
3133EHFK4	300,000.00	1.320	04/17/2019	0.00	0.00	300,000.00	0.00	299,190.00	299,190.00
10562	FNMA	130	12/08/2016	2,584.10	0.00	248,750.00	0.00	249,125.64	249,125.64
3136G2XJ1	250,000.00	1.459	08/23/2019	2,248.96	0.00	248,750.00	0.00	248,300.00	248,300.00
Sub Totals For: Fund: Economic Development				43,035.12	2,883,681.60	2,327,647.49	2,064,676.04	250,023.94	3,133,705.54
				52,388.79	2,884,274.85	2,327,647.49	2,064,676.04	246,366.53	3,130,641.38
Fund: Street Maintenance S									
10551	FHLB	132	06/16/2016	1,440.00	200,000.00	0.00	0.00	0.00	200,000.00
3130A8HM8	200,000.00	0.720	01/16/2018	1,440.00	199,720.00	0.00	0.00	100.00	199,820.00

City of Corinth portfolio
Texas Compliance Change in Val Report
October 1, 2016 - September 30, 2017

Inv #	Issuer	Fund	Purch Date	Interest Accrual	Beginning Book Value				Ending Book Value
Cusip	Par Value	YTM	Mat Date	Interest Received	Beginning Market Value	Purchases/ Additions	Redemptions	Change in Value	Ending Market Value
10579	FFCB	132	04/17/2017	1,202.67	0.00	200,000.00	0.00	200,000.00	200,000.00
3133EHFK4	200,000.00	1.320	04/17/2019	0.00	0.00	200,000.00	0.00	199,460.00	199,460.00
10155	TXSTAR	132	10/01/2016	0.00	0.00	0.00	0.00	0.00	0.00
SYS10155	0.00	0.030	/ /	0.00	0.00	0.00	0.00	0.00	0.00
10331	NTHSTR	132	10/01/2016	414.99	225,669.59	417.34	226,086.93	-225,669.59	0.00
SYS10331	0.00	0.450	/ /	417.34	225,669.59	417.34	226,086.93	-225,669.59	0.00
Sub Totals For: Fund: Street Maintenance S				3,057.66	425,669.59	200,417.34	226,086.93	-25,669.59	400,000.00
				1,857.34	425,389.59	200,417.34	226,086.93	-26,109.59	399,280.00
Fund: General Fund Capital									
10500	FHLB	193	03/28/2014	966.15	250,000.00	0.00	250,000.00	-250,000.00	0.00
3133782N0	0.00	0.000	03/10/2017	1,093.75	250,400.00	0.00	250,000.00	-250,400.00	0.00
10589	FHLB	193	09/01/2017	416.67	0.00	252,000.00	0.00	251,839.14	251,839.14
313375K48	250,000.00	2.153	09/14/2018	180.56	0.00	252,000.00	0.00	251,500.00	251,500.00
10464	NTHSTR	193	10/01/2016	964.80	572,420.49	999.37	573,419.86	-572,420.49	0.00
SYS10464	0.00	0.450	/ /	999.37	572,420.49	999.37	573,419.86	-572,420.49	0.00
10535	FAMC	193	01/11/2016	5,596.50	455,690.22	0.00	0.00	-543.72	455,146.50
31315P5L9	455,000.00	1.108	01/08/2018	5,596.50	456,274.00	0.00	0.00	-1,319.50	454,954.50
10559	FHLMC	193	08/25/2016	5,000.00	500,000.00	0.00	0.00	0.00	500,000.00
3134G96J1	500,000.00	1.000	02/25/2019	5,000.00	499,200.00	0.00	0.00	-2,850.00	496,350.00
10576	FNMA	193	04/06/2017	2,005.20	0.00	250,000.00	0.00	250,000.00	250,000.00
3135G0S46	250,000.00	1.644	01/27/2020	1,271.87	0.00	250,000.00	0.00	249,650.00	249,650.00
Sub Totals For: Fund: General Fund Capital				14,949.32	1,778,110.71	502,999.37	823,419.86	-321,125.07	1,456,985.64
				14,142.05	1,778,294.49	502,999.37	823,419.86	-325,839.99	1,452,454.50

Fund: Water/Wastewater Cap

City of Corinth portfolio
Texas Compliance Change in Val Report
October 1, 2016 - September 30, 2017

