



**** PUBLIC NOTICE ****

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

**Wednesday, November 30, 2016, 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 September 7, 2016 Regular Session.

BUSINESS AGENDA

2. Discuss the annual external audit and the Comprehensive Annual Financial Report (CAFR).
3. Discuss and approve the Fiscal Year 2015-2016 Annual Investment Report
4. Review and approve the Investment Policy for City of Corinth for FY 2016-2017.
5. Review and approve the Investment Policy for the Economic Development Corporation for FY 2016-2017.
6. Review and approve the Investment Policy for the Crime Control & Prevention District for FY 2016-2017.
7. Review and approve the Authorized Broker/Dealer List
8. Discuss the Fiscal Year 2015-2016 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 _____, 2016 at ____ on the bulletin board at Corinth City Hall.

Caryn Riggs, Assistant Finance Director
City of Corinth, Texas

Finance Audit Committee Regular Session

Meeting Date: 11/30/2016

Title: September 7, 2016 Regular Session Minutes

Submitted For: Lee Ann Bunselmeyer, Acting City Manager

Submitted By: Caryn Riggs, Assistant Director

Finance Review: N/A

Legal Review: N/A

AGENDA ITEM

Consider and act on minutes from the September 7, 2016 Regular Session.

AGENDA ITEM SUMMARY/BACKGROUND

Attached are minutes from the September 7, 2016 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 September 7, 2016 Regular Session minutes.

Attachments

Minutes

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

On this the 7th day of September 2016 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 Joe Harrison

Citizen Members Present:

Dick Baker

Kurt Hyde

Staff Committee Members Present:

Lee Ann Bunselmeyer, Acting City Manager and Director of Finance & Administrative Services

Members Absent:

Councilmember Lowell Johnson, Committee Chair

Staff Members Present:

Caryn Riggs, Assistant Director of Finance

CALL TO ORDER

Councilmember Harrison called the meeting to order at 2:50 P.M.

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 26, 2016 Regular Session.

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

AYES: Harrison, Bunselmeyer

NOES: None

ABSENT: Johnson

MOTION CARRIED

BUSINESS AGENDA

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

Caryn Riggs, Assistant Director of Finance – presented the tentative audit schedule for fiscal year ending September 30, 2016 and introduced Kevin Randolph with David Kinard & Co.

3) Consider and act on the Fiscal Year 2015-2016 Third Quarter Investment Report

Caryn Riggs, Assistant Director of Finance – presented the FY 2015-2016 Third Quarter Investment Report. She explained the net increase in Market Value of \$8,328,796 is due to the receipt of \$15 million in bond proceeds for the 2016 Certificates of Obligations that were issued in May, as well as, the purchase of the Public Safety Facility for \$3.1 million. In addition, \$274,773 in investments were called in June and were not reinvested as of the close of the quarter. The Operating Funds experienced a net decrease due to expenditures exceeding revenues for the quarter. Funds were expensed in the Capital Project Funds on the Lake Sharon road extension, Shady Rest road project and the repainting of the elevated water storage tank.

MOTION made by Councilmember Harrison to approve the FY 2015-2016 Third Quarter Investment Report. Seconded by Ms. Bunselmeyer.

AYES: Harrison, Bunselmeyer

NOES: None

ABSENT: Johnson

MOTION CARRIED

4) Consider and act on the Comprehensive Monthly Financial Report (CMFR) for the month ending July 31, 2016.

Caryn Riggs, Assistant Director of Finance – presented the July 31, 2016 monthly financials.

MOTION made by Ms. Bunselmeyer to approve the Comprehensive Monthly Financial Report (CMRF) for the month ending July 31, 2016. Seconded by Councilmember Harrison.

AYES: Harrison, Bunselmeyer

NOES: None

ABSENT: Johnson

MOTION CARRIED

5) Receive a report, hold a discussion and provide staff direction on the bank depository agreement.

Caryn Riggs, Assistant Director of Finance – explained the history of the bank depository agreement with Northstar. Additionally, she presented the extra services provided by Northstar.

MOTION made by Ms. Bunselmeyer to extend the bank depository agreement with Northstar to expire on May 31, 2017. Seconded by Councilmember Harrison. Councilmember Harrison asked if the citizen members if were in agreement with this renewal. Neither had any objections to the renewal.

AYES: Harrison, Bunselmeyer

NOES: None

ABSENT: Johnson

MOTION CARRIED

CLOSED SESSION

Pursuant to the Open Meetings Act, Chapter 551, Texas Government Code, Section 551.071 (Consultation with Attorney), Section 551.072 (Deliberations regarding Real Property), 551.074 (Deliberations regarding the appointment, employment, evaluation, reassignment, duties, discipline or dismissal of an officer or employee), 551.087 (Deliberations regarding commercial or financial information that the governmental body has received from a business prospector to deliberate the officer of a financial or other incentive to a business prospect).

RECONVENE IN OPEN SESSION AND TAKE ACTION ON CLSOED SESSION ITEMS, IF NECESSARY.

ADJOURN THE REGULAR MEETING.

Councilmember Harrison adjourned the Regular Meeting at 4:40 P.M.

AYES: All

Meeting adjourned.

Approved by the Finance Audit Committee on the ____ day of _____, 2016.

Caryn Riggs
Assistant Director of Finance

Finance Audit Committee Regular Session

Meeting Date: 11/30/2016

Title: Annual Audit Discussion

Submitted For: Lee Ann Bunselmeyer, Acting City Manager

Submitted By: Caryn Riggs, Assistant Director

Finance Review: N/A

Legal Review: N/A

AGENDA ITEM

Discuss 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 account. Davis Kinard & Co, in their second year as the City's independent audit firm, will perform the audit for fiscal year 2015-2016 which ends on September 30, 2016.

The tentative audit timeline is listed below:

September 6, 2016	Auditors began Interim Fieldwork
September 30, 2016	City's fiscal year end
October-December 8, 2016	City staff analyze the financials, make year end entries and prepare the CAFR.
December 9, 2016	City staff close the books and provide a trial balance to the auditors
December 12, 2016	Auditors began fieldwork
February 15, 2017	Post-Audit meeting with the Finance Audit Committee and presentation of the CAFR
March 16, 2017	Presentation of CAFR to City Council

RECOMMENDATION

No action to be taken on this item.

Finance Audit Committee Regular Session

Meeting Date: 11/30/2016

Title: Annual Investment Report

Submitted For: Lee Ann Bunselmeyer, Acting City Manager

Submitted By: Caryn Riggs, Assistant Director

Finance Review: N/A

Legal Review: N/A

AGENDA ITEM

Discuss and approve the Fiscal Year 2015-2016 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 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 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 reported. Exhibit B includes the independent review by First Southwest Asset Management on November 11, 2016.

RECOMMENDATION

Staff recommends the acceptance of the Annual Investment Report.

Attachments

Annual Report

City of Corinth, Texas

ANNUAL INVESTMENT REPORT

For Fiscal Year Ended September 30, 2016



Lee Ann Bunselmeyer
Acting City Manager

Caryn Riggs
Assistant Director of Finance

Chris Rodriguez
Financial Services Manager



3300 Corinth Parkway • Corinth, TX • 940.498.3280 • Fax 940.498.3232

November 30, 2016

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 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 February 4, 2016, 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 and the Assistant Finance Director. Investment officers 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. 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. The automated services provided by NorthStar Bank facilitate full utilization of available cash thus maximizing interest income. The NorthStar bank contract renewed for one year to expire on May 31, 2017.

III. INVESTMENT ACCOUNTING METHODOLOGY

The accounts of the City of Corinth are maintained on the basis of funds 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 in compliance 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 in order to achieve optimum protection of public funds.

Lee Ann Bunselmeyer
Acting City Manager

Caryn Riggs
Assistant Director of Finance

Chris Rodriguez
Financial Services Manager

CITY OF CORINTH
ANNUAL INVESTMENT REPORT
For Period Ending September 30, 2016

Security Type	Par Value	Book Value	Market Value	% of Mkt to Book
U. S. Federal Agency-Coupon	\$ 4,625,000	\$ 4,629,069	\$ 4,629,522	100.01%
U.S. Federal Agency -Callable	6,500,000	6,500,000	6,493,200	99.90%
Managed Pools	5,922,657	5,922,657	5,922,657	100.00%
Money Market	2,557,770	2,557,770	2,557,770	100.00%
Bank Cash	4,418,517	4,418,517	4,418,517	100.00%
	<u>\$ 24,023,945</u>	<u>\$ 24,028,014</u>	<u>\$ 24,021,666</u>	<u>99.97%</u>

PORTFOLIO SUMMARY REPORT

Beginning Par Value as of 9/30/2015	\$ 13,494,447
Beginning Book Value as of 9/30/2015	\$ 13,493,443
Beginning Market Value as of 9/30/2015	\$ 13,507,896
WAM at Beginning Date (Days)	217
Ending Par Value as of 9/30/2016	\$ 24,023,945
Ending Book Value as of 9/30/2016	\$ 24,028,014
Ending Market Value as of 9/30/2016	\$ 24,021,666
WAM at Ending Date (Days)	241
Change to Market Value ⁽¹⁾	\$ 10,513,770

⁽¹⁾ The net increase in the Market Value is due to the receipt of \$15 million in bond proceeds for the 2016 Certificates of Obligation that were issued in May 2016. Bond proceeds of \$3.65 million have been expensed on the Public Safety Facility. Operating expenditures include Public Safety Communications upgrade and legal fees. Capital expenditures include the repainting the elevated water storage tank, Shady Rest Lane reconstruction and the Lake Sharon road extension.

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

Caryn Riggs
Assistant Finance Director

Scott McIntyre
First Southwest Asset Management

INVESTMENT STRATEGIES COMPLIANCE REPORT
For Period Ending September 30, 2016

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 9/30/2015	\$	12,304,220
Beginning Market Value as of 9/30/2015	\$	12,318,327
WAM at Beginning Date (Days)		230
Ending Book Value as of 9/30/2016	\$	10,736,163
Ending Market Value as of 9/30/2016	\$	10,736,152
Unrealized Gain/(Loss)	\$	(11)
Change to Market Value ⁽¹⁾	\$	(1,582,175)
WAM at Ending Date (Days)		142
WAM Policy Benchmark ≤		270

⁽¹⁾ The net decrease in the Market Value for the Operating Funds is due to the budgeted use of fund balance for the Public Safety Communications upgrade and legal fees. Also included in this fiscal year is the reclassification of the General Capital Projects Fund and Water/Wastewater Capital Projects Fund from the Operating Fund portfolio to the Bond/Capital Project Fund portfolio as of October 1, 2015. The total amount of the reclassification was \$2.6 million.

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 9/30/2015	\$	198,534
Beginning Market Value as of 9/30/2015	\$	198,534
WAM at Beginning Date (Days)		1
Ending Book Value as of 9/30/2016	\$	274,178
Ending Market Value as of 9/30/2016	\$	274,178
Unrealized Gain/(Loss)	\$	-
Change to Market Value ⁽²⁾	\$	75,644
WAM at Ending Date (Days)		1
WAM Policy Benchmark ≤		365

⁽²⁾ No significant change.

INVESTMENT STRATEGIES COMPLIANCE REPORT
For Period Ending September 30, 2016

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 9/30/2015	\$	552,319
Beginning Market Value as of 9/30/2015	\$	552,319
WAM at Beginning Date (Days)		1
Ending Book Value as of 9/30/2016	\$	12,679,241
Ending Market Value as of 9/30/2016	\$	12,672,955
Unrealized Gain/(Loss)	\$	(6,286)
Change to Market Value ⁽¹⁾	\$	12,120,636
WAM at Ending Date (Days)		336
WAM Policy Benchmark ≤		365

⁽¹⁾ The net increase in the Market Value is due to the receipt of \$15 million in bond proceeds for the 2016 Certificates of Obligation that were issued in May 2016. Bond proceeds of \$3.65 million have been expensed on the Public Safety Facility. Also included in this fiscal year is the reclassification of the General Capital Projects Fund and Water/Wastewater Capital Projects Fund from the Operating Fund portfolio to the Bond/Capital Project Fund portfolio as of October 1, 2015. The total amount of the reclassification was \$2.6 million. Other capital expenditures include repainting the elevated water storage tank, Shady Rest Lane reconstruction and the Lake Sharon road extension.

SPECIAL REVENUE FUNDS

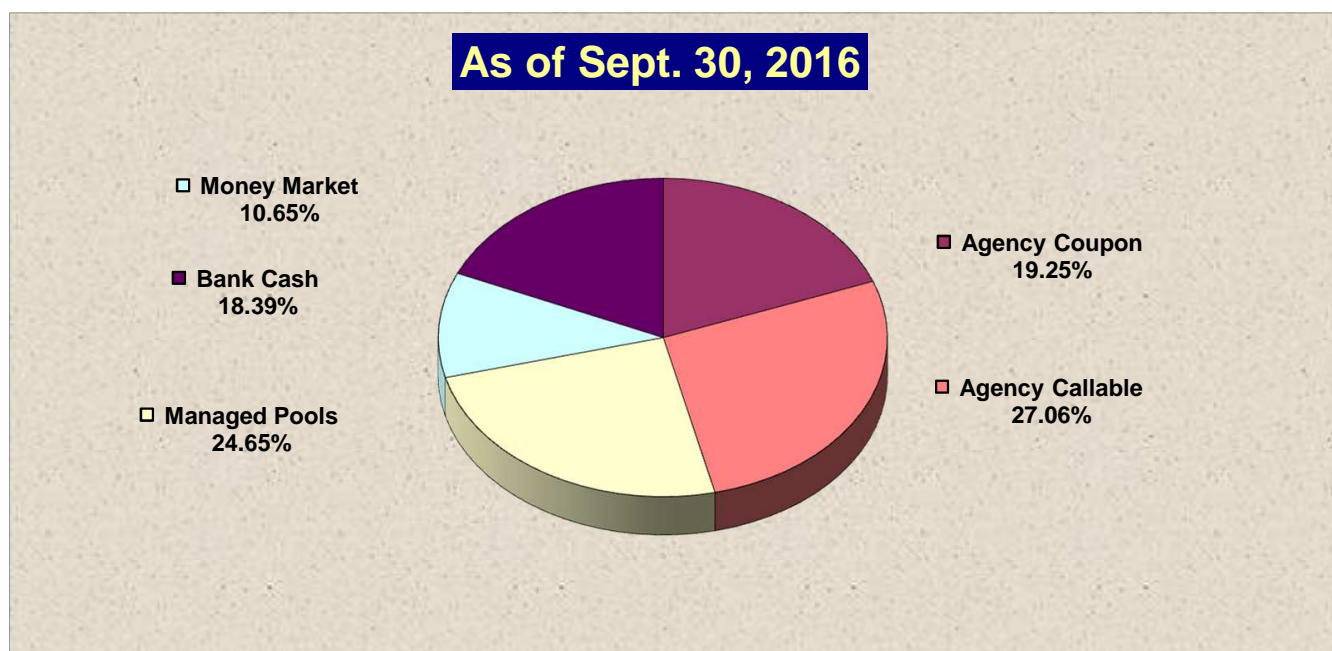
Investment strategies for construction projects or special revenue fund portfolios will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. These portfolios should include at least 10% in highly liquid securities to allow for flexibility 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 9/30/2015	\$	438,371
Beginning Market Value as of 9/30/2015	\$	438,717
WAM at Beginning Date (Days)		213
Ending Book Value as of 9/30/2016	\$	338,432
Ending Market Value as of 9/30/2016	\$	338,382
Unrealized Gain/(Loss)	\$	(50)
Change to Market Value ⁽²⁾	\$	(100,335)
WAM at Ending Date (Days)		43
WAM Policy Benchmark ≤		270

⁽²⁾ The net decrease in the Market Value is due to expenditures for the Master Plan Update and the Impact Fee Study.

ANNUAL INVESTMENT REPORT
Portfolio Summary By Market Sector

Market Sector	Dec. 31, 2015	Mar. 31, 2016	June 30, 2016	Sept. 30, 2016
U.S. Federal Agency -Coupon	\$ 3,050,000	\$ 3,505,000	\$ 4,055,000	\$ 4,625,000
U.S. Federal Agency-Callable	1,845,000	3,575,000	7,000,000	6,500,000
Managed Pools	908,667	909,370	7,915,901	5,922,657
Money Market	4,992,291	5,195,528	3,554,646	2,557,770
Bank Cash	6,006,202	3,342,284	2,322,667	4,418,517
Total Par Value:	\$ 16,802,160	\$ 16,527,182	\$ 24,848,214	\$ 24,023,945



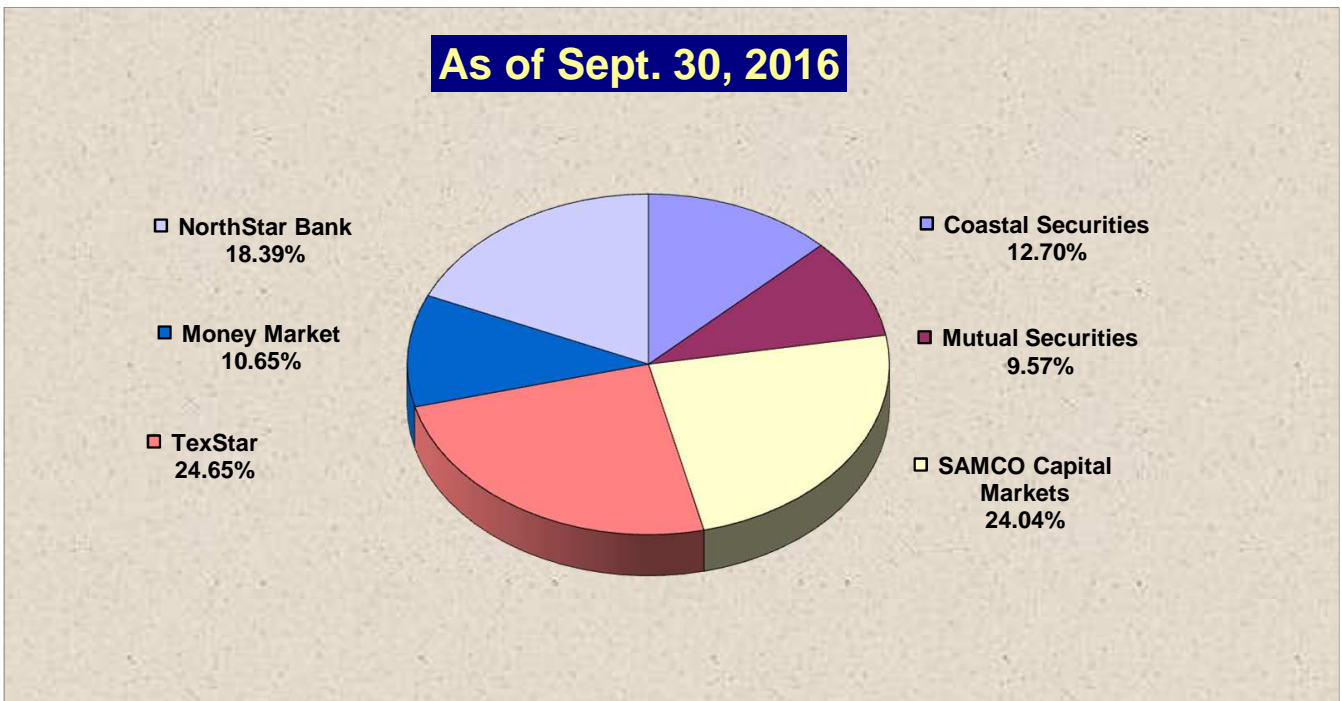
The portfolio is restricted to U.S. Treasuries, U.S. Agencies, bonds issued by Texas public entities and rated AA or better, fully insured/collateralized certificates of deposit, and fully collateralized repurchase agreements. The investments are diversified by security type to protect interest income 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, 2015	Mar. 31, 2016	June 30, 2016	Sept. 30, 2016
Average Yield to Maturity		0.376%	0.623%	0.646%	0.618%
≥ Policy Benchmark-(Six Month T-Bill)		0.482%	0.455%	0.392%	0.460%
Callable Securities ≤	30.00%	10.98%	21.63%	28.17%	27.06%
Investment By Type ≤					
U.S. Treasuries	100.00%	0.00%	0.00%	0.00%	0.00%
U.S. Agencies	100.00%	29.13%	42.84%	44.49%	46.31%
Certificates of Deposit	100.00%	0.00%	0.00%	0.00%	0.00%
Managed Pools	50.00%	5.41%	5.50%	31.85%	24.65%
Money Market	100.00%	29.71%	31.44%	14.31%	10.65%
Cash	100.00%	35.75%	20.22%	9.35%	18.39%

Note: The portfolio is below the benchmark for callable securities for the year. The Average Yield to Maturity exceeds the Policy Benchmark at the end of the fiscal year.