Inv #	Issuer	Fund	Purch Date	Interest Accrual	Beginning Book Value				Ending Book Value
Cusip	Par Value	YTM	Mat Date	Interest Received	Beginning Market Value	Purchases/ Additions	Redemptions	Change in Value	Ending Market Value
10465	NTHSTR	194	10/01/2016	624.51	339,611.67	628.04	340,239.71	-339,611.67	0.00
SYS10465	0.00	0.450	/ /	628.04	339,611.67	628.04	340,239.71	-339,611.67	0.00
Sub Totals For: Fund: Water/Wastewater Cap				624.51	339,611.67	628.04	340,239.71	-339,611.67	0.00
				628.04	339,611.67	628.04	340,239.71	-339,611.67	0.00
Fund: General Debt Service									
10328	NTHSTR	200	10/01/2016	1,214.37	274,177.57	301,232.23	286,200.69	15,031.54	289,209.11
SYS10328	289,209.11	0.350	/ /	1,232.23	274,177.57	301,232.23	286,200.69	15,031.54	289,209.11
10017	TXSTAR	200	10/01/2016	0.00	0.00	0.00	0.00	0.00	0.00
SYS10017	0.00	5.288	/ /	0.00	0.00	0.00	0.00	0.00	0.00
Sub Totals For: Fund: General Debt Service				1,214.37	274,177.57	301,232.23	286,200.69	15,031.54	289,209.11
				1,232.23	274,177.57	301,232.23	286,200.69	15,031.54	289,209.11
Fund: GF Vehicle & Equip									
10462	NTHSTR	300	10/01/2016	0.00	0.00	0.00	0.00	0.00	0.00
SYS10462	0.00	0.250	/ /	0.00	0.00	0.00	0.00	0.00	0.00
Sub Totals For: Fund: GF Vehicle & Equip				0.00	0.00	0.00	0.00	0.00	0.00
				0.00	0.00	0.00	0.00	0.00	0.00
Fund: Fire Vehicle Replace									
10510	NTHSTR	301	10/01/2016	139.11	75,651.99	139.90	75,791.89	-75,651.99	0.00
SYS10510	0.00	0.450	/ /	139.90	75,651.99	139.90	75,791.89	-75,651.99	0.00
Sub Totals For: Fund: Fire Vehicle Replace				139.11	75,651.99	139.90	75,791.89	-75,651.99	0.00
				139.90	75,651.99	139.90	75,791.89	-75,651.99	0.00
Fund: Utility Vehicle & Eq									
10577	FNMA	310	04/06/2017	2,005.20	0.00	250,000.00	0.00	250,000.00	250,000.00
3135G0S46	250,000.00	1.649	01/27/2020	1,271.87	0.00	250,000.00	0.00	249,650.00	249,650.00

City of Corinth portfolio
Texas Compliance Change in Val Report
October 1, 2016 - September 30, 2017

Inv #	Issuer	Fund	Purch Date	Interest Accrual	Beginning Book Value				Ending Book Value
Cusip	Par Value	YTM	Mat Date	Interest Received	Beginning Market Value	Purchases/ Additions	Redemptions	Change in Value	Ending Market Value
10463	NTHSTR	310	10/01/2016	184.98	100,594.68	186.03	100,780.71	-100,594.68	0.00
SYS10462	0.00	0.450	/ /	186.03	100,594.68	186.03	100,780.71	-100,594.68	0.00
Sub Totals For: Fund: Utility Vehicle & Eq				2,190.18	100,594.68	250,186.03	100,780.71	149,405.32	250,000.00
				1,457.90	100,594.68	250,186.03	100,780.71	149,055.32	249,650.00
Fund: Utility Meter Replac									
10524	FHLB	311	01/02/2015	5,220.83	500,000.00	0.00	500,000.00	-500,000.00	0.00
3130A3Q80	0.00	0.000	09/29/2017	5,250.00	500,200.00	0.00	500,000.00	-500,200.00	0.00
10511	NTHSTR	311	10/01/2016	508.19	276,349.92	511.06	276,860.98	-276,349.92	0.00
SYS10511	0.00	0.450	/ /	511.06	276,349.92	511.06	276,860.98	-276,349.92	0.00
Sub Totals For: Fund: Utility Meter Replac				5,729.02	776,349.92	511.06	776,860.98	-776,349.92	0.00
				5,761.06	776,549.92	511.06	776,860.98	-776,549.92	0.00
Fund: Water Impact Fees									
10529	FHLB	610	09/30/2015	128.19	99,995.17	0.00	100,000.00	-99,995.17	0.00
3130A3PC2	0.00	0.000	12/12/2016	325.00	99,970.00	0.00	100,000.00	-99,970.00	0.00
10591	FHLB	610	09/30/2017	15.35	0.00	171,638.84	0.00	171,950.82	171,950.82
313372SN5	170,000.00	1.055	03/09/2018	0.00	0.00	171,638.84	0.00	171,801.29	171,801.29
10052	TXSTAR	610	10/01/2016	0.00	0.00	0.00	0.00	0.00	0.00
SYS10013	0.00	0.209	/ /	0.00	0.00	0.00	0.00	0.00	0.00
Sub Totals For: Fund: Water Impact Fees				143.54	99,995.17	171,638.84	100,000.00	71,955.65	171,950.82
				325.00	99,970.00	171,638.84	100,000.00	71,831.29	171,801.29
Fund: Wastewater Impact Fe									
10530	FHLB	611	09/30/2015	128.19	99,995.17	0.00	100,000.00	-99,995.17	0.00
3130A3PC2	0.00	0.000	12/12/2016	325.00	99,970.00	0.00	100,000.00	-99,970.00	0.00
10315	TXSTAR	611	10/01/2016	0.00	0.00	0.00	0.00	0.00	0.00
SYS10315	0.00	0.209	/ /	0.00	0.00	0.00	0.00	0.00	0.00

City of Corinth portfolio
Texas Compliance Change in Val Report
October 1, 2016 - September 30, 2017