ANNUAL INVESTMENT REPORT
Portfolio Summary By Broker/Dealer

Dealers/Brokers	Dec. 31, 2015	Mar. 31, 2016	June 30, 2016	Sept. 30, 2016
Broker/Dealer				
Coastal Securities	\$ 845,000	\$ 2,575,000	\$ 4,550,000	\$ 3,050,000
Mutual Securities	2,000,000	1,300,000	1,300,000	2,300,000
SAMCO Capital Markets	2,050,000	3,205,000	5,205,000	5,775,000
Total Broker/Dealer	\$ 4,895,000	\$ 7,080,000	\$ 11,055,000	\$ 11,125,000
Managed Pools/ Depository Bank				
TexStar	\$ 908,667	\$ 909,370	\$ 7,915,901	\$ 5,922,657
Money Market	4,992,291	5,195,528	3,554,646	2,557,770
NorthStar Bank	6,006,202	3,342,284	2,322,667	4,418,517
Total Managed Pools/Depository Bank	\$ 11,907,160	\$ 9,447,182	\$ 13,793,214	\$ 12,898,945
Total Par Value:	\$ 16,802,160	\$ 16,527,182	\$ 24,848,214	\$ 24,023,945

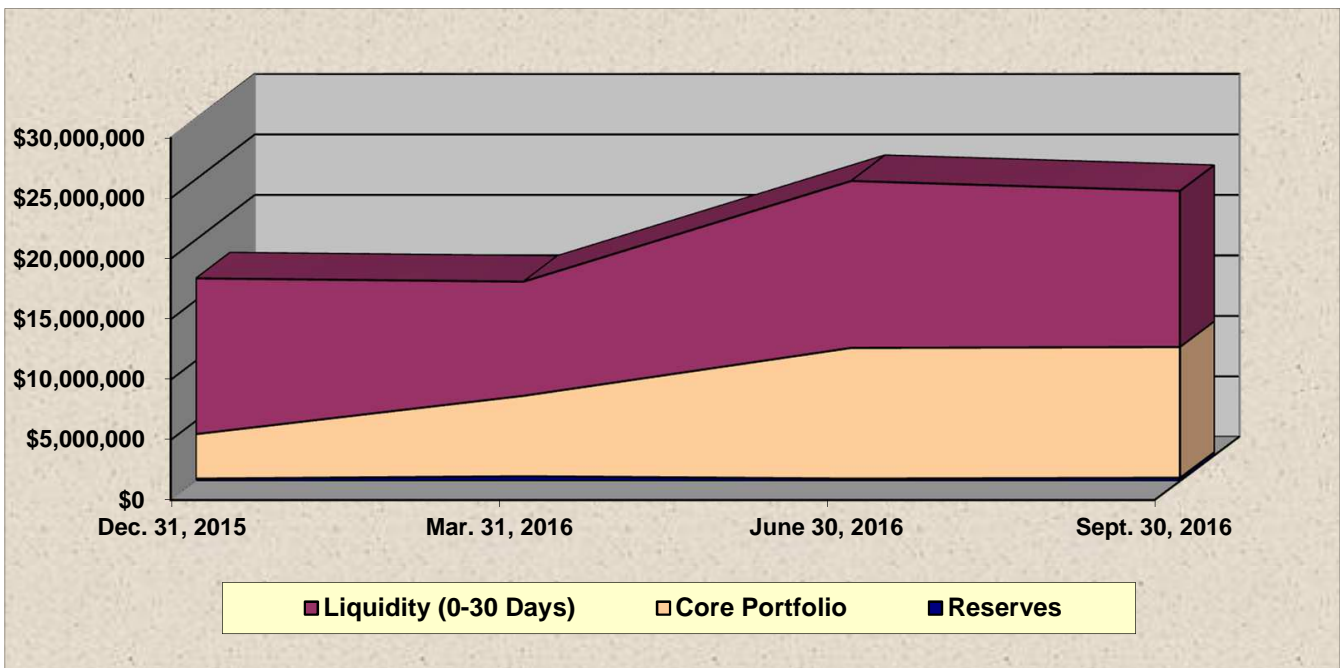


To guard against default possibilities, and to promote diversification of bidders, business with any one issuer, or investment broker, is limited to forty (40%) percent of the total portfolio at any point in time. As shown in the table below, the portfolio adhered to this provision throughout the quarter.

Performance Indicators	Policy Benchmark	Dec. 31, 2015	Mar. 31, 2016	June 30, 2016	Sept. 30, 2016
Highest Broker Percent ≤	40.00%	12.20%	19.39%	20.95%	24.04%

ANNUAL INVESTMENT REPORT
Portfolio Summary By Maturity

Maturity Time Frame	Dec. 31, 2015	Mar. 31, 2016	June 30, 2016	Sept. 30, 2016
0-30 Days	\$ 12,907,160	\$ 9,447,182	\$ 13,793,214	\$ 12,898,945
31-90 Days	300,000	-	-	1,500,000
91-180 Days	-	-	1,500,000	250,000
181-270 Days	-	500,000	250,000	-
271-360 Days	500,000	1,250,000	-	-
361-450 Days	2,095,000	-	-	1,300,000
451-540 Days	-	-	1,300,000	4,005,000
541 Days & Over	1,000,000	5,330,000	8,005,000	4,070,000
	\$ 16,802,160	\$ 16,527,182	\$ 24,848,214	\$ 24,023,945



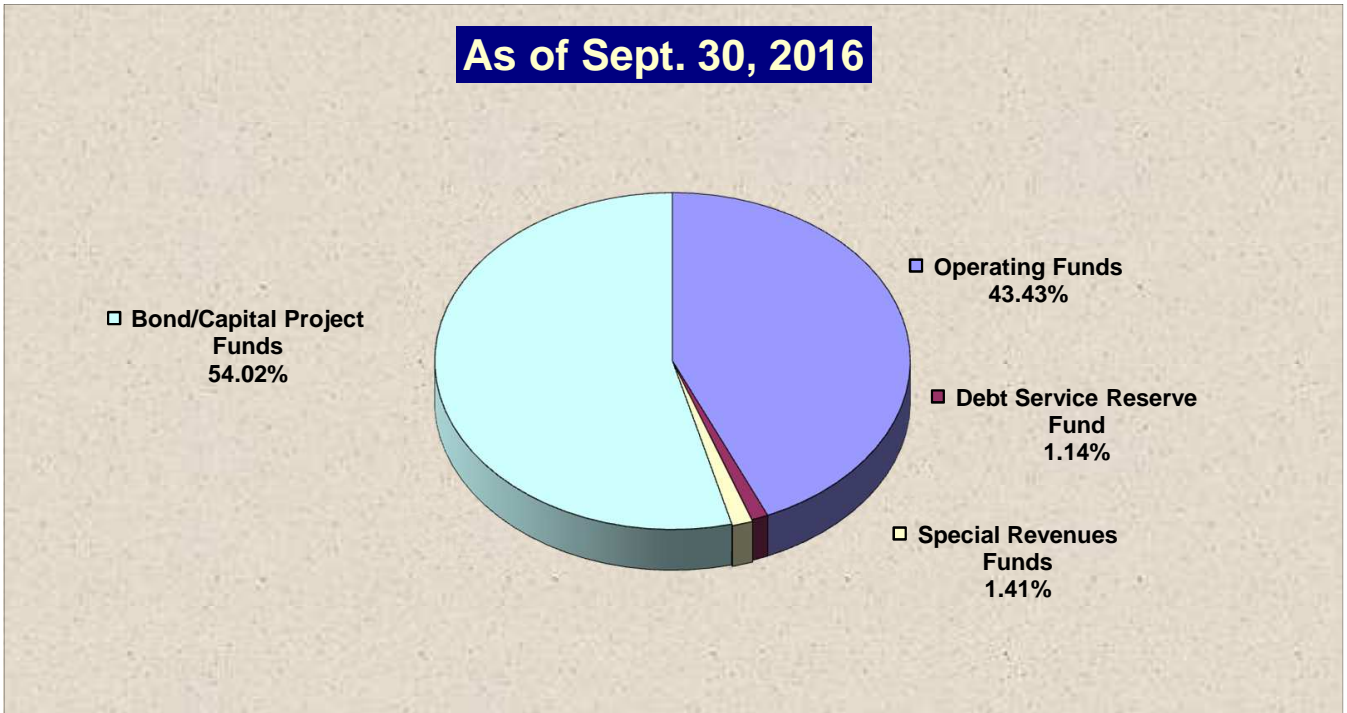
The risk of market price volatility is minimized through maturity diversification. The maturities on our investments are staggered over a series of three-month increments to provide cash flow based on the anticipated needs of the City. Liquidity is achieved by matching investment maturities with forecasted 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, 2015	Mar. 31, 2016	June 30, 2016	Sept. 30, 2016
Weighted Avg. Maturity ≤	365 Days	98	293	262	241
Maturities ≤ 30 days ≥	5.00%	76.82%	57.16%	55.51%	53.69%

Note: The portfolio is within the benchmark limits for the Weighted Average Maturity and liquidity is at 54% at the end of the fiscal year.

ANNUAL INVESTMENT REPORT
Portfolio Summary By Fund Type

Fund Type	Dec. 31, 2015	Mar. 31, 2016	June 30, 2016	Sept. 30, 2016
Operating Funds	\$ 13,479,738	\$ 12,873,592	\$ 10,365,831	\$ 10,432,774
Debt Service Reserve Fund	198,657	398,781	198,918	274,178
Special Revenues Funds	338,122	413,208	338,303	338,442
Bond/Capital Project Funds	2,785,643	2,841,601	13,945,162	12,978,551
	<u>\$ 16,802,160</u>	<u>\$ 16,527,182</u>	<u>\$ 24,848,214</u>	<u>\$ 24,023,945</u>



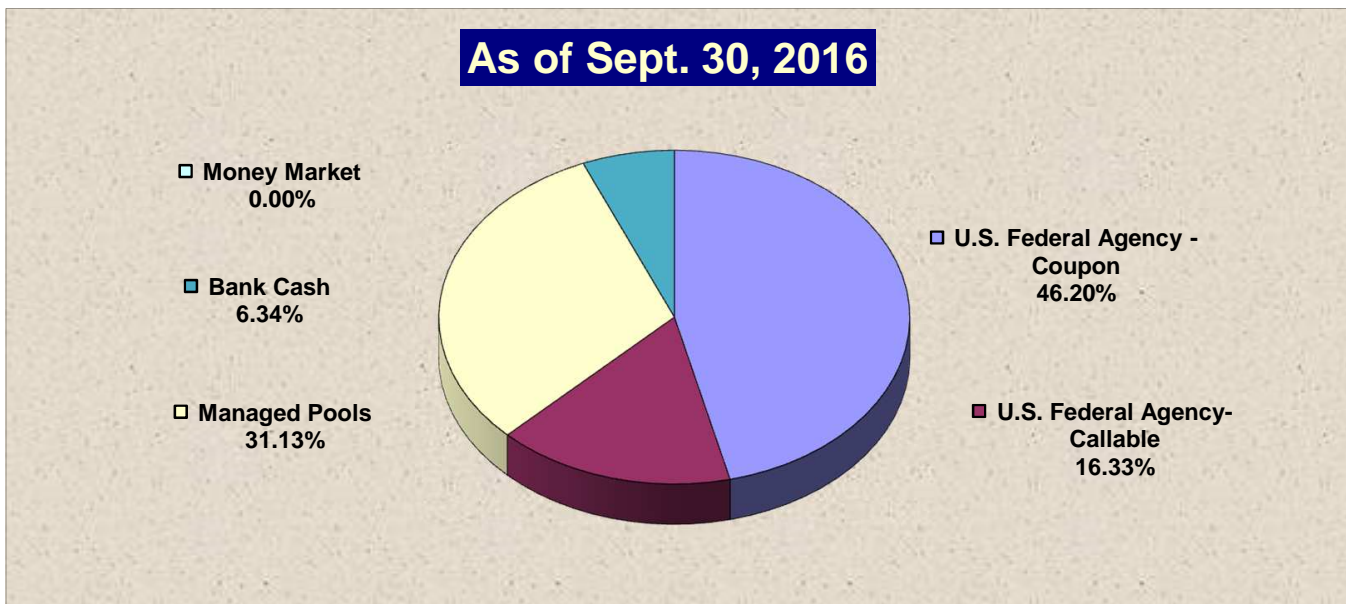
As shown in the graph above, the investments in the portfolio are distributed by fund type. Preservation and safety of principal of these investments is the most important strategy. All investments shall be high quality securities with no perceived default risk. Market fluctuations will occur; however,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

Performance Indicators	Policy Benchmark	Dec. 31, 2015	Mar. 31, 2016	June 30, 2016	Sept. 30, 2016
WAM by Fund ≤					
Operating Funds	270 Days	108	286	271	142
Debt Service Reserve Funds	365 Days	1	359	1	1
Special Revenue Funds	270 Days	205	253	97	43
Bond Funds	365 Days	45	319	264	336

Note: The Weighted Average Maturity for all Funds are below the policy benchmark as of September 30, 2016.

ANNUAL INVESTMENT REPORT
Economic Development Corporation

Market Sector	Dec. 31, 2015	Mar. 31, 2016	June 30, 2016	Sept. 30, 2016
U.S. Federal Agency -Coupon	\$ 1,090,000	\$ 1,415,000	\$ 1,415,000	\$ 1,415,000
U.S. Federal Agency-Callable	655,000	500,000	500,000	500,000
Managed Pools	430,973	431,294	952,569	953,468
Money Market	556,052	356,274	-	-
Bank Cash	232,645	285,089	291,667	194,258
Total Par Value:	\$ 2,964,670	\$ 2,987,657	\$ 3,159,236	\$ 3,062,726



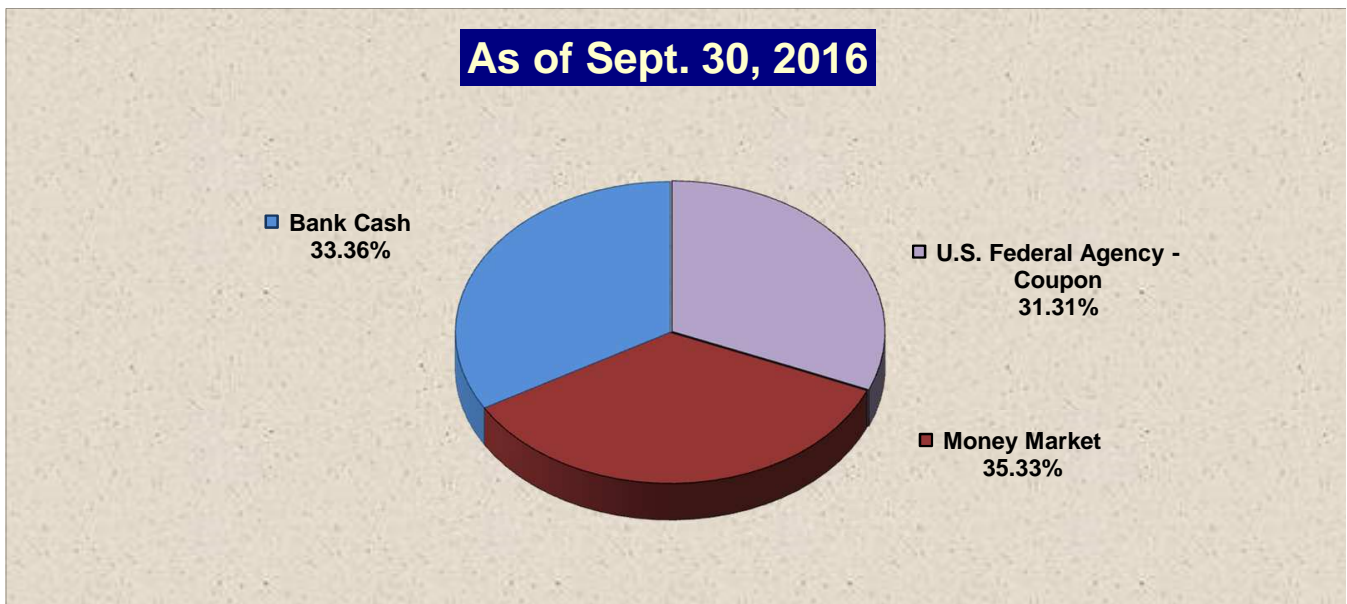
The portfolio is restricted to U.S. Treasuries, U.S. Agencies, bonds issued by Texas public entities and rated AA or better, fully insured/collateralized certificates of deposit, and fully collateralized repurchase agreements. The investments are diversified by security type to protect interest income 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, 2015	Mar. 31, 2016	June 30, 2016	Sept. 30, 2016
Average Yield to Maturity		0.450%	0.668%	0.676%	0.689%
≥ Policy Benchmark-(Six Month T-Bill)		0.482%	0.455%	0.392%	0.460%
Callable Securities ≤	30.00%	22.09%	16.74%	15.83%	16.33%
Investment By Type ≤					
U.S. Treasuries	100.00%	0.00%	0.00%	0.00%	0.00%
U.S. Agencies	100.00%	58.85%	64.10%	60.62%	62.53%
Managed Pools	100.00%	14.54%	14.44%	30.15%	31.13%
Money Market	100.00%	18.76%	11.92%	0.00%	0.00%
Cash	100.00%	7.85%	9.54%	9.23%	6.34%
Weighted Avg. Maturity ≤	270 Days	108	322	249	199
Maturities ≤30 days ≥	5.00%	41.14%	35.90%	39.38%	37.47%

Note: The portfolio exceeds the policy benchmark for the Average Yield to Maturity at the end of the fiscal year. The liquidity for the portfolio is 37% at the end of the fiscal year.

ANNUAL INVESTMENT REPORT
Street Maintenance Sales Tax

Market Sector	Dec. 31, 2015	Mar. 31, 2016	June 30, 2016	Sept. 30, 2016
U.S. Federal Agency -Coupon	\$ -	\$ -	\$ 200,000	\$ 200,000
U.S. Federal Agency-Callable	-	175,000	-	-
Managed Pools	-	-	-	-
Money Market	225,148	225,288	225,443	225,670
Bank Cash	267,858	81,983	139,088	213,122
Total Par Value:	<u>\$ 493,006</u>	<u>\$ 482,271</u>	<u>\$ 564,531</u>	<u>\$ 638,792</u>



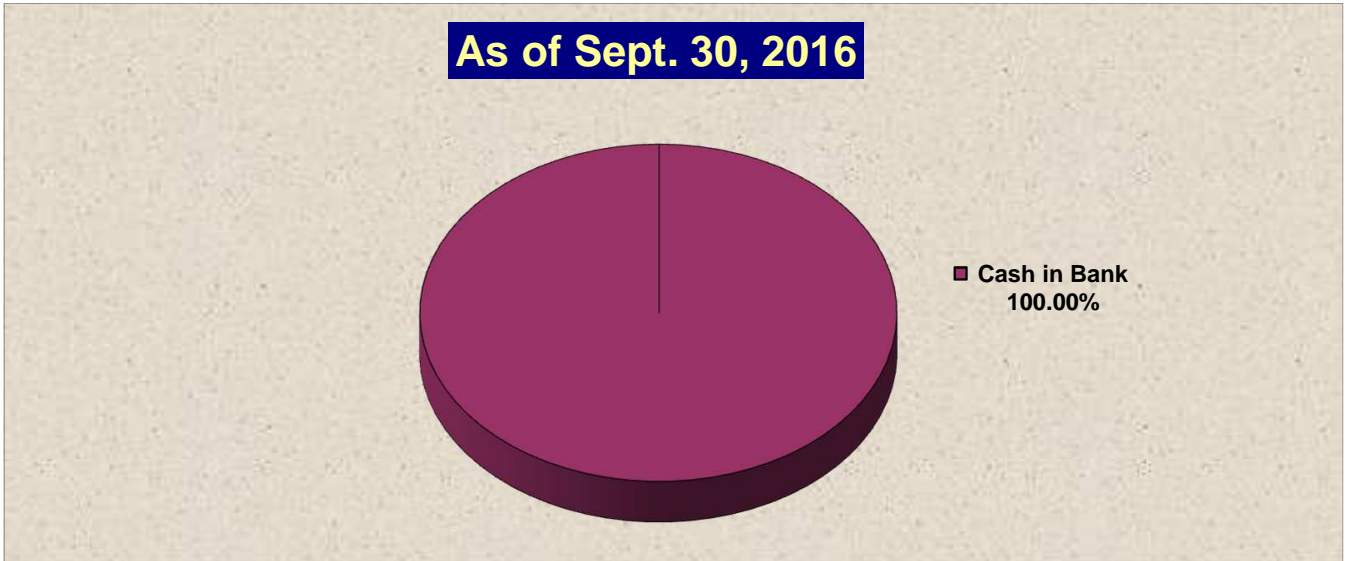
The portfolio is restricted to U.S. Treasuries, U.S. Agencies, bonds issued by Texas public entities and rated AA or better, fully insured/collateralized certificates of deposit, and fully collateralized repurchase agreements. The investments are diversified by security type to protect interest income 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, 2015	Mar. 31, 2016	June 30, 2016	Sept. 30, 2016
Average Yield to Maturity		0.234%	0.562%	0.469%	0.469%
≥ Policy Benchmark-(Six Month T-Bill)		0.482%	0.455%	0.392%	0.460%
Callable Securities ≤	30.00%	0.00%	36.29%	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%	36.29%	35.43%	31.31%
Managed Pools	100.00%	0.00%	0.00%	0.00%	0.00%
Money Market	100.00%	45.67%	46.71%	39.93%	35.33%
Cash	100.00%	54.33%	17.00%	24.64%	33.36%
Weighted Avg. Maturity ≤	270 Days	1	260	200	148
Maturities ≤30 days ≥	5.00%	100.00%	63.71%	64.57%	68.69%

Note: The portfolio is within the policy benchmark for the Average Yield to Maturity for the fiscal year. The liquidity for the portfolio is 69% at the end of the fiscal year.

ANNUAL INVESTMENT REPORT
Crime Control & Prevention District

Market Sector	Dec. 31, 2015	Mar. 31, 2016	June 30, 2016	Sept. 30, 2016
U.S. Federal Agency -Coupon Cash in Bank	\$ - 209,785	\$ - 136,422	\$ - 192,063	\$ - 202,786
Total Par Value:	\$ 209,785	\$ 136,422	\$ 192,063	\$ 202,786



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.

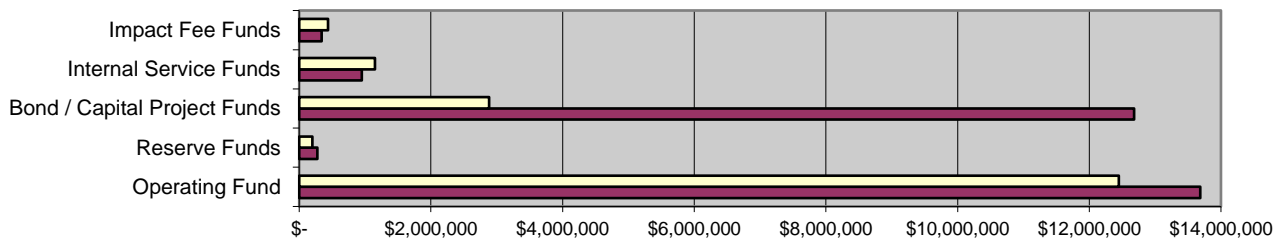
Performance Indicators	Policy Benchmark	Dec. 31, 2015	Mar. 31, 2016	June 30, 2016	Sept. 30, 2016
Average Yield to Maturity		0.220%	0.220%	0.465%	0.465%
≥ Policy Benchmark-(Six Month T-Bill)		0.482%	0.455%	0.392%	0.460%
Callable Securities ≤	30.00%	0.00%	0.00%	0.00%	0.00%
Investment By Type ≤					
U.S. 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 2015-16	Actual 2014-15	Variance
OPERATING FUNDS			
100 General Fund	\$ 2,978,413	\$ 3,345,530	\$ (367,118)
110 Water/Sewer Operations	1,684,515	2,275,941	(591,426)
120 Storm Water Utility Fund	698,732	447,819	250,914
130 Economic Development Corporation	3,062,726	3,026,759	\$ 35,967
131 Crime Control & Prevention District	202,786	173,691	29,095
132 Street Maintenance Sales Tax	638,792	426,357	212,435
Northstar Cash	4,418,517	2,751,925	1,666,592
	<u>\$ 13,684,482</u>	<u>\$ 12,448,022</u>	<u>\$ 1,236,460</u>
RESERVE FUNDS			
200 Debt Service	\$ 274,178	\$ 198,534	\$ 75,644
	<u>\$ 274,178</u>	<u>\$ 198,534</u>	<u>\$ 75,644</u>
BOND / CAPITAL PROJECTS FUNDS			
193 General Fund Capital Expenditure Fund	1,777,420	1,720,846	56,574
194 Utility Capital Expenditure Fund	339,612	612,226	(272,615)
703 Streets - 2007 C.O.	-	400,699	(400,699)
704 All Departmental - 2007 C.O.	-	-	-
705 Fire - 2010 C.O.	-	-	-
706 GF Capital Projects - 2016 C.O.	10,561,519	-	10,561,519
800 Water - 2007 C.O.	-	-	-
801 Wastewater - 2007 C.O.	-	-	-
802 Drainage - 2007 C.O.	-	151,620	(151,620)
	<u>\$ 12,678,551</u>	<u>\$ 2,885,391</u>	<u>\$ 9,793,160</u>
INTERNAL SERVICE FUNDS			
300 General Fund Vehicle Replacement	-	-	-
301 Fire Vehicle Replacement	75,652	75,430	222
302 Technology Replacement	-	-	-
310 Utility Vehicle Replacement	100,595	300,300	(199,705)
311 Utility Meter Replacement	776,350	775,540	810
	<u>\$ 952,597</u>	<u>\$ 1,151,271</u>	<u>\$ (198,674)</u>
IMPACT FEE FUNDS			
610 Water/Sewer Impact Fees	100,000	200,000	(100,000)
611 Wastewater Impact Fees	100,000	100,000	-
620 Storm Drainage Impact Fees	-	-	-
630 Roadway Impact Fees	-	-	-
699 Street Escrow Fund	138,442	138,037	406
	<u>\$ 338,442</u>	<u>\$ 438,037</u>	<u>\$ (99,594)</u>
	<u><u>\$ 27,928,249</u></u>	<u><u>\$ 17,121,254</u></u>	<u><u>\$ 10,806,995</u></u>

INVESTED BALANCE COMPARISON

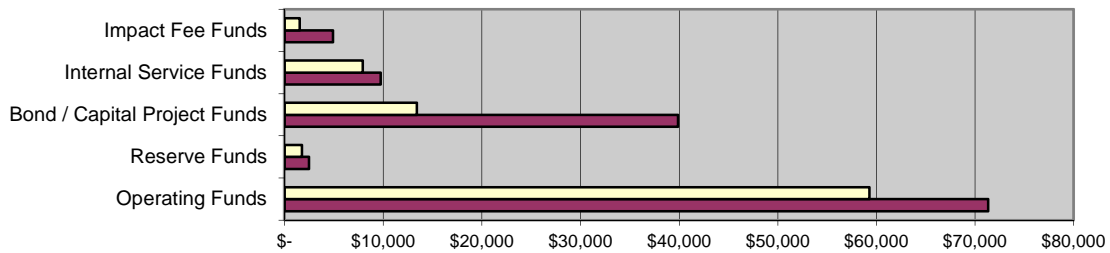


	Operating Fund	Reserve Funds	Bond / Capital Project Funds	Internal Service Funds	Impact Fee Funds
2014-15	12,448,022	198,534	2,885,391	\$1,151,271	\$438,037
2015-16	13,684,482	274,178	12,678,551	\$952,597	\$338,442

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

Fund Name	Actual 2015-16	Actual 2014-15	Variance
OPERATING FUNDS:			
100 General Fund	\$ 40,124	\$ 39,762	\$ 362
110 Water/Sewer Operations	7,363	6,996	367
120 Storm Water Utility Fund	2,720	418	2,302
130 Economic Development Corporation	\$ 18,128	\$ 11,026	\$ 7,102
131 Crime Control & Prevention District	689	149	540
132 Street Maintenance Sales Tax	2,302	932	1,370
	<u>\$ 71,326</u>	<u>\$ 59,283</u>	<u>\$ 12,043</u>
RESERVE FUNDS:			
200 Debt Service	\$ 2,484	\$ 1,772	\$ 712
	<u>\$ 2,484</u>	<u>\$ 1,772</u>	<u>\$ 712</u>
BOND /CAPITAL PROJECTS FUNDS			
193 General Fund Capital Expenditure Fun	11,774	9,058	2,715
194 Utility Capital Expenditure Fund	3,040	1,531	1,510
703 Streets - 2007 C.O.	350	1,422	(1,072)
704 All Departmental - 2007 C.O.	14	21	(7)
705 Fire - 2010 C.O.	85	44	40
706 GF Capital Projects - 2016 C.O.	23,820	-	23,820
800 Water - 2007 C.O.	56	207	(151)
801 Wastewater - 2007 C.O.	51	14	37
802 Drainage - 2007 C.O.	702	1,103	(400)
	<u>\$ 39,892</u>	<u>\$ 13,400</u>	<u>\$ 26,491</u>
INTERNAL SERVICE FUNDS			
300 General Fund Vehicle Replacement	189	86	102
301 Fire Vehicle Replacement	559	513	46
302 Technology Replacement	113	21	92
310 Utility Vehicle Replacement	1,962	1,227	735
311 Utility Meter Replacement	6,902	6,063	839
	<u>\$ 9,725</u>	<u>\$ 7,912</u>	<u>\$ 1,813</u>
IMPACT FEE FUNDS			
610 Water/Sewer Impact Fees	\$ 1,702	\$ 588	\$ 1,114
611 Wastewater Impact Fees	1,470	190	1,280
620 Storm Drainage Impact Fees	340	86	254
630 Roadway Impact Fees	935	269	667
630 Street Escrow	453	411	41
	<u>\$ 4,900</u>	<u>\$ 1,545</u>	<u>\$ 3,356</u>
	<u><u>\$ 128,327</u></u>	<u><u>\$ 83,911</u></u>	<u><u>\$ 44,415</u></u>

INTEREST EARNINGS COMPARISON



	Operating Funds	Reserve Funds	Bond / Capital Project Funds	Internal Service Funds	Impact Fee Funds
2014-15	\$59,283	\$1,772	\$13,400	\$7,912	\$1,545
2015-16	\$71,326	\$2,484	\$39,892	\$9,725	\$4,900

City of Corinth, Texas

ANNUAL INVESTMENT REPORT

For Fiscal Year Ended September 30, 2016



APPENDIX A

**Investment Report
For Month Ending September 30, 2016**



City of Corinth portfolio
Texas Compliance Change in Val Report
Sorted by Fund
October 1, 2015 - September 30, 2016

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	10/01/2015	11,605.76	2,751,924.77	12,913,718.32	11,247,126.04	1,666,592.28	4,418,517.05
SYS10012	4,418,517.05	0.464	/ /	0.00	2,751,924.77	12,913,718.32	11,247,126.04	1,666,592.28	4,418,517.05
Sub Totals For: Fund: Pooled Cash				11,605.76	2,751,924.77	12,913,718.32	11,247,126.04	1,666,592.28	4,418,517.05
				0.00	2,751,924.77	12,913,718.32	11,247,126.04	1,666,592.28	4,418,517.05
Fund: General Fund									
10513	FHLMC	100	09/01/2014	2,382.44	845,000.00	0.00	845,000.00	-845,000.00	0.00
3134G4TD0	0.00	0.000	01/27/2017	3,696.88	846,859.00	0.00	845,000.00	-846,859.00	0.00
10553	FHLMC	100	06/28/2016	2,066.67	0.00	1,000,000.00	0.00	1,000,000.00	1,000,000.00
3134G9WU7	1,000,000.00	0.800	12/28/2017	0.00	0.00	1,000,000.00	0.00	999,700.00	999,700.00
10140	TXSTAR	100	10/01/2015	1.19	530.17	0.92	531.09	-530.17	0.00
SYS10140	0.00	0.366	/ /	0.92	530.17	0.92	531.09	-530.17	0.00
10327	NTHSTR	100	10/01/2015	4,343.41	0.01	2,972,067.62	2,643,655.05	328,412.57	328,412.58
SYS10327	328,412.58	0.250	/ /	4,330.95	0.01	2,972,067.62	2,643,655.05	328,412.57	328,412.58
10495	FHLB	100	01/07/2014	6,250.00	998,209.50	0.00	0.00	1,442.01	999,651.51
3130A0C65	1,000,000.00	0.771	12/28/2016	6,250.00	1,001,600.00	0.00	0.00	-900.00	1,000,700.00
10523	FHLB	100	01/02/2015	5,250.00	500,000.00	0.00	0.00	0.00	500,000.00
3130A3Q80	500,000.00	1.047	09/29/2017	5,250.00	501,850.00	0.00	0.00	-1,650.00	500,200.00
10522	FHLMC	100	01/02/2015	3,055.56	1,000,000.00	0.00	1,000,000.00	-1,000,000.00	0.00
3134G5VA0	0.00	0.000	12/29/2017	6,250.00	1,002,400.00	0.00	1,000,000.00	-1,002,400.00	0.00
10556	FNMA	100	08/05/2016	249.66	0.00	150,870.00	0.00	150,987.29	150,987.29
3136G16Y0	150,000.00	0.824	12/26/2018	0.00	0.00	150,870.00	0.00	150,638.88	150,638.88

Portfolio CITY

City of Corinth portfolio
Texas Compliance Change in Val Report
October 1, 2015 - September 30, 2016

Inv #	Issuer	Fund	Purch Date	Interest Accrual	Beginning Book Value	Purchases/ Additions	Redemptions	Change in Value	Ending Book Value
Cusip	Par Value	YTM	Mat Date	Interest Received	Beginning Market Value				Ending Market Value
Sub Totals For: Fund: General Fund				23,598.93	3,343,739.68	4,122,938.54	4,489,186.14	-364,688.30	2,979,051.38
				25,778.75	3,353,239.18	4,122,938.54	4,489,186.14	-373,587.72	2,979,651.46
Fund: Utility Fund									
10507	FFCB	110	08/01/2014	400.00	300,000.00	0.00	300,000.00	-300,000.00	0.00
3133ECE91	0.00	0.000	02/01/2016	600.00	300,090.00	0.00	300,000.00	-300,090.00	0.00
10527	FHLB	110	09/30/2015	975.00	150,248.50	0.00	0.00	-255.75	149,992.75
3130A3PC2	150,000.00	0.674	12/12/2016	682.50	150,472.50	0.00	0.00	-517.50	149,955.00
10533	FFCB	110	01/27/2016	1,779.17	0.00	300,000.00	0.00	300,000.00	300,000.00
3133EFWC7	300,000.00	0.875	11/27/2017	875.00	0.00	300,000.00	0.00	300,240.00	300,240.00
10557	FNMA	110	08/05/2016	449.40	0.00	271,566.00	0.00	271,777.13	271,777.13
3136G16Y0	270,000.00	0.824	12/26/2018	0.00	0.00	271,566.00	0.00	271,149.98	271,149.98
10211	TXSTAR	110	10/01/2015	2,016.30	610,002.37	2,403.61	0.00	2,403.61	612,405.98
SYS10211	612,405.98	0.412	/ /	1,872.23	610,002.37	2,403.61	0.00	2,403.61	612,405.98
10358	NTHSTR	110	10/01/2015	1,415.50	1,215,938.96	553,907.14	1,417,736.67	-863,829.53	352,109.43
SYS10358	352,109.43	0.250	/ /	1,322.19	1,215,938.96	553,907.14	1,417,736.67	-863,829.53	352,109.43
10018	TXPOOL	110	10/01/2015	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	10/01/2015	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
Sub Totals For: Fund: Utility Fund				7,035.37	2,276,189.83	1,127,876.75	1,717,736.67	-589,904.54	1,686,285.29
				5,351.92	2,276,503.83	1,127,876.75	1,717,736.67	-590,643.44	1,685,860.39
Fund: Drainage Fund									
10528	FHLB	120	09/30/2015	975.00	150,248.50	0.00	0.00	-255.75	149,992.75
3130A3PC2	150,000.00	0.674	12/12/2016	682.50	150,472.50	0.00	0.00	-517.50	149,955.00
10558	FNMA	120	08/05/2016	249.66	0.00	150,870.00	0.00	150,987.29	150,987.29
3136G16Y0	150,000.00	0.824	12/26/2018	0.00	0.00	150,870.00	0.00	150,638.88	150,638.88

City of Corinth portfolio
Texas Compliance Change in Val Report
October 1, 2015 - September 30, 2016

Inv #	Issuer	Fund	Purch Date	Interest Accrual	Beginning Book Value	Purchases/ Additions	Redemptions	Change in Value	Ending Book Value
Cusip	Par Value	YTM	Mat Date	Interest Received	Beginning Market Value				Ending Market Value
10302	TXSTAR	120	10/01/2015	984.02	297,818.70	913.77	0.00	913.77	298,732.47
SYS10302	298,732.47	0.412	/ /	913.77	297,818.70	913.77	0.00	913.77	298,732.47
10332	NTHSTR	120	10/01/2015	0.68	0.00	100,000.00	0.00	100,000.00	100,000.00
SYS10332	100,000.00	0.250	/ /	0.00	0.00	100,000.00	0.00	0.00	0.00
Sub Totals For: Fund: Drainage Fund				2,209.36	448,067.20	251,783.77	0.00	251,645.31	699,712.51
				1,596.27	448,291.20	251,783.77	0.00	151,035.15	599,326.35
Fund: Economic Development									
10503	FHLMC	130	07/31/2014	33.12	50,001.36	0.00	50,000.00	-50,001.36	0.00
3134G3W55	0.00	0.000	11/24/2015	112.50	50,025.00	0.00	50,000.00	-50,025.00	0.00
10474	FFCB	130	02/01/2013	200.00	150,000.00	0.00	150,000.00	-150,000.00	0.00
3133ECE91	0.00	0.000	02/01/2016	300.00	150,045.00	0.00	150,000.00	-150,045.00	0.00
10502	FFCB	130	07/31/2014	133.33	100,000.00	0.00	100,000.00	-100,000.00	0.00
3133ECE91	0.00	0.000	02/01/2016	200.00	100,030.00	0.00	100,000.00	-100,030.00	0.00
10504	FFCB	130	07/31/2014	266.67	200,000.00	0.00	200,000.00	-200,000.00	0.00
3133ECE91	0.00	0.000	02/01/2016	400.00	200,060.00	0.00	200,000.00	-200,060.00	0.00
10497	FHLB	130	01/28/2014	521.87	250,015.18	0.00	250,000.00	-250,015.18	0.00
313382K85	0.00	0.000	03/18/2016	562.50	250,100.00	0.00	250,000.00	-250,100.00	0.00
10508	FHLB	130	08/01/2014	814.12	389,911.67	0.00	390,000.00	-389,911.67	0.00
313382K85	0.00	0.000	03/18/2016	877.50	390,156.00	0.00	390,000.00	-390,156.00	0.00
10515	FHLMC	130	09/01/2014	380.63	135,000.00	0.00	135,000.00	-135,000.00	0.00
3134G4TD0	0.00	0.000	01/27/2017	590.63	135,297.00	0.00	135,000.00	-135,297.00	0.00
10519	FHLMC	130	10/31/2014	662.57	235,000.00	0.00	235,000.00	-235,000.00	0.00
3134G4TD0	0.00	0.000	01/27/2017	1,028.13	235,517.00	0.00	235,000.00	-235,517.00	0.00
10526	FHLMC	130	06/30/2015	803.54	285,000.00	0.00	285,000.00	-285,000.00	0.00
3134G4TD0	0.00	0.000	01/27/2017	1,246.88	285,627.00	0.00	285,000.00	-285,627.00	0.00