Inv #	Issuer	Fund	Purch Date	Interest Accrual	Beginning Book Value				Ending Book Value
Cusip	Par Value	YTM	Mat Date	Interest Received	Beginning Market Value	Purchases/ Additions	Redemptions	Change in Value	Ending Market Value
Sub Totals For: Fund: Wastewater Impact Fe				128.19	99,995.17	0.00	100,000.00	-99,995.17	0.00
				325.00	99,970.00	0.00	100,000.00	-99,970.00	0.00
Fund: Roadway Impact Fees									
10301	TXSTAR	630	10/01/2016	0.00	0.00	0.00	0.00	0.00	0.00
SYS10301	0.00	0.209	/ /	0.00	0.00	0.00	0.00	0.00	0.00
Sub Totals For: Fund: Roadway Impact Fees				0.00	0.00	0.00	0.00	0.00	0.00
				0.00	0.00	0.00	0.00	0.00	0.00
Fund: Street Escrow									
10329	NTHSTR	699	10/01/2016	254.57	138,442.13	256.02	138,698.15	-138,442.13	0.00
SYS10329	0.00	0.450	/ /	256.02	138,442.13	256.02	138,698.15	-138,442.13	0.00
10019	TXPOOL	699	10/01/2016	0.00	0.00	0.00	0.00	0.00	0.00
SYS10019	0.00	4.928	/ /	0.00	0.00	0.00	0.00	0.00	0.00
Sub Totals For: Fund: Street Escrow				254.57	138,442.13	256.02	138,698.15	-138,442.13	0.00
				256.02	138,442.13	256.02	138,698.15	-138,442.13	0.00
Fund: Street 2007 CO									
10064	TXPOOL	703	10/01/2016	0.00	0.00	0.00	0.00	0.00	0.00
SYS10009	0.00	0.131	/ /	0.00	0.00	0.00	0.00	0.00	0.00
10138	TXSTAR	703	10/01/2016	0.00	0.00	0.00	0.00	0.00	0.00
SYS10138	0.00	0.132	/ /	0.00	0.00	0.00	0.00	0.00	0.00
10330	NTHSTR	703	10/01/2016	0.00	0.00	0.00	0.00	0.00	0.00
SYS10330	0.00	0.250	/ /	0.00	0.00	0.00	0.00	0.00	0.00
Sub Totals For: Fund: Street 2007 CO				0.00	0.00	0.00	0.00	0.00	0.00
				0.00	0.00	0.00	0.00	0.00	0.00
Fund: Tech 2007 CO									

City of Corinth portfolio
Texas Compliance Change in Val Report
October 1, 2016 - September 30, 2017

Inv #	Issuer	Fund	Purch Date	Interest Accrual	Beginning Book Value				Ending Book Value
Cusip	Par Value	YTM	Mat Date	Interest Received	Beginning Market Value	Purchases/ Additions	Redemptions	Change in Value	Ending Market Value
10380	NTHSTR	704	10/01/2016	0.00	0.00	0.00	0.00	0.00	0.00
SYS10380	0.00	0.613	/ /	0.00	0.00	0.00	0.00	0.00	0.00
10065	TXPOOL	704	10/01/2016	0.00	0.00	0.00	0.00	0.00	0.00
SYS100099	0.00	2.246	/ /	0.00	0.00	0.00	0.00	0.00	0.00
10139	TXSTAR	704	10/01/2016	0.00	0.00	0.00	0.00	0.00	0.00
SYS10139	0.00	0.145	/ /	0.00	0.00	0.00	0.00	0.00	0.00
Sub Totals For: Fund: Tech 2007 CO				0.00	0.00	0.00	0.00	0.00	0.00
				0.00	0.00	0.00	0.00	0.00	0.00
Fund: Fire 2010 CO									
10370	NTHSTR	705	10/01/2016	0.00	0.00	0.00	0.00	0.00	0.00
SYS10370	0.00	0.510	/ /	0.00	0.00	0.00	0.00	0.00	0.00
Sub Totals For: Fund: Fire 2010 CO				0.00	0.00	0.00	0.00	0.00	0.00
				0.00	0.00	0.00	0.00	0.00	0.00
Fund: 2016 CO General Capi									
10555	FHLMC	706	06/28/2016	16,000.00	2,000,000.00	0.00	0.00	0.00	2,000,000.00
3134G9WU7	2,000,000.00	0.800	12/28/2017	16,000.00	1,999,400.00	0.00	0.00	-800.00	1,998,600.00
10552	FHLB	706	06/16/2016	3,960.00	550,000.00	0.00	0.00	0.00	550,000.00
3130A8HM8	550,000.00	0.720	01/16/2018	3,960.00	549,230.00	0.00	0.00	275.00	549,505.00
10554	FHLMC	706	06/30/2016	8,000.00	1,000,000.00	0.00	0.00	0.00	1,000,000.00
3134G9G76	1,000,000.00	0.800	06/29/2018	7,977.78	997,800.00	0.00	0.00	-2,700.00	995,100.00
10560	FHLMC	706	08/25/2016	10,000.00	1,000,000.00	0.00	0.00	0.00	1,000,000.00
3134G96J1	1,000,000.00	1.000	02/25/2019	10,000.00	998,400.00	0.00	0.00	-5,700.00	992,700.00
10561	FHLB	706	08/30/2016	9,972.53	1,000,000.00	0.00	0.00	0.00	1,000,000.00
3130A8YM9	1,000,000.00	1.006	02/28/2019	9,944.44	998,700.00	0.00	0.00	-5,500.00	993,200.00

**City of Corinth portfolio
Texas Compliance Change in Val Report
October 1, 2016 - September 30, 2017**

Inv #	Issuer	Fund	Purch Date	Interest Accrual	Beginning Book Value				Ending Book Value
Cusip	Par Value	YTM	Mat Date	Interest Received	Beginning Market Value	Purchases/ Additions	Redemptions	Change in Value	Ending Market Value
10573	FHLMC	706	02/14/2017	1,418.75	0.00	200,000.00	0.00	200,000.00	200,000.00
3134GAX90	200,000.00	2.029	02/14/2020	1,125.00	0.00	200,000.00	0.00	199,920.00	199,920.00
10549	TXSTAR	706	10/01/2016	28,690.39	5,011,518.72	28,136.73	3,250,000.00	-3,221,863.27	1,789,655.45
SYS10549	1,789,655.45	1.038	/ /	28,136.73	5,011,518.72	28,136.73	3,250,000.00	-3,221,863.27	1,789,655.45
Sub Totals For: Fund: 2016 CO General Capi				78,041.67	10,561,518.72	228,136.73	3,250,000.00	-3,021,863.27	7,539,655.45
				77,143.95	10,555,048.72	228,136.73	3,250,000.00	-3,036,368.27	7,518,680.45
Fund: 2017 CO General Capi									
10585	FHLB	709	08/31/2017	729.17	0.00	999,841.78	0.00	1,001,142.75	1,001,142.75
3130AAKJ6	1,000,000.00	0.918	01/09/2018	0.00	0.00	999,841.78	0.00	1,000,863.89	1,000,863.89
10586	TXSTAR	709	09/30/2017	28.47	0.00	2,000,853.46	0.00	1,000,853.46	1,000,853.46
SYS10586	1,000,853.46	1.038	/ /	853.46	0.00	2,000,853.46	0.00	1,000,853.46	1,000,853.46
Sub Totals For: Fund: 2017 CO General Capi				757.64	0.00	3,000,695.24	0.00	2,001,996.21	2,001,996.21
				853.46	0.00	3,000,695.24	0.00	2,001,717.35	2,001,717.35
Fund: Water 2007 CO									
10066	TXPOOL	800	10/01/2016	0.00	0.00	0.00	0.00	0.00	0.00
SYS10009	0.00	0.050	/ /	0.00	0.00	0.00	0.00	0.00	0.00
10135	TXSTAR	800	10/01/2016	0.00	0.00	0.00	0.00	0.00	0.00
SYS10135	0.00	0.103	/ /	0.00	0.00	0.00	0.00	0.00	0.00
10333	NTHSTR	800	10/01/2016	0.00	0.00	0.00	0.00	0.00	0.00
SYS10333	0.00	0.250	/ /	0.00	0.00	0.00	0.00	0.00	0.00
Sub Totals For: Fund: Water 2007 CO				0.00	0.00	0.00	0.00	0.00	0.00
				0.00	0.00	0.00	0.00	0.00	0.00
Fund: Wastewater 2007 CO									
10067	TXPOOL	801	10/01/2016	0.00	0.00	0.00	0.00	0.00	0.00
SYS10009	0.00	0.035	/ /	0.00	0.00	0.00	0.00	0.00	0.00

City of Corinth portfolio
Texas Compliance Change in Val Report
October 1, 2016 - September 30, 2017

Inv #	Issuer	Fund	Purch Date	Interest Accrual	Beginning Book Value				Ending Book Value
Cusip	Par Value	YTM	Mat Date	Interest Received	Beginning Market Value	Purchases/ Additions	Redemptions	Change in Value	Ending Market Value
10136	TXSTAR	801	10/01/2016	0.00	0.00	0.00	0.00	0.00	0.00
SYS10136	0.00	0.031	/ /	0.00	0.00	0.00	0.00	0.00	0.00
10334	NTHSTR	801	10/01/2016	0.00	0.00	0.00	0.00	0.00	0.00
SYS10334	0.00	0.250	/ /	0.00	0.00	0.00	0.00	0.00	0.00
Sub Totals For: Fund: Wastewater 2007 CO				0.00	0.00	0.00	0.00	0.00	0.00
				0.00	0.00	0.00	0.00	0.00	0.00
Fund: Drainage 2007 CO									
10137	TXSTAR	802	10/01/2016	0.00	0.00	0.00	0.00	0.00	0.00
SYS10137	0.00	0.090	/ /	0.00	0.00	0.00	0.00	0.00	0.00
10458	NTHSTR	802	10/01/2016	0.00	0.00	0.00	0.00	0.00	0.00
SYS10458	0.00	0.250	/ /	0.00	0.00	0.00	0.00	0.00	0.00
10068	TXPOOL	802	10/01/2016	0.00	0.00	0.00	0.00	0.00	0.00
SYS10009	0.00	2.972	/ /	0.00	0.00	0.00	0.00	0.00	0.00
Sub Totals For: Fund: Drainage 2007 CO				0.00	0.00	0.00	0.00	0.00	0.00
				0.00	0.00	0.00	0.00	0.00	0.00
Report Grand Totals:				273,264.74	27,947,531.80	24,495,853.81	18,481,856.05	5,001,290.70	32,948,822.50
				212,847.97	27,941,497.51	24,495,853.81	18,481,856.05	4,959,897.40	32,901,394.91

City of Corinth, Texas

ANNUAL INVESTMENT REPORT

For Fiscal Year Ended September 30, 2017



APPENDIX B

First Southwest Portfolio Assessment



City of Corinth, Texas
Portfolio Exceptions
Quarter Ending September 30, 2017

Fund Groups Included: Consolidated, Operating, Eco Development, Crime Control and Street Maintenance Tax.