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Cusip	Par Value	YTM	Mat Date	Interest Received	Beginning Market Value				Ending Market Value
10007	TXPOOL	130	10/01/2015	2,211.62	430,830.21	522,637.64	0.00	522,637.64	953,467.85
SYS10007	953,467.85	0.383	/ /	1,953.95	430,830.21	522,637.64	0.00	522,637.64	953,467.85
10021	NTHSTR	130	10/01/2015	754.69	245,221.05	383,950.44	434,913.43	-50,962.99	194,258.06
SYS10021	194,258.06	0.300	/ /	0.00	245,221.05	383,950.44	434,913.43	-50,962.99	194,258.06
10379	NTHSTR	130	10/01/2015	645.94	555,707.91	637.05	556,344.96	-555,707.91	0.00
SYS10379	0.00	0.250	/ /	637.05	555,707.91	637.05	556,344.96	-555,707.91	0.00
10542	FAMC	130	03/08/2016	16,906.10	0.00	612,161.55	0.00	598,411.44	598,411.44
30769QAA8	585,000.00	0.924	04/19/2017	3,414.54	0.00	612,161.55	0.00	599,157.00	599,157.00
10541	FHLMC	130	02/25/2016	2,400.00	0.00	500,000.00	0.00	500,000.00	500,000.00
3134G8L49	500,000.00	0.800	08/25/2017	2,000.00	0.00	500,000.00	0.00	499,200.00	499,200.00
10543	FHLB	130	03/11/2016	2,955.55	0.00	382,812.00	0.00	381,802.31	381,802.31
313378PK1	380,000.00	0.917	09/28/2017	2,911.22	0.00	382,812.00	0.00	382,090.00	382,090.00
10534	FFCB	130	01/27/2016	2,668.75	0.00	450,000.00	0.00	450,000.00	450,000.00
3133EFWC7	450,000.00	0.875	11/27/2017	1,312.50	0.00	450,000.00	0.00	450,360.00	450,360.00
Sub Totals For: Fund: Economic Development				32,358.50	3,026,687.38	2,852,198.68	2,786,258.39	51,252.28	3,077,939.66
				17,547.40	3,028,616.17	2,852,198.68	2,786,258.39	49,916.74	3,078,532.91
Fund: Crime Control & Prev									
10323	NTHSTR	131	10/01/2015	586.02	173,691.25	135,053.37	105,958.46	29,094.91	202,786.16
SYS10322	202,786.16	0.464	/ /	0.00	173,691.25	135,053.37	105,958.46	29,094.91	202,786.16
Sub Totals For: Fund: Crime Control & Prev				586.02	173,691.25	135,053.37	105,958.46	29,094.91	202,786.16
				0.00	173,691.25	135,053.37	105,958.46	29,094.91	202,786.16
Fund: Street Maintenance S									
10486	FHLMC	132	09/30/2013	99.37	150,004.07	0.00	150,000.00	-150,004.07	0.00
3134G3W55	0.00	0.000	11/24/2015	337.50	150,075.00	0.00	150,000.00	-150,075.00	0.00
10551	FHLB	132	06/16/2016	420.00	0.00	200,000.00	0.00	200,000.00	200,000.00
3130A8HM8	200,000.00	0.720	01/16/2018	120.00	0.00	200,000.00	0.00	199,720.00	199,720.00

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Cusip	Par Value	YTM	Mat Date	Interest Received	Beginning Market Value				Ending Market Value
10155	TXSTAR	132	10/01/2015	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	10/01/2015	663.70	75,037.62	150,631.97	0.00	150,631.97	225,669.59
SYS10331	225,669.59	0.250	/ /	631.97	75,037.62	150,631.97	0.00	150,631.97	225,669.59
10401	NTHSTR	132	10/01/2015	539.16	201,319.29	313,404.77	301,601.63	11,803.14	213,122.43
SYS10042	213,122.43	0.464	/ /	0.00	201,319.29	313,404.77	301,601.63	11,803.14	213,122.43
Sub Totals For: Fund: Street Maintenance S				1,722.23	426,360.98	664,036.74	451,601.63	212,431.04	638,792.02
				1,089.47	426,431.91	664,036.74	451,601.63	212,080.11	638,512.02
Fund: General Fund Capital									
10512	FHLMC	193	09/01/2014	1,300.00	999,950.19	0.00	1,000,000.00	-999,950.19	0.00
3134G33R9	0.00	0.000	01/15/2016	2,250.00	1,000,700.00	0.00	1,000,000.00	-1,000,700.00	0.00
10500	FHLB	193	03/28/2014	2,187.50	250,000.00	0.00	0.00	0.00	250,000.00
3133782N0	250,000.00	0.874	03/10/2017	2,187.50	251,375.00	0.00	0.00	-975.00	250,400.00
10464	NTHSTR	193	10/01/2015	1,600.01	470,846.33	101,574.16	0.00	101,574.16	572,420.49
SYS10464	572,420.49	0.250	/ /	1,574.16	470,846.33	101,574.16	0.00	101,574.16	572,420.49
10535	FAMC	193	01/11/2016	4,041.91	0.00	456,082.90	0.00	455,690.22	455,690.22
31315P5L9	455,000.00	1.108	01/08/2018	2,751.61	0.00	456,082.90	0.00	456,274.00	456,274.00
10559	FHLMC	193	08/25/2016	500.00	0.00	500,000.00	0.00	500,000.00	500,000.00
3134G96J1	500,000.00	1.000	02/25/2019	0.00	0.00	500,000.00	0.00	499,200.00	499,200.00
Sub Totals For: Fund: General Fund Capital				9,629.42	1,720,796.52	1,057,657.06	1,000,000.00	57,314.19	1,778,110.71
				8,763.27	1,722,921.33	1,057,657.06	1,000,000.00	55,373.16	1,778,294.49
Fund: Water/Wastewater Cap									
10465	NTHSTR	194	10/01/2015	2,356.82	612,226.33	302,385.34	575,000.00	-272,614.66	339,611.67
SYS10465	339,611.67	0.250	/ /	2,385.34	612,226.33	302,385.34	575,000.00	-272,614.66	339,611.67
Sub Totals For: Fund: Water/Wastewater Cap				2,356.82	612,226.33	302,385.34	575,000.00	-272,614.66	339,611.67
				2,385.34	612,226.33	302,385.34	575,000.00	-272,614.66	339,611.67

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Cusip	Par Value	YTM	Mat Date	Interest Received	Beginning Market Value				Ending Market Value
Fund: General Debt Service									
10328	NTHSTR	200	10/01/2015	661.39	198,533.82	75,643.75	0.00	75,643.75	274,177.57
SYS10328	274,177.57	0.250	/ /	643.75	198,533.82	75,643.75	0.00	75,643.75	274,177.57
10017	TXSTAR	200	10/01/2015	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				661.39	198,533.82	75,643.75	0.00	75,643.75	274,177.57
				643.75	198,533.82	75,643.75	0.00	75,643.75	274,177.57
Fund: GF Vehicle & Equip									
10462	NTHSTR	300	10/01/2015	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	10/01/2015	222.50	75,430.34	221.65	0.00	221.65	75,651.99
SYS10510	75,651.99	0.250	/ /	221.65	75,430.34	221.65	0.00	221.65	75,651.99
Sub Totals For: Fund: Fire Vehicle Replace				222.50	75,430.34	221.65	0.00	221.65	75,651.99
				221.65	75,430.34	221.65	0.00	221.65	75,651.99
Fund: Utility Vehicle & Eq									
10487	FHLMC	310	09/30/2013	132.50	200,005.42	0.00	200,000.00	-200,005.42	0.00
3134G3W55	0.00	0.000	11/24/2015	450.00	200,100.00	0.00	200,000.00	-200,100.00	0.00
10463	NTHSTR	310	10/01/2015	295.85	100,299.95	294.73	0.00	294.73	100,594.68
SYS10462	100,594.68	0.250	/ /	294.73	100,299.95	294.73	0.00	294.73	100,594.68
Sub Totals For: Fund: Utility Vehicle & Eq				428.35	300,305.37	294.73	200,000.00	-199,710.69	100,594.68
				744.73	300,399.95	294.73	200,000.00	-199,805.27	100,594.68
Fund: Utility Meter Replac									

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Cusip	Par Value	YTM	Mat Date	Interest Received	Beginning Market Value				Ending Market Value
10524	FHLB	311	01/02/2015	5,250.00	500,000.00	0.00	0.00	0.00	500,000.00
3130A3Q80	500,000.00	1.047	09/29/2017	5,250.00	501,850.00	0.00	0.00	-1,650.00	500,200.00
10511	NTHSTR	311	10/01/2015	812.77	275,540.24	809.68	0.00	809.68	276,349.92
SYS10511	276,349.92	0.250	/ /	809.68	275,540.24	809.68	0.00	809.68	276,349.92
Sub Totals For: Fund: Utility Meter Replac				6,062.77	775,540.24	809.68	0.00	809.68	776,349.92
				6,059.68	777,390.24	809.68	0.00	-840.32	776,549.92
Fund: Water Impact Fees									
10485	FHLMC	610	09/30/2013	66.25	100,002.71	0.00	100,000.00	-100,002.71	0.00
3134G3W55	0.00	0.000	11/24/2015	225.00	100,050.00	0.00	100,000.00	-100,050.00	0.00
10529	FHLB	610	09/30/2015	650.00	100,165.67	0.00	0.00	-170.50	99,995.17
3130A3PC2	100,000.00	0.674	12/12/2016	455.00	100,315.00	0.00	0.00	-345.00	99,970.00
10052	TXSTAR	610	10/01/2015	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				716.25	200,168.38	0.00	100,000.00	-100,173.21	99,995.17
				680.00	200,365.00	0.00	100,000.00	-100,395.00	99,970.00
Fund: Wastewater Impact Fe									
10530	FHLB	611	09/30/2015	650.00	100,165.67	0.00	0.00	-170.50	99,995.17
3130A3PC2	100,000.00	0.674	12/12/2016	455.00	100,315.00	0.00	0.00	-345.00	99,970.00
10315	TXSTAR	611	10/01/2015	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
Sub Totals For: Fund: Wastewater Impact Fe				650.00	100,165.67	0.00	0.00	-170.50	99,995.17
				455.00	100,315.00	0.00	0.00	-345.00	99,970.00
Fund: Roadway Impact Fees									
10301	TXSTAR	630	10/01/2015	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

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Cusip	Par Value	YTM	Mat Date	Interest Received	Beginning Market Value				Ending Market Value
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	10/01/2015	407.15	138,036.52	405.61	0.00	405.61	138,442.13
SYS10329	138,442.13	0.250	/ /	405.61	138,036.52	405.61	0.00	405.61	138,442.13
10019	TXPOOL	699	10/01/2015	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				407.15	138,036.52	405.61	0.00	405.61	138,442.13
				405.61	138,036.52	405.61	0.00	405.61	138,442.13
Fund: Street 2007 CO									
10064	TXPOOL	703	10/01/2015	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	10/01/2015	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	10/01/2015	164.69	400,698.77	78.05	400,776.82	-400,698.77	0.00
SYS10330	0.00	0.250	/ /	78.05	400,698.77	78.05	400,776.82	-400,698.77	0.00
Sub Totals For: Fund: Street 2007 CO				164.69	400,698.77	78.05	400,776.82	-400,698.77	0.00
				78.05	400,698.77	78.05	400,776.82	-400,698.77	0.00
Fund: Tech 2007 CO									
10380	NTHSTR	704	10/01/2015	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	10/01/2015	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	10/01/2015	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

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Cusip	Par Value	YTM	Mat Date	Interest Received	Beginning Market Value	Purchases/ Additions	Redemptions	Change in Value	Ending Market Value
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	10/01/2015	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	4,133.33	0.00	2,000,000.00	0.00	2,000,000.00	2,000,000.00
3134G9WU7	2,000,000.00	0.800	12/28/2017	0.00	0.00	2,000,000.00	0.00	1,999,400.00	1,999,400.00
10552	FHLB	706	06/16/2016	1,155.00	0.00	550,000.00	0.00	550,000.00	550,000.00
3130A8HM8	550,000.00	0.720	01/16/2018	330.00	0.00	550,000.00	0.00	549,230.00	549,230.00
10554	FHLMC	706	06/30/2016	2,022.22	0.00	1,000,000.00	0.00	1,000,000.00	1,000,000.00
3134G9G76	1,000,000.00	0.800	06/29/2018	0.00	0.00	1,000,000.00	0.00	997,800.00	997,800.00
10560	FHLMC	706	08/25/2016	1,000.00	0.00	1,000,000.00	0.00	1,000,000.00	1,000,000.00
3134G96J1	1,000,000.00	1.000	02/25/2019	0.00	0.00	1,000,000.00	0.00	998,400.00	998,400.00
10561	FHLB	706	08/30/2016	898.26	0.00	1,000,000.00	0.00	1,000,000.00	1,000,000.00
3130A8YM9	1,000,000.00	1.006	02/28/2019	0.00	0.00	1,000,000.00	0.00	998,700.00	998,700.00
10549	TXSTAR	706	05/19/2016	12,293.11	0.00	20,011,518.72	5,000,000.00	5,011,518.72	5,011,518.72
SYS10549	5,011,518.72	0.412	/ /	11,518.72	0.00	20,011,518.72	5,000,000.00	5,011,518.72	5,011,518.72
Sub Totals For: Fund: 2016 CO General Capi				21,501.92	0.00	25,561,518.72	5,000,000.00	10,561,518.72	10,561,518.72
				11,848.72	0.00	25,561,518.72	5,000,000.00	10,555,048.72	10,555,048.72
Fund: Water 2007 CO									
10066	TXPOOL	800	10/01/2015	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

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Cusip	Par Value	YTM	Mat Date	Interest Received	Beginning Market Value				Ending Market Value
10135	TXSTAR	800	10/01/2015	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	10/01/2015	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	10/01/2015	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
10136	TXSTAR	801	10/01/2015	0.00	0.29	0.00	0.29	-0.29	0.00
SYS10136	0.00	0.031	/ /	0.00	0.29	0.00	0.29	-0.29	0.00
10334	NTHSTR	801	10/01/2015	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	0.29	0.00	0.29	-0.29	0.00
				0.00	0.29	0.00	0.29	-0.29	0.00
Fund: Drainage 2007 CO									
10137	TXSTAR	802	10/01/2015	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	10/01/2015	191.22	151,619.61	188.52	151,808.13	-151,619.61	0.00
SYS10458	0.00	0.250	/ /	188.52	151,619.61	188.52	151,808.13	-151,619.61	0.00
10068	TXPOOL	802	10/01/2015	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				191.22	151,619.61	188.52	151,808.13	-151,619.61	0.00
				188.52	151,619.61	188.52	151,808.13	-151,619.61	0.00

City of Corinth portfolio
Texas Compliance Change in Val Report
October 1, 2015 - September 30, 2016

Inv #	Issuer	Fund	Purch Date	Interest Accrual	Beginning Book Value	Purchases/ Additions	Redemptions	Change in Value	Ending Book Value
Cusip	Par Value	YTM	Mat Date	Interest Received	Beginning Market Value				Ending Market Value
Report Grand Totals:				122,108.65	17,120,182.95	49,066,809.28	28,225,452.57	10,827,348.85	27,947,531.80
				83,838.13	17,136,635.51	49,066,809.28	28,225,452.57	10,704,862.00	27,841,497.51

City of Corinth, Texas

ANNUAL INVESTMENT REPORT

For Fiscal Year Ended September 30, 2016



APPENDIX B

First Southwest Portfolio Assessment



City of Corinth, Texas
Portfolio Exceptions
Quarter Ending September 30, 2016

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:

There were no exceptions noted.

A handwritten signature in blue ink, appearing to read "Scott D. McIntyre", is written over a horizontal line.

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

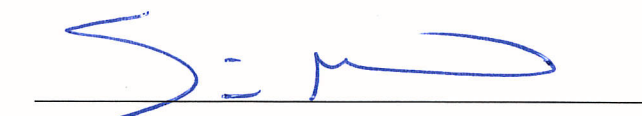
A handwritten date "11/11/16" in blue ink is written over a horizontal line.

Date

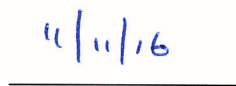
City of Corinth, Texas
Portfolio Assessment
Quarter Ending September 30, 2016

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

- After raising the overnight rate target by 25 bps in December 2015, the Fed has spent all of 2016 on hold. This is expected to change on December 14th when the FOMC will likely vote to increase the fed funds rate by another quarter point to a range of 0.50% to 0.75%. Market yields have risen in anticipation and the City's portfolio appears to be in good position to benefit from the expected move. The weighted-average maturity of the City's overall portfolio is less than five (5) months at quarter end. This defensive positioning suggests that the portfolio will benefit more significantly as interest rates climb than if the average maturity were longer.
- The City's overall portfolio yield was 0.62% at quarter end compared to the 0.43% quarterly average of the six-month Treasury bill.
- There are no apparent credit risks being assumed; no direct exposure to foreign markets; no leveraging or speculation.
- Bank deposits are secured through a Federal Home Loan Bank (FHLB) standby letter of credit in the amount of \$9 million.



Scott D. McIntyre, CFA
Managing Director



Date

City of Corinth, Texas

ANNUAL INVESTMENT REPORT

For Fiscal Year Ended September 30, 2016



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 of 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: 11/30/2016

Title: FY 2016-2017 City Investment Policy

Submitted For: Lee Ann Bunselmeyer, Acting City Manager

Submitted By: Caryn Riggs, Assistant Director

Finance Review: N/A

Legal Review: N/A

AGENDA ITEM

Review and approve the Investment Policy for City of Corinth for FY 2016-2017.

AGENDA ITEM SUMMARY/BACKGROUND

In accordance with 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 review process, staff reviews the policy and may recommend revisions to the existing policy, if needed. Recommended revisions to the City's Investment Policy are listed below.

1. Section VI Responsibility and Standard of Care, Section A.1, Delegation of Authority (page 6, line 236) and Section X Authorized Financial Dealers and Institutions, Section A (page 11, line 495) - Removed "or the Director's designated representative." This policy grants explicit delegation of authority to the Director of Finance.
2. Section VI Responsibility and Standard of Care, Section B, Prudence (page 6, lines 267-272) - Updated prudent investor rule to coincide with the Public Funds Investment Act verbiage.
3. Replaced Officials with Officers throughout the policy to coincide with the Public Funds Investment Act verbiage.

RECOMMENDATION

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

Attachments

Investment Policy

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**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.

28 **I. PURPOSE**

29
30 The purpose of this investment policy (the “policy”) is to set forth specific investment
31 policy and strategy guidelines for the City in order to achieve the goals of safety,
32 liquidity, rate-of-return, and public trust for all investment activities.
33

34 **II. SCOPE**

35
36 The investment policy shall govern the investment of all financial assets considered to
37 be part of the City and includes the following separately invested funds or fund types:
38 Operating, Reserve, Bond, Special and Capital Project Funds and any other funds which
39 have been contractually delegated to the City for management purposes. The City may
40 add or delete funds as may be required by law, or for proper accounting procedures.
41 This policy does not include funds governed by approved trust agreements, or assets
42 administered for the benefit of the City by outside agencies under retirement or deferred
43 compensation programs. In addition to this policy, bond funds (including debt service
44 and reserve funds) are governed by bond ordinances and are subject to the provisions
45 of the Internal Revenue Code and applicable federal regulations governing the
46 investment of bond proceeds. The City shall and will maintain responsibility for these
47 funds to the extent required by: Federal and State law; the City Charter; and donor
48 stipulations.
49

50 **III. INVESTMENT OBJECTIVES**

51
52 Funds of the City shall be invested in accordance with all applicable Texas statutes, this
53 policy and any other approved, written administrative procedures. The five objectives of
54 the City’s investment activities shall be as follows (in the order of priority):
55

56 **A. Safety** - Preservation and safety of Principal. Safety of principal invested is the
57 foremost objective in the investment decisions of the City. Each investment
58 transaction shall seek to ensure the preservation of capital in the overall portfolio.
59 The risk of loss shall be controlled by investing only in authorized securities as
60 defined in this policy, by qualifying the financial institutions with which the City will
61 transact, and by portfolio diversification. Safety is defined as the undiminished return
62 of the principal on the City’s investments.
63

64 **B. Liquidity** - The investment portfolio shall be managed to maintain liquidity to ensure
65 that funds will be available to meet the City’s cash flow requirements and by
66 investing in securities with active secondary markets. Investments shall be structured
67 in such a manner as to provide liquidity necessary to pay obligations as they become
68 due. A security may be liquidated prior to its stated maturity to meet unanticipated
69 cash requirements or to otherwise favorably adjust the City’s portfolio.
70

71 **C. Diversification** - Investment maturities shall be staggered throughout the budget
72 cycle to provide cash flow based on the anticipated needs of the City. Diversifying
73 the appropriate maturity structure will reduce market cycle risk.
74

75 **D. Market Rate-of-Return (Yield)** - The City’s investment portfolio shall be designed to
76 optimize a market rate-of-return on investments consistent with risk constraints and
77 cash flow requirements of the portfolio. The investment portfolio shall be managed in
78 a manner which seeks to attain a market rate-of-return throughout budgetary and

79 economic cycles. The City will not attempt to consistently attain an unrealistic above
80 market rate-of-return, as this objective will subject the overall portfolio to greater risk.
81 Therefore, the City's rate-of-return objective is secondary to those of safety and
82 liquidity. Rate-of-return (yield) is defined as the annual income returned on an
83 investment, expressed as a percentage.
84

- 85 E. Public Trust - The Investment Officer(s) shall avoid any transactions that might
86 impair public confidence in the City's ability to govern effectively. The governing body
87 recognizes that in diversifying the portfolio, occasional measured losses due to
88 market volatility are inevitable, and must be considered within the context of the
89 overall portfolio's investment return, provided that adequate diversification has been
90 implemented. The prudence of the investment decision shall be measured in
91 accordance with the tests set forth in Section 2256.006(b) of the Act.
92

93 IV. INVESTMENT STRATEGY

94
95 The City maintains a comprehensive and proactive cash management program which is
96 designed to monitor and control all City funds to ensure maximum utilization and yield a
97 market rate-of-return. The basic and underlying strategy of this program is that all of the
98 City's funds are earning interest. It is the responsibility and obligation of the City to
99 maintain a flexible approach and be prepared to modify the investment strategy as
100 market conditions dictate. The investment strategy described is predicated on conditions
101 as they now exist and are subject to change. The investment strategy emphasizes low
102 credit risk, diversification, and the management of maturities. The strategy also
103 considers the expertise and time constraints of the Investment Officers. The allowable
104 investments as defined in Section VII of this policy reflect the avoidance of credit risk.
105 Diversification refers to dividing investments among a variety of securities offering
106 independent returns. This strategy uses local government investment pools to achieve
107 diversification. The active management of maturities refers to structuring the maturity
108 dates of the direct investments so that, while funds are initially invested for a longer
109 period of time, some investments mature as cash needs require. The strategies for the
110 City's investment activities shall be as follows:
111

112 Strategy No. 1

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

179 **Strategy No. 5**

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

187
188 **Strategy No. 6**

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

194
195 **Strategy No. 7**

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

201
202 **Strategy No. 8**

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

207
208 **Strategy No. 9**

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

212
213 **V. FINANCE AUDIT COMMITTEE**

214
215 **A. Members** - There is hereby created a Finance Audit Committee consisting of the City
216 Manager, Director of Finance, a secondary Investment Officer designated by the
217 Director of Finance, two members of the City Council and two citizens appointed by
218 the City Council by majority vote.