The following exception(s) were noted during our review of the above-captioned investment report:

The allocation to callable agencies slightly exceeded policy guidelines on the June 30 and September 30, 2017 reporting periods. *When market interest rates are moving higher, call options are typically not exercised. As long as this doesn't create a cashflow deficiency, the fractionally higher percentage of callables bonds shouldn't be an issue for the City.*

There were no other exceptions noted.

Scott D. McIntyre, CFA
Managing Director
FirstSouthwest Asset Management, LLC

11/14/17

Date



City of Corinth, Texas
Portfolio Assessment
Quarter Ending September 30, 2017

Fund Groups Included: Consolidated, Operating, Eco Development, Crime Control and Street Maintenance Tax.

- The Fed was very active during the recently completed fiscal year, raising the overnight rate target by 25 bps in December 2016, March 2017 and again in June 2017. The June increase was the fifth tightening move since the Fed began “normalizing” policy in December 2015. The significance of this action is that fixed income investors can expect to see unrealized losses, and in many cases a portfolio yield below established benchmarks. This will continue to be the case as long as the Fed is tightening policy. The shorter the weighted average maturity (WAM), the smaller the unrealized loss is likely to be. This is a long way of saying that, at 191 days the overall portfolio is well positioned to minimize unrealized losses and benefit from future rate increases.
- The City’s overall portfolio yield was 1.07% at quarter end. This is 45 basis points above the average yield at the end of the last fiscal year and essentially equal to the six-month Treasury bill yield over the previous two quarters.
- There are no apparent credit risks being assumed; no direct exposure to foreign markets; no leveraging or speculation.
- Bank deposits are adequately secured through a Federal Home Loan Bank (FHLB) standby letter of credit in the amount of \$15 million maturing 8/6/2018.
- Coastal Securities was acquired by FTN Financial meaning a change is required in approved brokers.
- Portfolio strategy and investment management are prudent.
- Investment reporting is accurate.

Scott D. McIntyre, CFA
Managing Director

Date

City of Corinth, Texas

ANNUAL INVESTMENT REPORT

For Fiscal Year Ended September 30, 2017



APPENDIX C

Glossary

Glossary

Accrued Interest - In the sale of a new issue of municipal bonds, the dollar amount, based on the stated rate or rates of interest, which has accrued on the bonds from the dated date, or other stated date, up to but not including the date of delivery. When a bond is purchased in the secondary market, the dollar amount, based upon the stated rate of interest, which has accrued on the bond from the most recent interest payment date, up to but not including the date of settlement. Accrued interest is paid to the seller by the purchaser and is usually calculated on a 360-day-year basis (assumes each month has 30 days).

Agencies – Federal agency securities.

Arbitrage – Generally, transactions by which securities are bought and sold in different markets at the same time for the sake of the profit arising from a difference in prices in the two markets. With respect to the issuance of municipal bonds, arbitrage usually refers to the difference between the interest paid on the bonds issued and the interest earned by investing the bond proceeds in other securities. Arbitrage profits are permitted on bond proceeds for various temporary periods after issuance of municipal bonds. Internal Revenue Service regulations govern arbitrage of municipal bond proceeds.

Asked – The price at which securities are offered.

Bankers' Acceptance (BA) – A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

Bearer Bond – Bond which is presumed to be owned by the person who holds it. The Tax Equity and Fiscal Responsibility Act of 1982 requires the issuance of municipal bonds in fully registered form, with minor exceptions.

Bid – The price offered by a buyer of securities. (When you are selling securities, you ask for a bid).

Book Value – The original acquisition cost of an investment plus or minus the accrued amortization or accretion.

Broker – A broker brings buyers and sellers together for a commission.

Callable Bond – a bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

Call Price – The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

Call Risk – The risk to a bondholder that a bond may be redeemed prior to maturity.

Capital Appreciation Bond – Long-term tax exempt security sold at a large discount. Yield is reinvested at a stated rate until maturity at which time the investor receives total payment. Latter represents both principal and interest.

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 pledged by a bank to secure deposits of public monies.

Commercial Paper (tax-exempt) – Short-term, unsecured promissory notes issued in either registered or bearer form, and usually backed by a line of credit with a bank. Maturities do not exceed 270 days and generally average 30 – 45 days.

Comprehensive Annual Financial Report (CAFR) – The official annual report for the City of Corinth. It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance related to legal and contractual provision, extensive introductory material, and a detailed Statistical Section.

Coupon – (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

Current Yield – The ratio of the annual dollar amount of interest to the purchase price of a bond, stated as a percentage. For example, a \$1,000 bond purchased at par with an 8% coupon pays \$80 per year, or a current yield of 8%. The same bond, if purchased at a discounted price of \$800, would have a current yield of 10%.

Dated Date – The date of a bond issue, printed on each bond, from which interest usually starts to accrue, even though the bonds may actually be delivered at some later date.

Dealer – A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

Debenture – A bond secured only by the general credit of the issuer.

Delivery Date – Date on which the bonds are physically delivered in exchange for the payment of the purchase price. The date of issuance is the same date as the delivery date.

Delivery Versus Payment – There are two 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 shortly 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 institutions and individuals, e.g., S & L's small business firms, students, farmers, farm cooperatives, and exporters.

Federal Deposit Insurance Corporation (FDIC) – A federal agency that insures bank deposits, currently up to \$100,000 per deposit.