219
220 **B. Scope** - The Finance Audit Committee shall meet at least annually to determine
221 general strategies and to monitor results. Included in its deliberations will be such
222 topics as: economic outlook, portfolio diversification, maturity structure, potential risk
223 to the City's funds, authorized brokers and dealers, and the target rate-of-return on
224 the investment portfolio.

225
226 **C. Procedures** - The Finance Audit Committee shall provide minutes of its meetings.
227 Any two members of the Finance Audit Committee may request a special meeting,
228 and four members shall constitute a quorum. The Finance Audit Committee shall
229 establish its own rules of procedures.

230 VI. RESPONSIBILITY AND STANDARD OF CARE

231
232 A. The responsibility for the daily operation and management of the City's investments
233 shall be outlined within this section.

234
235 1. Delegation of Authority - Management responsibility for the investment program
236 is hereby delegated to the Director of Finance ~~or the Director's designated~~
237 ~~representative~~, who shall be authorized to deposit, withdraw, invest, transfer or
238 manage the funds of the City and shall establish written procedures for the
239 operation of the investment program, consistent with this policy. Such procedures
240 shall include explicit delegation of authority to other persons responsible for
241 investment transactions. All persons involved in investment activities will be
242 referred to in this policy as "Investment ~~Officials~~Officers." No persons may
243 engage in investment transactions, except as provided under the terms of this
244 policy and the procedures established by the Director of Finance.

245
246 2. The Director of Finance shall assume responsibility for all transactions
247 undertaken and shall establish a system of controls to regulate the activities of
248 subordinate Investment ~~Officials~~Officers. The system of controls shall be
249 designed to provide reasonable assurance that ensures the assets of the City are
250 protected from loss, theft or misuse. The concept of reasonable assurance
251 recognizes that:

252
253 a. The cost of control should not exceed the benefits likely to be derived; and,

254
255 b. The valuation of costs and benefits requires estimates and judgments by
256 management.

257
258 3. The Director of Finance shall be designated as the primary Investment Officer for
259 the City and shall be responsible for investment decisions and activities under
260 the direction of the City Manager. The Director of Finance may delegate any
261 phase of the investment program to a secondary Investment Officer. Both the
262 Director of Finance and the designated secondary Investment Officer are
263 responsible for daily investment decisions and activities. However, ultimate
264 responsibility for investment decisions will rest with the Director of Finance.

265
266 B. Prudence - The standard of prudence to be applied by the Investment Officer shall
267 be the ~~"prudent investor"~~ rule, which states, ~~"investments shall be made with~~
268 ~~judgment and care, under prevailing circumstances then prevailing, that awchich~~
269 ~~persons~~ of prudence, discretion and intelligence would exercise in the management
270 of the person's ~~their~~ own affairs, not for speculation, but for investment, considering
271 the probable safety of ~~their~~ capital ~~as well as and~~ the probable income to be
272 derived."
273 In determining whether the Investment Officer has exercised prudence
274 with respect to an investment decision, the determination shall be made taking into
275 consideration the following:

276
277 1. The investment of all funds over which the Investment Officer had responsibility
278 rather than a consideration as to the prudence of a single investment; and

279
280 2. The investment decision was consistent with the written investment policy and
procedures of the City.

281 C. Due Diligence - The Director of Finance, designated secondary Investment Officer,
282 Mayor, City Council, City Manager, other Finance employees and citizen committee
283 members acting in accordance with written policies and procedures and exercising
284 due diligence, shall not be held personally responsible for a specific security's credit
285 risk or market price changes, provided that these deviations are reported in a timely
286 manner and that appropriate action is taken to control adverse developments.
287

288 D. Ethical Standards and Conflicts of Interest

289
290 1. All City Investment Officials having a direct or indirect role in the investment of
291 City funds shall act as custodians of the public trust avoiding any transaction
292 which might involve a conflict of interest, the appearance of a conflict of interest,
293 or any activity which might otherwise discourage public confidence. Officers and
294 employees involved in the investment process shall refrain from personal
295 business activity that could conflict with proper execution of the investment
296 program, or which could impair the ability to make impartial investment decisions.
297

298 2. An Investment Officer who has a personal business relationship with the
299 depository bank or with any entity seeking to sell an investment to the City shall
300 file a statement disclosing that personal business interest.
301

302 3. An Investment Officer has a personal business relationship with a business
303 organization if:
304

305 a. The Investment Officer or one related to the Investment Officer within the
306 second degree of affinity or consanguinity owns 10% or more of the voting
307 stock or shares of the business organization or owns \$5,000 or more of the
308 fair market value of the business organization;
309

310 b. Funds received by the Investment Officer or one related to the Investment
311 Officer within the second degree of affinity or consanguinity from the business
312 organization exceed 10% of the Investment Officers gross income for the
313 prior year; or
314

315 c. The Investment Officer or one related to the Investment Officer within the
316 second degree of affinity or consanguinity has acquired from the business
317 organization during the prior year investments with a book value of \$2,500 or
318 more for the personal account of the Investment Officer.
319

320 d. An Investment Officer who is related within the second degree of affinity or
321 consanguinity to an individual seeking to sell an investment to the City shall
322 file a statement disclosing that relationship. A statement required under this
323 subsection must be filed with the Texas Ethics Commission and the City
324 Council.
325

326 E. Training - The City shall provide periodic training in investments for the investment
327 personnel through courses and seminars offered by professional organizations and
328 associations in order to ensure the quality and capability of the City's investment
329 personnel making investment decisions in compliance with Public Funds Investment
330 Act (PFIA). The Investment Officers and the Finance Audit Committee members
331 shall attend at least one training session containing at least 10 hours of instruction

332 relating to the officer's responsibility under the PFIA within 12 months after assuming
333 duties, and thereafter shall attend at least 8 hours of additional investment training in
334 subsequent two-year periods which begin on the first day of the fiscal year and
335 consist of the two consecutive fiscal years after that date. The Government Finance
336 Officers Association of Texas, the Government Treasurers Organization of Texas,
337 the Texas Municipal League, or the North Central Texas Council of Governments are
338 approved as independent training sources by the City Council.
339

340 VII. AUTHORIZED INVESTMENTS

341
342 A. Generally - Safety of principal is the primary objective in investing public funds and
343 can be accomplished by limiting credit risk and interest rate risk. Credit risk is the
344 risk associated with the failure of a security issuer or backer to pay back principal
345 and interest on a timely basis. Interest rate risk is the risk that the value of a portfolio
346 will decline due to an increase in the general level of interest rates. In order to
347 provide for safety of principal as the City's primary objective, only certain investments
348 are authorized as acceptable investments for the City. The following list of
349 authorized investments for the City intentionally excludes some investments
350 authorized by state law. These restrictions are intended to limit possible risk and
351 provide the maximum measure of safety to City funds. In the event an authorized
352 investment loses its required minimum credit rating, all prudent measures will be
353 taken to liquidate said investment. Additionally, the City is not required to liquidate
354 investments that were authorized at the time of purchase.
355

356 B. Authorized and Acceptable Investments - The authorized list of investment
357 instruments is as follows:
358

- 359 1. Obligations of the United States or its agencies and instrumentalities or any
360 obligation fully guaranteed or insured by the Federal Deposit Insurance
361 Corporation (FDIC), *excluding mortgage-backed securities*.
362
- 363 2. Direct obligations of the State of Texas, or its agencies and instrumentalities,
364 other obligations, the principal of and interest on which are unconditionally
365 guaranteed or insured by, or backed by the full faith and credit of, the State of
366 Texas or the United States or their respective agencies and instrumentalities,
367 excluding mortgage-related securities.

368 C. Certificates of Deposit - A certificate of deposit issued by a depository institution that
369 has its main office or branch office in this state, and is secured in accordance with
370 the specific collateralization requirements contained in section XI.B of this policy. In
371 addition, an investment in "bundled" or "shared" CDs made in accordance with the
372 following conditions is permitted:

- 373 1. The funds are invested through a broker that has its main office or a branch
374 office in this state selected from a list adopted by the City as required by Section
375 2256.025; or through a depository institution that has its main office or a branch
376 office in this state and that is selected by the City;
- 377 2. The selected broker or depository institution arranges for the deposit of the funds
378 in certificates of deposit in one or more federally insured depository institutions,
379 wherever located, for the account of the City.

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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
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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.
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- 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.
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- 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*.
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- 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.
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- 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.).
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- H. Unauthorized Securities - State law specifically prohibits investment in the following securities:

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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.

443 **VIII. DIVERSIFICATION**

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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.

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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.

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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.

478 C. Diversification by Investment Instrument - Diversification by investment instrument
479 shall not exceed the following guidelines for each type of instrument:
480

	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%

483
484 **IX. SECURITY SWAPS**
485

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

492
493 **X. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS**
494

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

502
503 B. All financial institutions and broker/dealers who desire to become qualified bidders
504 for investment transactions must supply the Director of Finance with the following, as
505 appropriate: audited financial statements, proof of Financial Industry Regulatory
506 Authority certification trading resolution, proof of State registration, completed
507 broker/dealer questionnaire and certification of having read the City's investment
508 policy.

509
510 C. The Finance Audit Committee shall be responsible for adopting the list of brokers
511 and dealers of government securities. Their selection shall be among only primary
512 government securities dealers that report directly to the New York Federal Reserve
513 Bank, unless a comprehensive credit and capitalization analysis reveals that other
514 firms are adequately financed to conduct public business. The Finance Audit
515 Committee shall base its evaluation of security dealers and financial institutions
516 upon:
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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 ~~Officials~~ 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.

570 J. It is the policy of the City that all security transactions entered into with the City shall
571 be conducted on a "Delivery-versus-Payment" basis through the Federal Reserve
572 System. By doing this, City funds are not released until the City has received,
573 through the Federal Reserve wire, the securities purchased. The City shall authorize
574 the release of funds only after receiving notification from the safekeeping bank that a
575 purchased security has been received in the safekeeping account of the City. The
576 notification may be oral, but shall be confirmed in writing.
577

578 **XI. SAFEKEEPING AND COLLATERALIZATION**
579

580 A. Safekeeping - All securities owned by the City shall be held by a third-party
581 safekeeping agent selected by the City. The collateral for bank deposits will be held
582 in the City's name in the bank's trust department, in a Federal Reserve Bank account
583 in the City's name, or a third-party financial institutions doing business in the state of
584 Texas, in accordance with state law. Original safekeeping receipts shall be obtained
585 and held by the City. The City shall contract with a bank or banks for the safekeeping
586 of securities either owned by the City as part of its investment portfolio or held as
587 collateral to secure time deposits.
588

589 B. Collateralization - Consistent with the requirements of the Public Funds Collateral
590 Act, it is the policy of the City to require full collateralization of all City funds on
591 deposit with a depository bank. The market value of the investments securing the
592 deposit of funds shall be at least equal to 102% of the amount of the deposits of
593 funds reduced to the extent that the deposits are insured by the Federal Deposit
594 Insurance Corporation (FDIC). Securities pledged as collateral shall be held by an
595 independent third party with whom the City has a current custodial agreement. The
596 agreement is to specify the acceptable investment securities as collateral, including
597 provisions relating to possession of the collateral, the substitution or release of
598 investment securities, ownership of securities, and the method of valuation of
599 securities. The safekeeping agreement must clearly state that the safekeeping bank
600 is instructed to release purchased and collateral securities to the City in the event the
601 City has determined that the depository bank has failed to pay on any matured
602 investments in certificates of deposit, or has determined that the funds of the City are
603 in jeopardy for whatever reason, including involuntary closure or change of
604 ownership. A clearly marked evidence of ownership, e.g., safekeeping receipt, must
605 be supplied to the City and retained by the City.
606

- 607 1. The City may accept the following to insure or collateralize bank deposits:
 - 608 a. Guaranteed or insured by the Federal Deposit Insurance Corporation or its
609 successor or the National Credit Union Share Insurance Fund or its
610 successor;
 - 611 b. United States Treasuries & Agencies
 - 612 c. Other securities as approved by the Finance Audit Committee
- 613 2. For certificates of deposit and other evidences of deposit, collateral shall be at
614 102% of market value. The market value of collateral will always equal or
615 exceed 102% of the principal plus accrued interest of deposits at financial
616 institutions.
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- 621 3. Financial institutions with which the City invests or maintains other deposits shall
622 provide monthly, and as requested by the Investment Officer, a listing of the
623 collateral pledged to the City, marked to current market prices. The listing shall
624 include total pledged securities itemized by name, type, description, par value,
625 current market value, maturity date, and Moody's or Standard & Poor's rating, if
626 applicable. The City and the financial institution shall jointly assume the
627 responsibility for ensuring that the collateral is sufficient.
628

629 C. Collateralized Deposits - Consistent with the requirements of State law, the City
630 requires all bank deposits to be federally insured or collateralized with eligible
631 securities. Financial institutions serving as City depositories will be required to sign a
632 "Depository Agreement" with the City and the City's safekeeping agent. The
633 collateralized deposit portion of the Agreement shall define the City's rights to the
634 collateral in the event of default, bankruptcy, or closing and shall establish a
635 perfected security interest in compliance with Federal and State regulations,
636 including:
637

- 638 1. Agreement must be in writing;
639
640 2. Agreement has to be executed by the Depository and the City
641 contemporaneously with the acquisition of the asset;
642
643 3. Agreement must be approved by the Board of Directors or designated committee
644 of the Depository and a copy of the meeting minutes must be delivered to the
645 City; and
646
647 4. Agreement must be part of the Depository's "official record" continuously since its
648 execution.
649

650 XII. INTERNAL CONTROL

651 The Investment Officer shall establish a system of written internal controls, which shall
652 be reviewed annually by independent auditors. The controls shall be designed to
653 prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market
654 changes, or imprudent actions. The internal controls are to be reviewed annually in
655 conjunction with an external independent audit. This review will provide assurance of
656 compliance with policies and procedures as specified by this policy. The City, in
657 conjunction with its annual financial audit, shall perform a compliance audit of
658 management controls and adherence to the City's established investment policy.
659

660 XIII. PERFORMANCE

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

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- 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

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- 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.

742 **Attachment A**

743

744 CITY OF CORINTH, TEXAS

745 Investment Strategy Statement

746

747 **Operating Funds**

748

749 1. Suitability - Any investment eligible in the investment policy is suitable for Operating
750 Funds.

751

752 2. Safety of Principal - All investments shall be of high quality securities with no
753 perceived default risk. Market price fluctuations will occur. However, by managing
754 the weighted average days to maturity for the Operating Fund's portfolio to less than
755 270 days and restricting the maximum allowable maturity to three years, the price
756 volatility of the overall portfolio will be minimized.

757

758 3. Marketability - Securities with active and efficient secondary markets are necessary
759 in the event of an unanticipated cash flow requirement. Historical market "spreads"
760 between the bid and offer prices of a particular security-type of less than a quarter of
761 a percentage point will define an efficient secondary market.

762

763 4. Liquidity - The Operating Fund requires the greatest short-term liquidity of any of the
764 Fund types. Short-term investment pools and money market mutual funds will
765 provide daily liquidity and may be utilized as a competitive yield alternative to fixed
766 maturity investments.

767

768 5. Diversification - Investment maturities should be staggered throughout the budget
769 cycle to provide cash flow based on the anticipated operating needs of the City.
770 Market cycle risk will be reduced by diversifying the appropriate maturity structure
771 out through two years.

772

773 6. Yield - Attaining a competitive market yield for comparable security-types and
774 portfolio restrictions is the desired objective. The yield of an equally weighted, rolling
775 three-month treasury-bill portfolio will be the minimum yield objective.

776

777 **Reserve Funds**

778

779 1. Suitability - Any investment eligible in the investment policy is suitable for Debt
780 Service Reserve Funds. Bond resolution and loan documentation constraints and
781 insurance company restrictions may create specific considerations in addition to the
782 investment policy.

783

784 2. Safety of Principal - All investments shall be of high quality securities with no
785 perceived default risk. Market price fluctuations will occur. However, managing Debt
786 Service Reserve Fund maturities to not exceed the call provisions of the borrowing
787 reduces the investment's market risk if the City's debt is redeemed and the Reserve
788 Fund liquidated. The fund shall maintain a maximum average dollar-weighted
789 maturity, based on the stated maturity date, of less than three hundred sixty-five
790 (365) days. No stated final investment maturity shall exceed the shorter of the final
791 maturity of the borrowing or three years. Annual mark-to-market requirements or
792 specific maturity and average life limitations within the borrowing's documentation

- 793 will influence the attractiveness of market risk and reduce the opportunity for maturity
794 extension.
795
796 3. Marketability - Securities with less active and efficient secondary markets are
797 acceptable for Debt Service Reserve Funds.
798
799 4. Liquidity - Debt Service Reserve Funds have no anticipated expenditures. The
800 Funds are deposited to provide annual debt service payment protection to the City's
801 debt holders. The funds are "returned" to the City at the final debt service payment.
802 Market conditions and arbitrage regulation compliance determine the advantage of
803 security diversification and liquidity. Generally, if investment rates exceed the cost of
804 borrowing, the City is best served by locking in investment maturities and reducing
805 liquidity. If the borrowing cost cannot be exceeded, then concurrent market
806 conditions will determine the attractiveness of locking in maturities or investing
807 shorter and anticipating future increased yields.
808
809 5. Diversification - Market conditions and the arbitrage regulations influence the
810 attractiveness of staggering the maturity of fixed rate investments for Debt Service
811 Reserve Funds. At no time shall the final debt service payment date of the bond
812 issue be exceeded in an attempt to bolster yield.
813
814 6. Yield - Achieving a positive spread to the applicable borrowing cost is the desired
815 objective. Debt Service Reserve Fund portfolio management shall at all times
816 operate within the limits of the investment policy's risk constraints.
817

Special Project and Capital Project Funds

- 818
819
820 1. Suitability - Any investment eligible in the investment policy is suitable for Special
821 Project and Capital Project Funds.
822
823 2. Safety of Principal - All investments will be of high quality securities with no
824 perceived default risk. Market fluctuations will however occur, by restricting the
825 maximum maturity to three years, managing the weighted average days to less than
826 270 days, restricting the maximum allowable maturity to two years, and by managing
827 Special Project and Capital Project Funds to balance the short term and long term
828 anticipated cash flow requirements of the plant or equipment being depreciated,
829 replaced or repaired, the market risk of the Fund portfolio will be minimized.
830
831 3. Marketability - The balancing of short-term and long-term cash flow needs requires
832 the short-term portion of the Special Project and Capital Project Funds portfolio to
833 have securities with active and efficient secondary markets. Historical market
834 "spreads" between the bid and offer prices of a particular security-type of less than a
835 quarter of a percentage point will define an efficient secondary market. Securities
836 with less active and efficient secondary markets are acceptable for the long-term
837 portion of the portfolio.
838
839 4. Liquidity - Special Project and Capital Project Funds used as part of a CIP plan or
840 scheduled repair and replacement program are reasonably predictable. However
841 unanticipated needs or emergencies may arise. Selecting Investment maturities that
842 provide greater cash flow than the anticipated needs will reduce the liquidity risk of
843 unanticipated expenditures.