Federal Funds Rate – The rate of interest at which federal funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

Federal Home Loan Banks (FHLB) – The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-à-vis member commercial banks.

Federal National Mortgage Association (FNMA) – FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

Federal Open Market Committee (FOMC) – Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

Federal Reserve System – The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

Fiscal Year – A twelve-month period which determines the time frame for financial reporting, budgeting, and accounting. At the end of the fiscal year, financial position and results of operations are determined.

Government National Mortgage Association (GNMA or Ginnie Mae) – Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FMHM mortgages. The term “pass throughs” is often used to describe Ginnie Maes.

Interest – Compensation for the use of borrowed money, generally expressed as an annual percentage of the principal amount.

Liquidity – Usually refers to the ability to convert assets (such as investments) into cash.

Market Value – 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.

Master Repurchase Agreement – A written contract covering all future transactions between the parties to repurchase – reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

Maturity – The date upon which the principal of a municipal bond becomes due and payable to the bondholder.

Money Market – The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

Note – A written, short-term promise of the issuer to repay a specified principal amount on a certain date, together with interest at a stated rate, or according to a formula for determining that rate, payable from a defined source of anticipated revenue. Notes usually mature in less than five years.

Offer – The price asked by a seller of securities. (When you are buying securities, you ask for an offer.)

Open Market Operations – Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves in the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

Original Issue Discount – An amount which represents the difference by which par value exceeds the public offering price of a new issue or part of an issue of municipal bonds. Original issue discount is amortized over the life of the bonds and is generally treated as tax-exempt interest. When the investor sells the bonds before maturity, any profit or loss realized on such sale is figured on the adjusted cost basis for tax purposes. The adjusted cost basis is calculated for each year the bonds are outstanding by adding the accretion value to the original offering price. The accretion value is determined by the rules and regulations of the Internal Revenue Service. Selling the bonds at a price in excess of the adjusted cost basis would result in a taxable gain for the seller, while a selling price below that level would be treated as a loss for income tax purposes.

Par Value – In the case of bonds, the amount of principal which must be paid at maturity. Par value is also referred to as the face amount of a security.

Pooled Fund Group – An internally created fund of an investing entity in which one or more institutional accounts of the investing entity are invested.

Portfolio – Collection of securities held by an investor.

Premium – The amount by which the price paid for a security exceeds par value, generally representing the difference between the nominal interest rate and the actual or effective return to the investor.

Primary Dealer – A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) – registered securities broker-dealers, banks, and a few unregulated firms.

Primary Market – The market for new issues of municipal securities.

Principal – The face amount or par value of a bond or issue of bonds payable on stated dates of maturity.

Prudent Person Rule – An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state—the so-called legal

list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

Qualified Public Depositories – A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

Qualified Representative – A Person who holds a position with a business organization, who is authorized to act on behalf of the business organization, and who is one of the following:

- (a) for a business organization doing business that is regulated by or registered with a securities commission, a person who is registered under the rules of the National Association of Securities Dealers;
- (b) for a state or federal bank, a savings bank, or a state or federal credit union, a member of the loan committee for the bank or branch of the bank or a person authorized by corporate resolution to act on behalf of and bind the banking institution; or
- (c) for an investment pool, the person authorized by the elected official or board with authority to administer the activities of the investment pool to sign the written instrument on behalf of the investment pool.

Rate of Return – The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

Ratings – Evaluations of the credit quality of notes and bonds usually made by independent rating services, although many financial institutions also rate bonds for their own purposes. Ratings generally measure the probability of the timely repayment of principal of and interest on municipal bonds. Ratings are initially made before issuance and are continuously reviewed and may be amended to reflect changes in the issuer's credit position. The information required by the rating agencies varies with each bond issue, but generally includes demographics, debt burden, economic base, finances, and management structure. The information is evaluated and the issue is assigned a letter rating which reflects the creditworthiness of the bonds. The higher the credit rating, the more favorable the effect on the marketability of the bond.

Repurchase Agreement - A simultaneous agreement to buy, hold for a specified time, and sell back at a future date obligations described by Section 2256.009(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.

Safekeeping – A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

Secondary Market – A market made for the purchase and sale of outstanding issues following the initial distribution.

Securities and Exchange Commission or SEC – The federal agency responsible for supervising and regulating the securities industry. Generally, municipal securities are exempt from the SEC's registration and reporting requirements. However, the SEC has responsibility for the approval of Municipal Securities Rulemaking Board rules, and has jurisdiction, pursuant to SEC Rule 10b-5, over fraud in the sale of municipal securities.

Security – Generally, evidence of debt or equity in a common enterprise in which a person invests in the expectation of earning income. The term includes notes, stocks, bonds, debentures, mortgages, and other forms of negotiable and non-negotiable evidences of indebtedness or ownership. Unless exempted, as are municipal bonds, securities transactions are subject to federal and state regulation.

Separately Invested Asset – An account or fund of a state agency or local government that is not invested in a pooled fund group.

Treasury Securities – Debt obligations of the United States Government sold by the Treasury Department in the forms of bills, notes, and bonds.

Bills – Short-term obligations which mature in one year or less, and are sold at a discount in lieu of paying periodic interest.

Notes – Interest bearing obligations which mature between one year and 10 years.

Bonds – Interest bearing long-term obligations which generally mature in 10 years or more.

Yield Curve – A graph which plots the yields on securities with equivalent quality but different maturities, at a given point in time. The vertical axis represents the interest rates, while the horizontal axis depicts the years to maturity. The term structure of interest rates, as reflected by the yield curve, will vary according to market conditions, resulting in a variety of yield curve configurations.

Normal or Positive Yield Curve – Indicates that short-term securities have a lower interest rate than long-term securities.

Inverted or Negative Yield Curve – Reflects the situation of short-term rates exceeding long-term rates.

Flat Yield Curve – Reflects the situation when short and long-term rates are the same.

Humpback Yield Curve – An unusual shape, indicating that rates are rising in the early years, peaking in the middle years and declining in later years.

Yield to Maturity – The rate of return to the investor earned from payments of principal and interest, with interest compounded semiannually and assuming that interest paid is reinvested at the same rate. Yield to maturity takes into account the time value of the investment.

Zero Coupon Bond – A bond which pays no interest, but is issued at a deep discount from par, appreciating to its full value at maturity.

Finance Audit Committee Regular Session

Meeting Date: 12/13/2017
Title: Authorized Broker/Dealer List
Submitted For: Lee Ann Bunselmeyer, Director
Submitted By: Chris Rodriguez, Financial Services Manager
Finance Review: N/A **Legal Review:** N/A

AGENDA ITEM

Review and approve the Authorized Broker/Dealer List

AGENDA ITEM SUMMARY/BACKGROUND

In accordance with Public Funds Investment Act, Chapter 2256, of the Texas Government Code, the governing body or the Finance Audit Committee must review, revise and adopt a list of qualified broker at least annually. There are no minimum or maximum number of dealers or brokers that may be used by the City.

The Investment Officer continually monitors the list of approved investment brokers to pursue a diverse and competitive list of bidders. *Potential* broker/dealers must complete and submit the Broker/Dealer Questionnaire and Certification Form. The Investment Officer then evaluates the broker/dealers response based on the criteria listed below. If a broker/dealer has successfully met the established requirements, the Investment Officer will forward the application to the Finance Audit Committee for review.

A review on *active* brokers is also conducted at least annually based on the criteria listed below. The competitiveness and responsiveness of the active brokers is also a major factor, as well. If a broker/dealer is considered to place the City's investment program at risk or is not effective, the Investment Officer will document and recommend to the Finance Audit Committee that the broker/dealer be removed from the approved list.

The Investment Officer may limit the number of investment brokers the City conducts business with upon approval of the Finance Audit Committee. In accordance with the City's Investment Policy, business with any broker/dealer is limited to 40% of the total portfolio at any point in time. The Finance Audit Committee must approve all brokers prior to conducting any investment transactions.

EVALUATION CRITERIA

The following criteria are used to evaluate both potential and active broker/dealers:

1. Delivery Process - Delivery vs Payment is required for the protection of the City's assets.
2. Registration - Broker must be registered with the Texas State Securities Commission.
3. Capitalization - Organization should be well capitalized and show profitability, and comply with SEC guidelines.
4. Law Suits - Must be be involved in any type of legal disputes, pending settlements, claims or losses, etc.
5. Worthiness - Must be capable of serving the City's needs as a governmental entity. Must be credible and reputable among other Texas governmental clients.
6. Reports/Research - Must provide daily market analysis. This information is valuable for planning investment strategies and budgeting.
7. Training - Valuable service especially for governments with newly implemented investment programs, investment officers, and for cross training.
8. Primary vs Secondary - Primary dealers are more likely to provide desired securities for purchases as they maintain their own inventory, whereas, secondary dealers must contact their primary dealer for availability of securities. However, depending on each firms' contact with their trading desk, this may not be an issue.

9. Certification - Must sign a written instrument acknowledging that it has received and reviewed our investment policy and that procedures and controls have been implemented to preclude unauthorized investments.

RECOMMENDATION

Staff recommends the acceptance of FTN Financial, Mutual Securities, Inc., Service Asset Management, and three overnight investment vehicles (TexPool, TexStar, and Independent Money Market) as the City's 2017-2018 approved broker/dealer list.

Attachments

Broker Dealer Evaluation

BROKER/DEALER EVALUATION
Fiscal Year 2017-2018

BROKER/DEALER EVALUATION						
Firm/ Representative	Primary Dealer	Texas Registered	SEC Compliance	References	Claims, Losses, Investigations	Comments
FTN Financial (Formerly Coastal Securities) Zach Brewer Houston, Texas <i>Approved Broker since 2007</i>	No	Yes	N/A	City of Allen City of Plano City of Richardson	No	Reliable. Competitive. Provides daily market updates.
Service Asset Management (SAMCO) Robert Phillips Dallas, Texas <i>Approved Broker since 2007</i>	No	Yes	Yes	City of Grand Prairie City of Dallas City of Euless	No	Very Competitive. Provides daily market updates & responds quickly to staff requests.
Mutual Securities, Inc. Michael Swan Laguna Beach, CA <i>Approved Broker since 2009</i>	No	Yes	Yes	City of Carrollton City of Arlington City of Grand Prairie	No	Very Responsive. Honest. Competitive. Long-term Clients

All the brokers listed above have provided the necessary documentation.