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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: 11/30/2016
Title: Economic Development Corporation's Investment Policy
Submitted For: Lee Ann Bunselmeyer, Acting City Manager
Submitted By: Caryn Riggs, Assistant Director
Finance Review: N/A **Legal Review:** N/A

AGENDA ITEM

Review and approve the Investment Policy for the Economic Development Corporation for FY 2016-2017.

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 review process, staff reviews the policy and may recommend revisions to the existing policy, if needed. Recommended revisions to the Economic Development Corporation's Investment Policy are listed below:

1. Section VI.A.1 Delegation of Authority (page 5, lines 226-227) and Section X.A Authorized Financial Dealers and Institutions (page 10, line 490) - Removed "or the Director's designated representative." This policy grants explicit delegation of authority to the Director of Finance.
2. Section VI.B Prudence (page 6, lines 258-261) - Updated prudent investor rule to coincide with the Public Funds Investment Act verbiage.
3. Section X.E Diversification (page 11, lines 533-535) - Added "In this way, bankruptcy, receivership or legal action would not immobilize the EDC's ability to meet payroll or other expenses." This is consistent with the City's Investment Policy.
4. Replaced Officials with Officers throughout the policy to coincide with the Public Funds Investment Act verbiage.

RECOMMENDATION

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

Attachments

Investment

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

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PREFACE

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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.

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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.

28 **I. PURPOSE**

29
30 The purpose of this investment policy (the “policy”) is to set forth specific investment
31 policy and strategy guidelines for the EDC in order to achieve the goals of safety,
32 liquidity, rate-of-return, and public trust for all investment activities.
33

34 **II. SCOPE**

35
36 The investment policy shall govern the investment of all financial assets considered to
37 be part of the EDC and includes the following separately invested funds or fund types:
38 Operating, Reserve, and Bond Funds, although the EDC has only operating funds. This
39 policy does not include funds governed by approved trust agreements, or assets
40 administered for the benefit of the EDC by outside agencies under retirement or deferred
41 compensation programs. The City shall and will maintain responsibility for these funds
42 to the extent required by: Federal and State law; the City Charter; and donor
43 stipulations.
44

45 **III. INVESTMENT OBJECTIVES**

46
47 Funds of the EDC shall be invested in accordance with all applicable Texas statutes, this
48 policy and any other approved, written administrative procedures. The five objectives of
49 the EDC’s investment activities shall be as follows (in the order of priority):
50

51 **A. Safety** – Preservation and safety of Principal. Safety of principal invested is the
52 foremost objective in the investment decisions of the EDC. Each investment
53 transaction shall seek to ensure the preservation of capital in the overall portfolio.
54 The risk of loss shall be controlled by investing only in authorized securities as
55 defined in this policy, by qualifying the financial institutions with which the EDC will
56 transact, and by portfolio diversification. Safety is defined as the undiminished return
57 of the principal on the EDC’s investments.
58

59 **B. Liquidity** - The investment portfolio shall be managed to maintain liquidity to ensure
60 that funds will be available to meet the EDC’s cash flow requirements and by
61 investing in securities with active secondary markets. Investments shall be
62 structured in such a manner as to provide liquidity necessary to pay obligations as
63 they become due. A security may be liquidated prior to its stated maturity to meet
64 unanticipated cash requirements or to otherwise favorably adjust the EDC’s portfolio.
65

66 **C. Diversification** - Investment maturities shall be staggered throughout the budget
67 cycle to provide cash flow based on the anticipated needs of the EDC. Diversifying
68 the appropriate maturity structure will reduce market cycle risk.
69

70 **D. Market Rate-of-Return (Yield)** - The EDC’s investment portfolio shall be designed to
71 optimize a market rate-of-return on investments consistent with risk constraints and
72 cash flow requirements of the portfolio. The investment portfolio shall be managed in
73 a manner which seeks to attain a market rate-of-return throughout budgetary and
74 economic cycles. The EDC will not attempt to consistently attain an unrealistic
75 above market rate-of-return, as this objective will subject the overall portfolio to
76 greater risk. Therefore, the EDC’s rate-of-return objective is secondary to those of
77 safety and liquidity. Rate-of-return (yield) is defined as the annual income returned
78 on an investment, expressed as a percentage.
79

80 **E. Public Trust** - The Investment Officer(s) shall avoid any transactions that might
81 impair public confidence in the EDC’s ability to govern effectively. The governing

82 body recognizes that in diversifying the portfolio, occasional measured losses due to
83 market volatility are inevitable, and must be considered within the context of the
84 overall portfolio's investment return, provided that adequate diversification has been
85 implemented. The prudence of the investment decision shall be measured in
86 accordance with the tests set forth in Section 2256.006(b) of the Act.
87

88 IV. INVESTMENT STRATEGY 89

90 The City maintains a comprehensive and proactive cash management program which is
91 designed to monitor and control all EDC funds to ensure maximum utilization and yield a
92 market rate of return. The basic and underlying strategy of this program is that all of the
93 EDC's funds are earning interest. It is the responsibility and obligation of the City to
94 maintain a flexible approach and be prepared to modify the investment strategy as
95 market conditions dictate. The investment strategy described is predicated on
96 conditions as they now exist and are subject to change. The investment strategy
97 emphasizes low credit risk, diversification, and the management of maturities. The
98 strategy also considers the expertise and time constraints of the Investment Officers.
99 The allowable investments as defined in Section VII of this policy reflect the avoidance of
100 credit risk. Diversification refers to dividing investments among a variety of securities
101 offering independent returns. This strategy uses local government investment pools to
102 achieve diversification. The active management of maturities refers to structuring the
103 maturity dates of the direct investments so that, while funds are initially invested for a
104 longer period of time, some investments mature as cash needs require. The strategies
105 for the EDC's investment activities shall be as follows:
106

107 **Strategy No. 1**

108 Diversifying the EDC's investment opportunities through the use of local government
109 investment pools and money market mutual funds as authorized by the EDC Board, and
110 the City Council. An investment pool is a professionally managed portfolio of shared
111 assets created to invest public funds jointly on behalf of the governmental entities that
112 participate in the pool and whose investment objectives in order of priority match those
113 objectives of the EDC. Fund withdrawals are usually available from investment pools on
114 a same-day basis, meaning the pools have a high degree of liquidity. Because of the
115 size and expertise of their staff, investment pools are able to prudently invest in a variety
116 of the investment types allowed by state law. In this manner, investment pools achieve
117 desired diversification. The strategy of the EDC calls for the use of investment pools as a
118 primary source of diversification and a supplemental source of liquidity. Funds that may
119 be needed on a short-term basis but are in excess of the amount maintained at the
120 depository bank are available for deposit in investment pools.
121

122 **Strategy No. 2**

123 Building a ladder of authorized securities with staggered maturities for all or part of the
124 longer-term investable funds. The benefits of this ladder approach include the following:
125

- 126 A. It is straight-forward and easily understood;
- 127
- 128 B. It will assure the EDC that it will capture a reasonable portion of the yield curve; and,
- 129
- 130 C. It provides predictable cash flow with scheduled maturities and reinvestment
131 opportunities.
132

133 **Strategy No. 3**

134 Utilizing the services of a Professional Investment Advisor in order to maximize
135 investment earnings and realize market opportunities when they become available.

136 Other responsibilities of the Investment Advisor include, but are not limited to broker
137 compliance, security selection, competitive bidding, investment reporting, and security
138 documentation. The Investment Advisor must be registered with the Securities and
139 Exchange Commission (SEC) under the Investment Advisor's Act of 1940 as well as
140 with the Texas State Securities Board and shall adhere to the spirit and philosophy of
141 this policy and avoid recommending or suggesting transactions outside the "Standard of
142 Care" under this policy.
143

144 **Strategy No. 4**

145 The EDC will utilize a general investment strategy designed to address the unique
146 characteristics of specific fund-types (detailed strategies are presented in Attachment A):
147

- 148 **A.** Investment strategies for operating funds and pooled funds containing operating
149 funds have as their primary objective to assure that anticipated cash flows are
150 matched with adequate investment liquidity. The secondary objective is to create a
151 portfolio which will experience minimal volatility during economic cycles.
152
- 153 **B.** Investment strategies for reserve funds shall have as the primary objective the ability
154 to generate a dependable revenue stream to the appropriate reserve fund.
155
- 156 **C.** Investment strategies for special projects and capital projects funds will have as their
157 primary objective to assure that anticipated cash flows are matched with adequate
158 investment liquidity.
159
- 160 **D.** The investment maturity of bond proceeds (excluding reserve and debt service
161 funds) shall generally be limited to the anticipated cash flow requirement or the
162 "temporary period," as defined by Federal tax law. During the temporary period,
163 bond proceeds may be invested at an unrestricted yield. After the expiration of the
164 temporary period, bond proceeds subject to yield restriction shall be invested
165 considering the anticipated cash flow requirements of the funds and market
166 conditions to achieve compliance with the applicable regulations.
167

168 **Strategy No. 5**

169 The EDC generally intends to hold all of its securities until they mature and will
170 accomplish this by maintaining sufficient liquidity in its portfolio so that it does not need
171 to sell a security early. Should it become necessary to sell a security prior to maturity,
172 where the sale proceeds are less than the current book value, the prior written consent
173 of the EDC Executive Director, or the City Manager must be obtained. Securities may be
174 sold prior to maturity by the Director of Finance at or above their book value at any time,
175 without the consent of the City Manager.
176

177 **Strategy No. 6**

178 All demand deposits of the EDC will be concentrated with one central depository, so long
179 as, the FDIC insurance limits are not exceeded. The City's depository procedure will
180 maximize the EDC's ability to pool cash for investment purposes, and provide more
181 manageable banking relationships. In addition, depositories not holding demand
182 deposits of the EDC may be eligible to bid on EDC investments.
183

184 **Strategy No. 7**

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

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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 ~~or the Director’s designated representative~~, 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 ~~Officials~~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,

244
245 **b.** The valuation of costs and benefits requires estimates and judgments by
246 management.
247

248 **3.** The Director of Finance shall be designated as the primary Investment Officer
249 for the City and shall be responsible for investment decisions and activities
250 under the direction of the City Manager. The Director of Finance may delegate
251 any phase of the investment program to a secondary Investment Officer. Both
252 the Director of Finance and the designated secondary Investment Officer are
253 responsible for daily investment decisions and activities. However, ultimate
254 responsibility for investment decisions will rest with the Director of Finance.
255

256 **B. Prudence** - The standard of prudence to be applied by the Investment Officer shall
257 be the "prudent investor" rule, which states, "investments shall be made with
258 judgment and care, under prevailing circumstances ~~then-prevailing~~, that a which
259 persons of prudence, discretion and intelligence would exercise in the management
260 of the person's their-own affairs, not for speculation, but for investment, considering
261 the probable safety of their-capital as-well-as and the probable income to be
262 derived." In determining whether the Investment Officer has exercised prudence
263 with respect to an investment decision, the determination shall be made taking into
264 consideration the following:
265

266 1. The investment of all funds over which the Investment Officer had responsibility
267 rather than a consideration as to the prudence of a single investment; and
268

269 2. the investment decision was consistent with the written investment policy and
270 procedures of the EDC.
271

272 **C. Due Diligence** - The Director of Finance, designated secondary Investment Officer,
273 Mayor, City Council, City Manager, other Finance employees and the citizen
274 committee members acting in accordance with written policies and procedures and
275 exercising due diligence, shall not be held personally responsible for a specific
276 security's credit risk or market price changes, provided that these deviations are
277 reported in a timely manner and that appropriate action is taken to control adverse
278 developments.
279

280 **D. Ethical Standards and Conflicts of Interest**
281

282 1. All EDC Investment Officials-Officers having a direct or indirect role in the
283 investment of EDC funds shall act as custodians of the public trust avoiding any
284 transaction which might involve a conflict of interest, the appearance of a conflict
285 of interest, or any activity which might otherwise discourage public confidence.
286 Officers and employees involved in the investment process shall refrain from
287 personal business activity that could conflict with proper execution of the
288 investment program, or which could impair the ability to make impartial
289 investment decisions.
290

291 2. An Investment Officer who has a personal business relationship with the
292 depository bank or with any entity seeking to sell an investment to the EDC shall
293 file a statement disclosing that personal business interest.
294

295 3. An Investment Officer has a personal business relationship with a business
296 organization if:
297

- 298 a. The Investment Officer or person related to the Investment Officer by the
299 second degree of affinity or consanguinity owns 10% or more of the voting
300 stock or shares of the business organization or owns \$5,000 or more of the
301 fair market value of the business organization;
302
- 303 b. Funds received by the Investment Officer or person related to the investment
304 officer by the second degree of affinity or consanguinity from the business
305 organization exceed 10% of the Investment Officer's gross income for the
306 prior year; or
307
- 308 c. The Investment Officer or person related to the Investment Officer by the
309 second degree of affinity or consanguinity has acquired from the business
310 organization during the prior year investments with a book value of \$2,500 or
311 more for the personal account of the Investment Officer.
312
- 313 d. An Investment Officer who is related within the second degree of affinity or
314 consanguinity to an individual seeking to sell an investment to the EDC shall
315 file a statement disclosing that relationship. A statement required under this
316 subsection must be filed with the Texas Ethics Commission and the City
317 Council.
318

319 E. Training - The City shall provide periodic training in investments for the investment
320 personnel through courses and seminars offered by professional organizations and
321 associations in order to ensure the quality and capability of the EDC's investment
322 personnel making investment decisions in compliance with Public Funds Investment
323 Act (PFIA). The Investment Officers and Finance Audit Committee members shall
324 attend at least one training session containing at least 10 hours of instruction relating
325 to the officer's responsibility under the PFIA within 12 months after assuming duties,
326 and thereafter shall attend at least 8 hours of additional investment training in
327 subsequent two-year periods which begin on the first day of the fiscal year and
328 consist of the two consecutive fiscal years after that date. The Government Finance
329 Officers Association of Texas, the Government Treasurers Organization of Texas,
330 the Texas Municipal League, or the North Central Texas Council of Governments are
331 approved as independent training sources by the City Council.
332

333 VII. AUTHORIZED INVESTMENTS

334

335 A. Generally - Safety of principal is the primary objective in investing public funds and
336 can be accomplished by limiting credit risk and interest rate risk. Credit risk is the
337 risk associated with the failure of a security issuer or backer to pay back principal
338 and interest on a timely basis. Interest rate risk is the risk that the value of a portfolio
339 will decline due to an increase in the general level of interest rates. In order to
340 provide for safety of principal as the EDC's primary objective, only certain
341 investments are authorized as acceptable investments for the EDC. The following
342 list of authorized investments for the EDC intentionally excludes some investments
343 authorized by state law. These restrictions are intended to limit possible risk and
344 provide the maximum measure of safety to EDC funds. In the event an authorized
345 investment loses its required minimum credit rating, all prudent measures will be
346 taken to liquidate said investment. Additionally, the EDC is not required to liquidate
347 investments that were authorized at the time of purchase.
348

349 B. Authorized and Acceptable Investments - The authorized list of investment
350 instruments is as follows:
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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

406 may be used for specific investment of bond proceeds but *shall not include reverse*
407 *purchase agreements.*

408
409 **F. Bankers' Acceptances, and Commercial Paper (LIMITED USE)** - These investments
410 are authorized for the EDC to the extent that they are contained in the portfolios of
411 approved public funds investment pools or money market funds in which the EDC
412 invests.

413
414 **G. AAA-rated SEC-Regulated 2a7 No-Load Money Market Mutual Funds** - An SEC-
415 registered, no load money market mutual fund which has a dollar weighted average
416 stated maturity of 60 days or less whose assets consist exclusively of the assets
417 described in section VII.A and whose investment objectives includes the
418 maintenance of a stable net asset value of \$1 for each share: furthermore, it provides
419 the EDC with a prospectus and other information required by the SEC Act of 1934 or
420 the Investment Advisor Act of 1940 and which provides the EDC with a prospectus
421 and other information required by the Securities Exchange Act of 1934 (15 USC
422 Section 78a et. Seq.) & the Investment Company Act of 1990 (15 USC Section 80a-1
423 et. Seq.).

424
425 **H. Unauthorized Securities** - State law specifically prohibits investment in the following
426 securities:

427
428 1. An obligation whose payment represents the coupon payments on the
429 outstanding principal balance of the underlying mortgage-backed security and
430 pays no principal.

431
432 2. An obligation whose payment represents the principal stream of cash flow from
433 the underlying mortgage-backed security and bears no interest.

434
435 3. Collateralized mortgage obligations that have a stated final maturity date of
436 greater than 10 years.

437
438 4. Collateralized mortgage obligations, the interest rate of which is determined by
439 an index that adjusts opposite to the changes in a market index.

440 441 **VIII. DIVERSIFICATION**

442
443 **A. Generally** - Diversification of investment instruments shall be utilized to avoid
444 incurring unreasonable risks resulting from over-concentration of investments in a
445 specific maturity, a specific issue, or a specific class of securities. With the exception
446 of U.S. Government securities (debt obligations issued by the U. S. Government, its
447 agencies, or instrumentalities) as authorized in this policy, and authorized local
448 government investment pools, no more than forty percent (40%) of the total
449 investment portfolio will be invested in any one security type or with a single financial
450 institution. Diversification of the portfolio considers diversification by maturity dates
451 and diversification by investment instrument.