MONEY MARKET/POOL EVALUATION						
Firm Name	Net Asset Value	Size	Operating Deadlines	Maximum WAM	2017 Average Monthly Yield*	Management Fee
Independent Bank <i>Approved Since 2009</i>	\$1	Over \$5.85 billion	Before 4:00 p.m.		.83%	0%
TexPool <i>Approved Pool Since 2007</i>	\$1	\$15.6 billion	Before 4:00 p.m.	Max- 60 days Avg- 40 days	.81%	.047% basis points State Comptroller & Federated Investors
TexStar <i>Approved Pool Since 2007</i>	\$1	\$5.8 billion	Before 4:00 p.m.	Max -60 days Avg- 27 days	.71%	.12% basis points JP Morgan Chase & First Southwest

TexPool, and Texstar investments consist exclusively of U.S. Government securities, repurchase agreements collateralized by U.S. Government securities, and AAA-rated no-load money market mutual funds. Additionally, funds are restricted to a maximum weighted average maturity (WAM) of 60 days.

Finance Audit Committee Regular Session

Meeting Date: 12/13/2017
Title: 2016-2017 Summary of Rebatable Arbitrage
Submitted For: Lee Ann Bunselmeyer, Acting City Manager
Submitted By: Chris Rodriguez, Financial Services Manager
Finance Review: N/A **Legal Review:** N/A

AGENDA ITEM

Discuss the Fiscal Year 2016-2017 Summary of Rebatable Arbitrage.

AGENDA ITEM SUMMARY/BACKGROUND

Tax-exempt bonds which were issued on or after September 1, 1986 are subject to federal arbitrage rebate requirements. Arbitrage rebate requirements require that any excess earnings or arbitrage be rebated to the Federal Government. Arbitrage is the ability to obtain tax-exempt bond proceeds and invest the funds in higher yielding taxable securities. The rebate amount due to the Federal Government is equal to the excess of the amount earned on all non-purposed investment purchased with gross proceeds of the bonds over the amount which would have been earned if such non-purchase investments were invested at a rate equal to the yield on the bonds.

The rebate computation and payment to the Federal Government, if applicable, is required to be made at least every five-year period an issue remains outstanding and upon the retirement of an issue. The payment is due to the Federal Government within 60 days from either each Rebate Installment Computation Date or Final Rebate Computation Date. Failure to comply with these Federal Rebate Requirements could lead to substantial late filing penalties and interest and/or, potentially the loss of tax-exempt status for these bonds and subsequent bonds.

First Southwest Asset Management has performed the annual computation to ensure the City's compliance with the Federal Government Requirements. The attached 2016-2017 Summary of Rebatable Arbitrage includes the required annual computation for all bonds through September 30, 2017.

RECOMMENDATION

There is no action to be taken on this item.

Attachments

2017 Arbitrage Report

City of Corinth, Texas
Summary of Rebatale Arbitrage and Yield Restriction
As of September 30, 2017

Final Numbers*

(Issues delivered prior to 3/14/2001, which are not presented herein, no longer require calculations)

Delivery Date	Par Amount	Issue Description	Bond Yield	Rebatale Arbitrage / Yield Restriction		Upcoming IRS Dates	
				9/30/2016	9/30/2017	Next IRS Calculation Date**	Next IRS Payment Date**
03/14/01	\$2,000,000	General Obligation Bonds, Series 2001	4.767640%	(34,425.75) (1)	(1)		
10/01/04	\$1,200,000	Tax Note, Series 2004		(1)	(1)		
12/28/05	\$5,080,000	General Obligation Refunding Bonds, Series 2005	3.889474%	(34,332.65) (3)	(1)		
03/06/07	\$5,250,000	General Obligation Refunding Bonds, Series 2007	4.134942%	(29,303.47)	(36,043.89) (4)		
09/18/07	\$23,630,000	Combination Tax and Rev. CO, Series 2007	4.526986%	(3,487,400.49)	(3,643,454.74) (4)		
05/14/10	\$1,500,000	Combination Tax and Rev. CO, Series 2010	3.404388%	(12,504.27) (2)	(13,351.13) (2)		
05/19/16	\$1,510,000	General Obligation Refunding Bonds, Series 2016					
05/19/16	\$13,275,000	Combination Tax and Ltd. Surplus Rev. CO, Series 2016	2.382943%	(88,861.91)	(261,770.39)		
	\$14,785,000	Combined Liability					
08/03/17	\$14,240,000	General Obligation Refunding Bonds, Series 2017		N/A	(5)		
08/03/17	\$4,855,000	Combination Tax and Ltd. Surplus Rev. CO, Series 2017		N/A	(5)		
Total Cumulative Liability				\$0.00	\$0.00		

- (1) All bonds have been redeemed. Report previously issued.
- (2) Issue met Small Issuer for the calendar year. The Tax Certificate states that amounts in excess of the Bona Fide Debt Service Fund will be restricted to a yield that does not exceed the yield on the Obligations; therefore, the liability represents the Yield Restriction Liability.
- (3) Represents liability as of final installment calculation date of June 19, 2016.
- (4) Represents liability as of final installment calculation date of September 5, 2017.
- (5) Due to short time period from delivery date to current fiscal year end, will perform calculations at next fiscal year end.

* Unless otherwise noted, all liabilities represent annual estimations of the rebate and yield restriction amounts as of your current fiscal year end.

** Next IRS Pay Date represents potential payments that are upcoming in the next two years from the current fiscal year end. Actual IRS Calculation Dates and Payment Dates may be accelerated as a result of refundings/defeasances occurring after the date of this summary.