452
453 **B. Diversification by Maturities** - The longer the maturity of investments, the greater
454 their price volatility. Therefore, it is the EDC's policy to concentrate its investment
455 portfolio in shorter-term securities in order to limit principal risks caused by change in
456 interest rates. The EDC will attempt to match its investments with anticipated cash
457 flow requirements. Unless matched to a specific cash flow (including the anticipated
458 cash flow requirements of bond proceeds within the temporary period), the EDC will
459 not directly invest in securities maturing more than two (2) years from the date of

460 purchase. However, the above described obligations, certificates, or agreements
461 may be collateralized using longer date instruments. The EDC shall diversify the use
462 of investment instruments to avoid incurring unreasonable risks inherent in over-
463 investing in specific instruments, individual financial institutions or maturities.
464 Maturity scheduling shall be managed by the Investment Officer so that maturities of
465 investments shall be timed to coincide with projected cash flow needs.
466

467 The entire EDC portfolio, or single pooled fund group if utilized, shall maintain a
468 maximum average dollar-weighted maturity, based on the stated maturity date, of
469 less than two hundred seventy (270) days. Investment maturities for debt service
470 interest and sinking funds and/or other types of reserve funds, whose use is never
471 anticipated, shall maintain a maximum average dollar-weighted maturity, based on
472 the stated maturity date, of less than three hundred sixty-five (365) days.
473

474 **C. Diversification by Investment Instrument** - Diversification by investment instrument
475 shall not exceed the following guidelines for each type of instrument:
476

	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%

478
479 **IX. SECURITY SWAPS**

480
481 Security swaps may be considered as an investment option for the EDC. A swap out of
482 one instrument into another is acceptable to increase yield, realign for disbursement
483 dates, extend or shorten maturity dates and improve market sector diversification.
484 Swaps may be initiated by brokers/dealers who are on the City's approved list. A horizon
485 analysis is required for each swap proving benefit to the EDC before the trade decision
486 is made, which will accompany the investment file for record keeping.
487

488 **X. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS**

489
490 **A.** The Director of Finance ~~or the Director's designated representative~~ will maintain a
491 list of financial institutions authorized to provide investment services to the City. In
492 addition, a list will also be maintained of approved broker/dealers authorized to
493 provide investment services in the State of Texas. These will include financial
494 institutions that qualify under Securities & Exchange Commission Rule 15-C3-1
495 (uniform net capital rule). No public deposit shall be made except in a qualified public
496 depository as established by state laws.
497

498 **B.** All financial institutions and broker/dealers who desire to become qualified bidders
499 for investment transactions must supply the Director of Finance with the following, as
500 appropriate: audited financial statements, proof of Financial Industry Regulatory
501 Authority certification, trading resolution, proof of State registration, completed
502 broker/dealer questionnaire and certification of having read the EDC's investment
503 policy.
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- 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 ~~Officials~~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

559 in an effort to preclude imprudent investment activities with the EDC. The advisor
560 shall obtain and document competitive bids and offers on all transactions and
561 present these to the City as part of its standard trade documentation.
562

563 J. It is the policy of the City that all security transactions entered into with the EDC shall
564 be conducted on a "Delivery-versus-Payment" basis through the Federal Reserve
565 System. By doing this, EDC funds are not released until the City has received,
566 through the Federal Reserve wire, the securities purchased. The City shall authorize
567 the release of funds only after receiving notification from the safekeeping bank that a
568 purchased security has been received in the safekeeping account of the EDC. The
569 notification may be oral, but shall be confirmed in writing.
570

571 **XI. SAFEKEEPING AND COLLATERALIZATION**
572

573 A. Safekeeping - All securities owned by the EDC shall be held by a third-party
574 safekeeping agent selected by the EDC's Investment Officer. Bank deposits will be
575 held in the EDC's name in the bank's trust department, in a Federal Reserve Bank
576 account in the EDC's name, or a third-party financial institutions doing business in
577 the state of Texas, in accordance with state law. Original safekeeping receipts shall
578 be obtained and held by the City and the EDC. The City and the EDC shall contract
579 with a bank or banks for the safekeeping of securities either owned by the EDC as
580 part of its investment portfolio or held as collateral to secure time deposits, if
581 collateralized time deposits are specifically authorized by the board.
582

583 B. Collateralized Deposits - Consistent with the requirements of State law, the EDC
584 requires all bank deposits to be federally insured. If the board and the City do agree
585 that collateralized accounts are acceptable in specific situations the provisions above
586 may be amended for EDC accounts.
587

588 **XII. INTERNAL CONTROL**
589

590 The Investment Officer shall establish a system of written internal controls, which shall
591 be reviewed annually by independent auditors. The controls shall be designed to
592 prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market
593 changes, or imprudent actions. The internal controls are to be reviewed annually in
594 conjunction with an external independent audit. This review will provide assurance of
595 compliance with policies and procedures as specified by this policy. The City, in
596 conjunction with its annual financial audit, shall perform a compliance audit of
597 management controls and adherence to the EDC's established investment policy.
598

599 **XIII. PERFORMANCE**
600

601 The EDC's investment portfolio shall be designed to obtain a market rate-of-return on
602 investments consistent with risk constraints and cash flow requirements of the EDC.
603 This investment policy establishes "weighted average yield to maturity" as the standard
604 portfolio performance measurement.
605

606 **XIV. REPORTING**
607

608 A. Quarterly - The Director of Finance shall prepare and submit a signed quarterly
609 investment report to the Economic Development Board and the Finance Audit
610 Committee that summarizes current market conditions, economic developments, and
611 anticipated investment conditions. The report shall summarize investment strategies
612 employed in the most recent quarter and describe the portfolio in terms of investment

613 securities, maturities, risk characteristics, and shall explain the total investment
614 return for the quarter. The City shall also monitor the credit ratings on securities that
615 require minimum ratings. This may be accomplished through staff research, or with
616 the assistance of broker-dealers, investment advisors, banks or safekeeping agents.
617

618 **B. Annual Report** - Within 180 days of the end of the fiscal year, the Director of Finance
619 shall present an annual report on the investment program and investment activity.
620 This report may be presented as a component of the fourth quarter report to the
621 Economic Development Board, City Manager and the City Council. The quarterly
622 reports prepared by the Director of Finance shall be formally reviewed at least
623 annually by an independent auditor, and the result of the review shall be reported to
624 the City Council by that auditor.
625

626 **C. Methods** - The quarterly and annual investment reports shall include a succinct
627 management summary that provides a clear picture of the status of the current
628 investment portfolio and transactions made over the past quarter. This management
629 summary will be prepared in a manner which will allow the EDC to ascertain whether
630 investment activities during the reporting period have conformed to the investment
631 policy. The report will be prepared in compliance with generally accepted accounting
632 principles. The report will include the following:
633

- 634 1. A listing of individual securities held at the end of the reporting period. This list
635 will include the name of the fund or pooled group fund for which each individual
636 investment was acquired;
637
- 638 2. Unrealized gains or losses resulting from appreciation or depreciation by listing
639 the beginning and ending book and market value of securities for the period.
640 Market values shall be obtained from financial institutions or portfolio reporting
641 services independent from the broker/dealer from which the security was
642 purchased;
643
- 644 3. Additions and changes to the market value during the period;
645
- 646 4. Fully accrued interest for the reporting period;
647
- 648 5. Average weighted yield to maturity of portfolio on entity investments as compared
649 to applicable benchmarks;
650
- 651 6. Listing of investments by maturity date;
652
- 653 7. The percentage of the total portfolio which each type of investment represents;
654 and
655
- 656 8. Statement of compliance of the EDC's investment portfolio with State Law and
657 the investment strategy and policy approved by the City Council.
658
- 659 9. Market yield benchmark comparison of the average 90-day U. S. Treasury Bill
660 auction yield during the reporting period.
661
- 662 10. The guidelines of retaining records for seven years as recommended in the
663 *Texas State Library Municipal Records Manual* should be followed. The Director
664 of Finance shall oversee the filing and/or storing of investment records.
665

666 **XV. INVESTMENT POLICY ADOPTION AND AMENDMENT**

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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.

678 **Attachment A**

679
680 CITY OF CORINTH, TEXAS
681 Economic Development Corporation
682 Investment Strategy Statement
683

684 **Operating Funds**
685

- 686 1. Suitability - Any investment eligible in the investment policy is suitable for Operating
687 Funds.
688
- 689 2. Safety of Principal - All investments shall be of high quality securities with no
690 perceived default risk. Market price fluctuations will occur. However, by managing
691 the weighted average days to maturity for the Operating Fund's portfolio to less than
692 270 days and restricting the maximum allowable maturity to two years, the price
693 volatility of the overall portfolio will be minimized.
694
- 695 3. Marketability - Securities with active and efficient secondary markets are necessary
696 in the event of an unanticipated cash flow requirement. Historical market "spreads"
697 between the bid and offer prices of a particular security-type of less than a quarter of
698 a percentage point will define an efficient secondary market.
699
- 700 4. Liquidity - The Operating Fund requires the greatest short-term liquidity of any of the
701 Fund types. Short-term investment pools and money market mutual funds will
702 provide daily liquidity and may be utilized as a competitive yield alternative to fixed
703 maturity investments.
704
- 705 5. Diversification - Investment maturities should be staggered throughout the budget
706 cycle to provide cash flow based on the anticipated operating needs of the EDC.
707 Market cycle risk will be reduced by diversifying the appropriate maturity structure
708 out through two years.
709
- 710 6. Yield - Attaining a competitive market yield for comparable security-types and
711 portfolio restrictions is the desired objective. The yield of an equally weighted, rolling
712 three-month treasury-bill portfolio will be the minimum yield objective.
713

714 **Reserve Funds**
715

- 716 1. Suitability - Any investment eligible in the investment policy is suitable for Debt
717 Service Reserve Funds. Bond resolution and loan documentation constraints and
718 insurance company restrictions may create specific considerations in addition to the
719 investment policy.
720
- 721 2. Safety of Principal - All investments shall be of high quality securities with no
722 perceived default risk. Market price fluctuations will occur. However, managing Debt
723 Service Reserve Fund maturities to not exceed the call provisions of the borrowing
724 reduces the investment's market risk if the EDC's debt is redeemed and the Reserve
725 Fund liquidated. The fund shall maintain a maximum average dollar-weighted
726 maturity, based on the stated maturity date, of less than three hundred sixty-five
727 (365) days. No stated final investment maturity shall exceed the shorter of the final
728 maturity of the borrowing or two years. Annual mark-to-market requirements or
729 specific maturity and average life limitations within the borrowing's documentation
730 will influence the attractiveness of market risk and reduce the opportunity for maturity
731 extension.

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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

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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.

839 **Attachment B**

840
841 CITY OF CORINTH, TEXAS
842 Investment Policy

843
844 [SAMPLE]
845 TEXAS PUBLIC FUNDS INVESTMENT ACT
846 CERTIFICATION BY BUSINESS ORGANIZATION

847
848
849 This certification is executed on behalf of the City of Corinth, Texas (the "City") and
850 _____ (the Business Organization), pursuant to the Public
851 Funds Investment Act, Chapter 2256, Texas Government Code (the "Act") in connection with
852 investment transactions conducted between the City and the Business Organization.

853
854 The undersigned Qualified Representative of the Business Organization hereby certifies on
855 behalf of the Business Organization that:

- 856
- 857 1. The undersigned is a Qualified Representative of the Business Organization offering to
858 enter an investment transaction with the Investor as such terms are used in the Public
859 Funds Investment Act, Chapter 2256, Texas Government Code; and
 - 860 2. The Qualified Representative of the Business Organization has received and reviewed
861 the investment policy furnished by the City; and
 - 862 3. The Qualified Representative of the Business Organization has implemented reasonable
863 procedures and controls in an effort to preclude investment transactions conducted
864 between the Business Organization and the City that are not authorized by the City's
865 investment policy, except to the extent that this authorization is dependent on an
866 analysis of the makeup of the City's entire portfolio or requires an interpretation of
867 subjective investment standards.
868
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870
871
872 Qualified Representative of Business Organization

873
874 Firm: _____

875
876 Signature _____

877
878 Name: _____

879
880 Title: _____

881
882 Date: _____

Finance Audit Committee Regular Session

Meeting Date: 11/30/2016
Title: Crime Control & Prevention District Investment Policy
Submitted For: Lee Ann Bunselmeyer, Acting City Manager
Submitted By: Caryn Riggs, Assistant Director
Finance Review: N/A **Legal Review:** N/A

AGENDA ITEM

Review and approve the Investment Policy for the Crime Control & Prevention District for FY 2016-2017.

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 review process, staff reviews the policy and may recommend revisions to the existing policy, if needed. Recommended revisions to the Crime Control & Prevention District's Investment Policy are listed below:

1. Section VI.A.1 Delegation of Authority (page 6, line 229) and Section X.A Authorized Financial Dealers and Institutions (page 11, line 491): Removed "or the Director's designated representative." . This policy grants explicit delegation of authority to the Director of Finance.
2. Section VI.B - Prudence (page 6, lines 261-265) - Updated prudent investor rule to coincide with the Public Funds Investment verbiage.
3. Section X.E Diversification (page 12, lines 534-536) - Added "In this way, bankruptcy, receivership or legal action would not immobilize the DISTRICT's ability to meet payroll or other expenses." This is consistent with the City's Investment Policy.
4. Replaced Officials with Officers throughout the policy to coincide with the Public Funds Investment Act verbiage.

RECOMMENDATION

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

Attachments

Investment Policy

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

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PREFACE

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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.

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24
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26

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.

27 **I. PURPOSE**

28
29 The purpose of this investment policy (the “policy”) is to set forth specific investment
30 policy and strategy guidelines for the DISTRICT in order to achieve the goals of safety,
31 liquidity, rate-of-return, and public trust for all investment activities.
32

33 **II. SCOPE**

34
35 The investment policy shall govern the investment of all financial assets considered to
36 be part of the DISTRICT and includes the following separately invested funds or fund
37 types: Operating, Reserve, and Bond Funds, although the DISTRICT has only operating
38 funds. This policy does not include funds governed by approved trust agreements, or
39 assets administered for the benefit of the DISTRICT by outside agencies under
40 retirement or deferred compensation programs. The City shall and will maintain
41 responsibility for these funds to the extent required by: Federal and State law; the City
42 Charter; and donor stipulations.
43

44 **III. INVESTMENT OBJECTIVES**

45
46 Funds of the DISTRICT shall be invested in accordance with all applicable Texas
47 statutes, this policy and any other approved, written administrative procedures. The five
48 objectives of the DISTRICT’s investment activities shall be as follows (in the order of
49 priority):
50

51 **A. Safety** – Preservation and safety of Principal. Safety of principal invested is the
52 foremost objective in the investment decisions of the DISTRICT. Each investment
53 transaction shall seek to ensure the preservation of capital in the overall portfolio.
54 The risk of loss shall be controlled by investing only in authorized securities as
55 defined in this policy, by qualifying the financial institutions with which the DISTRICT
56 will transact, and by portfolio diversification. Safety is defined as the undiminished
57 return of the principal on the DISTRICT’s investments
58

59 **B. Liquidity** -The investment portfolio shall be managed to maintain liquidity to ensure
60 that funds will be available to meet the DISTRICT’s cash flow requirements and by
61 investing in securities with active secondary markets. Investments shall be
62 structured in such a manner as to provide liquidity necessary to pay obligations as
63 they become due. A security may be liquidated prior to its stated maturity to meet
64 unanticipated cash requirements or to otherwise favorably adjust the DISTRICT’s
65 portfolio.
66

67 **C. Diversification** - Investment maturities shall be staggered throughout the budget
68 cycle to provide cash flow based on the anticipated needs of the DISTRICT.
69 Diversifying the appropriate maturity structure will reduce market cycle risk.
70

71 **D. Market Rate-of-Return (Yield)** - The DISTRICT’s investment portfolio shall be
72 designed to optimize a market rate-of-return on investments consistent with risk
73 constraints and cash flow requirements of the portfolio. The investment portfolio
74 shall be managed in a manner which seeks to attain a market rate-of-return
75 throughout budgetary and economic cycles. The DISTRICT will not attempt to
76 consistently attain an unrealistic above market rate-of-return as this objective will
77 subject the overall portfolio to greater risk. Therefore, the DISTRICT’s rate-of-return

78 objective is secondary to those of safety and liquidity. Rate-of-return (yield) is defined
79 as the annual income returned on an investment, expressed as a percentage.
80

- 81 E. Public Trust - The Investment Officer(s) shall avoid any transactions that might
82 impair public confidence in the DISTRICT's ability to govern effectively. The
83 governing body recognizes that in diversifying the portfolio, occasional measured
84 losses due to market volatility are inevitable, and must be considered within the
85 context of the overall portfolio's investment return, provided that adequate
86 diversification has been implemented. The prudence of the investment decision shall
87 be measured in accordance with the tests set forth in Section 2256.006(b) of the Act.
88

89 IV. INVESTMENT STRATEGY

90
91 The City maintains a comprehensive and proactive cash management program which is
92 designed to monitor and control all DISTRICT funds to ensure maximum utilization and
93 yield a market rate-of-return. The basic and underlying strategy of this program is that
94 all of the DISTRICT's funds are earning interest. It is the responsibility and obligation of
95 the City to maintain a flexible approach and be prepared to modify the investment
96 strategy as market conditions dictate. The investment strategy described is predicated
97 on conditions as they now exist and are subject to change. The investment strategy
98 emphasizes low credit risk, diversification, and the management of maturities. The
99 strategy also considers the expertise and time constraints of the Investment Officers.
100 The allowable investments as defined in Section VII of this policy reflect the avoidance of
101 credit risk. Diversification refers to dividing investments among a variety of securities
102 offering independent returns. This strategy uses local government investment pools to
103 achieve diversification. The active management of maturities refers to structuring the
104 maturity dates of the direct investments so that, while funds are initially invested for a
105 longer period of time, some investments mature as cash needs require. The strategies
106 for the DISTRICT's investment activities shall be as follows:
107

108 Strategy No. 1

109 Diversifying the DISTRICT's investment opportunities through the use of local
110 government investment pools and money market mutual funds as authorized by the City
111 Council. An investment pool is a professionally managed portfolio of shared assets
112 created to invest public funds jointly on behalf of the governmental entities that
113 participate in the pool and whose investment objectives in order of priority match those
114 objectives of the DISTRICT. Fund withdrawals are usually available from investment
115 pools on a same-day basis, meaning the pools have a high degree of liquidity. Because
116 of the size and expertise of their staff, investment pools are able to prudently invest in a
117 variety of the investment types allowed by state law. In this manner, investment pools
118 achieve desired diversification. The strategy of the DISTRICT calls for the use of
119 investment pools as a primary source of diversification and a supplemental source of
120 liquidity. Funds that may be needed on a short-term basis but are in excess of the
121 amount maintained at the depository bank are available for deposit in investment pools.
122

123 Strategy No. 2

124 Building a ladder of authorized securities with staggered maturities for all or part of the
125 longer-term investable funds. The benefits of this ladder approach include the following:
126
127

- 128 A. It is straight-forward and easily understood;
129
130 B. It will assure the DISTRICT that it will capture a reasonable portion of the yield curve;
131 and,
132
133 C. It provides predictable cash flow with scheduled maturities and reinvestment
134 opportunities.
135

136 **Strategy No. 3**

137 Utilizing the services of a Professional Investment Advisor in order to maximize
138 investment earnings and realize market opportunities when they become available.
139 Other responsibilities of the Investment Advisor include, but are not limited to broker
140 compliance, security selection, competitive bidding, investment reporting, and security
141 documentation. The Investment Advisor must be registered with the Securities and
142 Exchange Commission (SEC) under the Investment Advisor's Act of 1940 as well as
143 with the Texas State Securities Board and shall adhere to the spirit and philosophy of
144 this policy and avoid recommending or suggesting transactions outside the "Standard of
145 Care" under this policy.
146

147 **Strategy No. 4**

148 The DISTRICT will utilize a general investment strategy designed to address the unique
149 characteristics of specific fund-types (detailed strategies are presented in Attachment A):
150

- 151 A. Investment strategies for operating funds and pooled funds containing operating
152 funds have as their primary objective to assure that anticipated cash flows are
153 matched with adequate investment liquidity. The secondary objective is to create a
154 portfolio which will experience minimal volatility during economic cycles.
155
156 B. Investment strategies for reserve funds shall have as the primary objective the ability
157 to generate a dependable revenue stream to the appropriate reserve fund.
158
159 C. Investment strategies for special projects and capital projects funds will have as their
160 primary objective to assure that anticipated cash flows are matched with adequate
161 investment liquidity.
162
163 D. The investment maturity of bond proceeds (excluding reserve and debt service
164 funds) shall generally be limited to the anticipated cash flow requirement or the
165 "temporary period," as defined by Federal tax law. During the temporary period,
166 bond proceeds may be invested at an unrestricted yield. After the expiration of the
167 temporary period, bond proceeds subject to yield restriction shall be invested
168 considering the anticipated cash flow requirements of the funds and market
169 conditions to achieve compliance with the applicable regulations.
170

171 **Strategy No. 5**

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

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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.

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1. Delegation of Authority - Management responsibility for the investment program is hereby delegated to the Director of Finance ~~or the Director's designated representative~~, 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 ~~Officials~~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 ~~Officials~~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 ~~then prevailing~~, that which a persons of prudence, discretion and intelligence would exercise in the management of ~~their~~ the person's own affairs, not for speculation, but for investment, considering the probable safety of ~~their~~ capital as well as 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

279 risk or market price changes, provided that these deviations are reported in a timely
280 manner and that appropriate action is taken to control adverse developments.
281

282 **D. Ethical Standards and Conflicts of Interest**
283

284 1. All DISTRICT Investment Officers having a direct or indirect role in the
285 investment of DISTRICT funds shall act as custodians of the public trust avoiding
286 any transaction which might involve a conflict of interest, the appearance of a
287 conflict of interest, or any activity which might otherwise discourage public
288 confidence. Officers and employees involved in the investment process shall
289 refrain from personal business activity that could conflict with proper execution of
290 the investment program, or which could impair the ability to make impartial
291 investment decisions.
292

293 2. An Investment Officer who has a personal business relationship with the
294 depository bank or with any entity seeking to sell an investment to the DISTRICT
295 shall file a statement disclosing that personal business interest.
296

297 3. An Investment Officer has a personal business relationship with a business
298 organization if:
299

300 a. The Investment Officer or one related to the Investment Officer within the
301 second degree of affinity or consanguinity owns 10% or more of the voting
302 stock or shares of the business organization or owns \$5,000 or more of the
303 fair market value of the business organization;
304

305 b. Funds received by the Investment Officer or one related to the Investment
306 Officer within the second degree of affinity or consanguinity from the business
307 organization exceed 10% of the Investment Official's gross income for the
308 prior year; or
309

310 c. The Investment Officer or one related to the Investment Officer within the
311 second degree of affinity or consanguinity has acquired from the business
312 organization during the prior year investments with a book value of \$2,500 or
313 more for the personal account of the Investment Officer.
314

315 d. An Investment Officer who is related within the second degree of affinity or
316 consanguinity to an individual seeking to sell an investment to the DISTRICT
317 shall file a statement disclosing that relationship. A statement required under
318 this subsection must be filed with the Texas Ethics Commission and the City
319 Council.
320

321 **E. Training** - The City shall provide periodic training in investments for the investment
322 personnel through courses and seminars offered by professional organizations and
323 associations in order to ensure the quality and capability of the DISTRICT'S
324 investment personnel making investment decisions in compliance with the Public
325 Funds Investment Act (PFIA). The Investment Officials and the Finance Audit
326 Committee members shall attend at least one training session containing at least 10
327 hours of instruction relating to the officer's responsibility under the PFIA within 12
328 months after assuming duties, and thereafter shall attend at least 8 hours of
329 additional investment training in subsequent two-year periods which begin on the first

330 day of the fiscal year and consist of the two consecutive fiscal years after that date.
331 The Government Finance Officers Association of Texas, the Government Treasurers
332 Organization of Texas, the Texas Municipal League, or the North Central Texas
333 Council of Governments are approved as independent training sources by the City
334 Council.

335
336 **VII. AUTHORIZED INVESTMENTS**
337

338 **A. Generally** - Safety of principal is the primary objective in investing public funds and
339 can be accomplished by limiting credit risk and interest rate risk. Credit risk is the
340 risk associated with the failure of a security issuer or backer to pay back principal
341 and interest on a timely basis. Interest rate risk is the risk that the value of a portfolio
342 will decline due to an increase in the general level of interest rates. In order to
343 provide for safety of principal as the DISTRICT's primary objective, only certain
344 investments are authorized as acceptable investments for the DISTRICT. The
345 following list of authorized investments for the DISTRICT intentionally excludes some
346 investments authorized by state law. These restrictions are intended to limit possible
347 risk and provide the maximum measure of safety to DISTRICT funds. In the event an
348 authorized investment loses its required minimum credit rating, all prudent measures
349 will be taken to liquidate said investment. Additionally, the DISTRICT is not required
350 to liquidate investments that were authorized at the time of purchase.

351
352 **B. Authorized and Acceptable Investments** - The authorized list of investment
353 instruments is as follows:

- 354
- 355 1. Obligations of the United States or its agencies and instrumentalities or any
356 obligation fully guaranteed or insured by the Federal Deposit Insurance
357 Corporation (FDIC), *excluding mortgage-backed securities*.
 - 358
 - 359 2. Direct obligations of the State of Texas, or its agencies and instrumentalities
360 Other obligations, the principal of and interest on which are unconditionally
361 guaranteed or insured by, or backed by the full faith and credit of, the State of
362 Texas or the United States or their respective agencies and instrumentalities,
363 excluding mortgage-related securities.
 - 364

365 **C. Certificates of Deposit** – A certificate of deposit issued by a depository institution that
366 has its main office or branch office in this state, and is secured in accordance with
367 the specific collateralization requirements contained in section XI.B of this policy. In
368 addition, an investment in “bundled” or “shared” CDs made in accordance with the
369 following conditions is permitted:

- 370
- 371 1. The funds are invested through a broker that has its main office or a branch
372 office in this state selected from a list adopted by the City as required by Section
373 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;

- 374
- 375 2. The selected broker or depository institution arranges for the deposit of the funds
376 in certificates of deposit in one or more federally insured depository institutions,
wherever located, for the account of the City.

- 377
3. The full amount of the principal and accrued interest of each of the CD is insured

378 by the United States or an instrumentality of the United States; and

379 4. The City appoints the depository institution, a clearing broker-dealer registered
380 with the Securities and Exchange Commission and operating pursuant to SEC
381 Rule 15c3-3, or an entity described in the Public Funds Collateral Act, Section
382 2257.041(d), as custodian for the City with respect to those CDs issued for the
383 City's account.
384

385 D. Eligible Local Government Investment Pools – AAA-rated public funds investment
386 pools, with a weighted average maturity of 60 days or less, individually approved by
387 formal Council resolution, which invest in instruments and follow practices allowed by
388 the current law as defined by Section 2256.016 of the Texas Government Code. The
389 pool must be continuously rated no lower than AAA or AAA-m or at an equivalent
390 rating by at least one nationally recognized rating service. A public funds investment
391 pool created to function as a money market mutual fund must mark to market daily
392 and, stabilize at a \$1 net asset value.
393

394 E. Repurchase Agreements – Fully collateralized repurchase agreements having a
395 defined termination date, placed through a primary government securities dealer or a
396 financial institution doing business in the State of Texas, and fully secured by cash
397 and obligations of the United States or its agencies and instrumentalities. This
398 collateral must be pledged to the DISTRICT and held in safekeeping with a third-
399 party custodian approved by the City. All collateral must be maintained at a market
400 value of no less than the principal amount of the outstanding funds disbursed. All
401 transactions shall be governed by signed Security Industry and Financial Markets
402 Association, (SIFMA) Master Repurchase Agreement. Repurchase agreements must
403 also be collateralized in accordance with State law as described in Section XI of this
404 policy. Authorization under this section includes flexible repurchase agreements
405 which may be used for specific investment of bond proceeds *but shall not include*
406 *reverse repurchase agreements*.
407

408 F. Bankers' Acceptances and Commercial Paper (LIMITED USE) – These investments
409 are authorized for the DISTRICT to the extent that they are contained in the
410 portfolios of approved public funds investment pools or money market funds in which
411 the DISTRICT invests.
412

413 G. AAA-rated SEC-Regulated 2a7 No-Load Money Market Mutual Funds – An SEC-
414 registered, no load money market mutual fund which has a dollar weighted average
415 stated maturity of 60 days or less whose assets consist exclusively of the assets
416 described in section VII.A and whose investment objectives includes the
417 maintenance of a stable net asset value of \$1 for each share: furthermore, it provides
418 the DISTRICT with a prospectus and other information required by the SEC act of
419 1934 or the Investment Advisor Act of 1940 and which provides the DISTRICT with a
420 prospectus and other information required by the Securities Exchange Act of 1934
421 (15 USC Section 78a et. Seq.) of the Investment Company Act of 1990 (15 USC
422 Section 80a-1 et. Seq.).
423

424 H. Unauthorized Securities – State law specifically prohibits investment in the following
425 securities:
426

427 1. An obligation whose payment represents the coupon payments on the

- 428 outstanding principal balance of the underlying mortgage-backed security and
429 pays no principal.
430
431 2. An obligation whose payment represents the principal stream of cash flow from
432 the underlying mortgage-backed security and bears no interest.
433
434 3. Collateralized mortgage obligations that have a stated final maturity date of
435 greater than 10 years.
436
437 4. Collateralized mortgage obligations, the interest rate of which is determined by
438 an index that adjusts opposite to the changes in a market index.
439

440 VIII. DIVERSIFICATION

441
442 A. Generally - Diversification of investment instruments shall be utilized to avoid
443 incurring unreasonable risks resulting from over-concentration of investments in a
444 specific maturity, a specific issue, or a specific class of securities. With the exception
445 of U.S. Government securities (debt obligations issued by the U. S. Government, its
446 agencies, or instrumentalities) as authorized in this policy, and authorized local
447 government investment pools, no more than forty percent (40%) of the total
448 investment portfolio will be invested in any one security type or with a single financial
449 institution. Diversification of the portfolio considers diversification by maturity dates
450 and diversification by investment instrument.
451

452 B. Diversification by Maturities - The longer the maturity of investments, the greater
453 their price volatility. Therefore, it is the DISTRICT's policy to concentrate its
454 investment portfolio in shorter-term securities in order to limit principal risks caused
455 by change in interest rates. The DISTRICT will attempt to match its investments with
456 anticipated cash flow requirements. Unless matched to a specific cash flow
457 (including the anticipated cash flow requirements of bond proceeds within the
458 temporary period), the DISTRICT will not directly invest in securities maturing more
459 than two (2) years from the date of purchase. However, the above described
460 obligations, certificates, or agreements may be collateralized using longer date
461 instruments. The DISTRICT shall diversify the use of investment instruments to
462 avoid incurring unreasonable risks inherent in over-investing in specific instruments,
463 individual financial institutions or maturities. Maturity scheduling shall be managed
464 by the Investment Officer so that maturities of investments shall be timed to coincide
465 with projected cash flow needs.
466

467 The entire DISTRICT portfolio, or single pooled fund group if utilized, shall maintain a
468 maximum average dollar-weighted maturity, based on the stated maturity date, of
469 less than two hundred seventy (270) days. Investment maturities for debt service
470 interest and sinking funds and/or other types of reserve funds, whose use is never
471 anticipated, shall maintain a maximum average dollar-weighted maturity, based on
472 the stated maturity date, of less than three hundred sixty-five (365) days.
473

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

476 Maximum %
477 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%

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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, ~~or the Directors designated representative,~~ 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.

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- D. Investment ~~Officials~~ 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.

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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 a 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.

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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

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

683
684 **B. Annual Report** - Within 180 days of the end of the fiscal year, the Director of Finance
685 shall present an annual report on the investment program and investment activity.
686 This report may be presented as a component of the fourth quarter report to the
687 Corinth Crime Control and Prevention District Board, City Manager and the City
688 Council. The quarterly reports prepared by the Director of Finance shall be formally
689 reviewed at least annually by an independent auditor, and the result of the review
690 shall be reported to the City Council by that auditor.

691
692 **C. Methods** - The quarterly and annual investment reports shall include a succinct
693 management summary that provides a clear picture of the status of the current
694 investment portfolio and transactions made over the past quarter. This management
695 summary will be prepared in a manner which will allow the DISTRICT to ascertain
696 whether investment activities during the reporting period have conformed to the
697 investment policy. The report will be prepared in compliance with generally accepted
698 accounting principles. The report will include the following:

- 700 1. A listing of individual securities held at the end of the reporting period. This list
701 will include the name of the fund or pooled group fund for which each individual
702 investment was acquired;
- 703
704 2. Unrealized gains or losses resulting from appreciation or depreciation by listing
705 the beginning and ending book and market value of securities for the period.
706 Market values shall be obtained from financial institutions or portfolio reporting
707 services independent from the broker/dealer from which the security was
708 purchased;
- 709
710 3. Additions and changes to the market value during the period;
- 711
712 4. Fully accrued interest for the reporting period;
- 713
714 5. Average weighted yield to maturity of portfolio on entity investments as compared
715 to applicable benchmarks;
- 716
717 6. Listing of investments by maturity date;
- 718
719 7. The percentage of the total portfolio which each type of investment represents;
720 and
- 721
722 8. Statement of compliance of the DISTRICT's investment portfolio with State Law
723 and the investment strategy and policy approved by the City Council.
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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.

751 **Attachment A**

752

753 CITY OF CORINTH, TEXAS

754 Corinth Crime Control and Prevention District

755 Investment Strategy Statement

756

757

758 **Operating Funds**

759

760 1. Suitability - Any investment eligible in the investment policy is suitable for Operating
761 Funds.

762

763 2. Safety of Principal - All investments shall be of high quality securities with no
764 perceived default risk. Market price fluctuations will occur. However, by managing
765 the weighted average days to maturity for the Operating Fund's portfolio to less than
766 270 days and restricting the maximum allowable maturity to two years, the price
767 volatility of the overall portfolio will be minimized.

768

769 3. Marketability - Securities with active and efficient secondary markets are necessary
770 in the event of an unanticipated cash flow requirement. Historical market "spreads"
771 between the bid and offer prices of a particular security-type of less than a quarter of
772 a percentage point will define an efficient secondary market.

773

774 4. Liquidity - The Operating Fund requires the greatest short-term liquidity of any of the
775 Fund types. Short-term investment pools and money market mutual funds will
776 provide daily liquidity and may be utilized as a competitive yield alternative to fixed
777 maturity investments.

778

779 5. Diversification - Investment maturities should be staggered throughout the budget
780 cycle to provide cash flow based on the anticipated operating needs of the
781 DISTRICT. Market cycle risk will be reduced by diversifying the appropriate maturity
782 structure out through two years.

783

784 6. Yield - Attaining a competitive market yield for comparable security-types and
785 portfolio restrictions is the desired objective. The yield of an equally weighted, rolling
786 three-month treasury-bill portfolio will be the minimum yield objective.

787

788 **Reserve Funds**

789

790 1. Suitability - Any investment eligible in the investment policy is suitable for Debt
791 Service Reserve Funds. Bond resolution and loan documentation constraints and
792 insurance company restrictions may create specific considerations in addition to the
793 investment policy.

794

795 2. Safety of Principal - All investments shall be of high quality securities with no
796 perceived default risk. Market price fluctuations will occur. However, managing Debt
797 Service Reserve Fund maturities to not exceed the call provisions of the borrowing
798 reduces the investment's market risk if the DISTRICT debt is redeemed and the
799 Reserve Fund liquidated. The fund shall maintain a maximum average dollar-
800 weighted maturity, based on the stated maturity date, of less than three hundred
801 sixty-five (365) days. No stated final investment maturity shall exceed the shorter of

- 802 the final maturity of the borrowing or two years. Annual mark-to-market requirements
803 or specific maturity and average life limitations within the borrowing's documentation
804 will influence the attractiveness of market risk and reduce the opportunity for maturity
805 extension.
- 806
- 807 3. Marketability - Securities with less active and efficient secondary markets are
808 acceptable for Debt Service Reserve Funds.
- 809
- 810 4. Liquidity – Debt Service Reserve Funds have no anticipated expenditures. The
811 Funds are deposited to provide annual debt service payment protection to the
812 DISTRICT's debt holders. The funds are "returned" to the DISTRICT at the final debt
813 service payment. Market conditions and arbitrage regulation compliance determine
814 the advantage of security diversification and liquidity. Generally, if investment rates
815 exceed the cost of borrowing, the DISTRICT is best served by locking in investment
816 maturities and reducing liquidity. If the borrowing cost cannot be exceeded, then
817 concurrent market conditions will determine the attractiveness of locking in maturities
818 or investing shorter and anticipating future increased yields.
- 819
- 820 5. Diversification - Market conditions and the arbitrage regulations influence the
821 attractiveness of staggering the maturity of fixed rate investments for Debt Service
822 Reserve Funds. At no time shall the final debt service payment date of the bond
823 issue be exceeded in an attempt to bolster yield.
- 824
- 825 6. Yield - Achieving a positive spread to the applicable borrowing cost is the desired
826 objective. Debt Service Reserve Fund portfolio management shall at all times
827 operate within the limits of the investment policy's risk constraints.
- 828

829 Bond Funds

- 830
- 831 1. Suitability - Any investment eligible in the investment policy is suitable for Bond
832 Funds.
- 833
- 834 2. Safety of Principal - All investments will be of high quality securities with no
835 perceived default risk. Market price fluctuations will occur. However, by managing
836 Bond Funds to not exceed the shorter of two years or the anticipated expenditure
837 schedule and maintaining a maximum average dollar-weighted maturity, based on
838 the stated maturity date, of less than three hundred sixty-five (365) days the market
839 risk of the overall portfolio will be minimized.
- 840
- 841 3. Marketability - Securities with active and efficient secondary markets are necessary
842 in the event of an unanticipated cash flow requirement. Historical market "spreads"
843 between the bid and offer prices of a particular security-type of less than a quarter of
844 a percentage point will define an efficient secondary market.
- 845
- 846 4. Liquidity – Bond Funds used for capital improvements programs have reasonably
847 predictable draw down schedules. Therefore investment maturities should generally
848 follow the anticipated cash flow requirements. Investment pools and money market
849 mutual funds will provide readily available funds generally equal to one month's
850 anticipated cash flow needs, or a competitive yield alternative for short term fixed
851 maturity investments. A singular repurchase agreement may be utilized if
852 disbursements are allowed in the amount necessary to satisfy any expenditure

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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.

904 **Attachment B**

905
906 CITY OF CORINTH, TEXAS
907 Investment Policy

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

912
913
914 This certification is executed on behalf of the CITY of Corinth, Texas (the "CITY") and
915 _____ (the Business Organization), pursuant to the Public
916 Funds Investment Act, Chapter 2256, Texas Government Code (the "Act") in connection with
917 investment transactions conducted between the CITY and the Business Organization.

918
919 The undersigned Qualified Representative of the Business Organization hereby certifies on
920 behalf of the Business Organization that:

- 921
- 922 1. The undersigned is a Qualified Representative of the Business Organization offering to
923 enter an investment transaction with the Investor as such terms are used in the Public
924 Funds Investment Act, Chapter 2256, Texas Government Code; and
 - 925
926 2. The Qualified Representative of the Business Organization has received and reviewed
927 the investment policy furnished by the CITY; and
 - 928
929 3. The Qualified Representative of the Business Organization has implemented reasonable
930 procedures and controls in an effort to preclude investment transactions conducted
931 between the Business Organization and the CITY that are not authorized by the CITY's
932 investment policy, except to the extent that this authorization is dependent on an
933 analysis of the makeup of the CITY's entire portfolio or requires an interpretation of
934 subjective investment standards.

935
936
937 Qualified Representative of Business Organization

938
939 Firm: _____

940
941 Signature _____

942
943 Name: _____

944
945 Title: _____

946
947 Date: _____

Finance Audit Committee Regular Session**Meeting Date:** 11/30/2016**Title:** Authorized Broker/Dealer List**Submitted For:** Lee Ann Bunselmeyer, Acting City Manager**Submitted By:** Caryn Riggs, Assistant Director**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 Coastal Securities, Mutual Securities, Inc., Service Asset Management, and three overnight investment vehicles (TexPool, TexStar, and Northstar Money Market) as the City's 2016-2017 approved broker/dealer list.

Attachments

Broker/Dealer Evaluation



BROKER/DEALER EVALUATION
Fiscal Year 2016-2017

BROKER/DEALER EVALUATION						
Firm/ Representative	Primary Dealer	Texas Registered	SEC Compliance	References	Claims, Losses, Investigations	Comments
Coastal Securities Tony Sekaly Houston, Texas <i>Approved Broker since 2007</i>	No	Yes	Yes	City of Carrollton City of Euless City of Grand Prairie	No	Reliable. Competitive. Provides daily market updates.
SAMCO Capital Markets (Previously Service Asset Management) 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	FY 2015-2016 Average Monthly Yield*	Management Fee
Northstar Bank <i>Approved Since 2009</i>	\$1	Over \$1 billion	Before 4:00 p.m.		.324%	0%
TexPool <i>Approved Pool Since 2007</i>	\$1	\$13.1 billion	Before 4:00 p.m.	Max- 60 days Avg- 43 days	.287%	.047% basis points State Comptroller & Federated Investors
TexStar <i>Approved Pool Since 2007</i>	\$1	\$5.2 billion	Before 4:00 p.m.	Max -60 days Avg- 44 days	.306%	.12% basis points JP Morgan Chase & First Southwest

*The 2015 Average Monthly Yield for TexPool and TexStar reflects a waiver of some or all management fees.

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: 11/30/2016

Title: 2015-2016 Summary of Rebatable Arbitrage

Submitted For: Lee Ann Bunselmeyer, Acting City Manager

Submitted By: Caryn Riggs, Assistant Director

Finance Review: N/A

Legal Review: N/A

AGENDA ITEM

Discuss the Fiscal Year 2015-2016 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 is part of the annual external audit 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.

In September 2008, First Southwest's Asset Management Division, which includes a team of arbitrage rebate specialists that assist municipalities in complying with the tax laws, performed the required services for bonds issued by the City of Corinth from 1994 to 2008. Since then, First Southwest Asset Management has continued performing an annual computation to ensure the City's compliance with the Federal Government Requirements. The attached 2015-2016 Summary of Rebatable Arbitrage includes the required annual computation for all bonds through September 30, 2016.

RECOMMENDATION

There is no action to be taken on this item.

Attachments

Rebatable Arbitrage

City of Corinth, Texas
Summary of Rebatable Arbitrage and Yield Restriction
As of September 30, 2016

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	Rebatable Arbitrage / Yield Restriction		Upcoming IRS Dates	
				9/30/2015	9/30/2016	Next IRS Calculation Date**	Next IRS Payment Date**
03/14/01	\$2,000,000	General Obligation Bonds, Series 2001	4.767640%	(33,822.71) (2)	(34,425.75) (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%	(30,135.26)	(34,332.65) (3)		
03/06/07	\$5,250,000	General Obligation Refunding Bonds, Series 2007	4.134942%	(26,455.45)	(29,303.47)	3/6/2017	5/5/2017
09/18/07	\$23,630,000	Combination Tax and Rev. CO, Series 2007	4.526986%	(3,318,929.97)	(3,487,400.49)	9/18/2017	11/17/2017
05/14/10	\$1,500,000	Combination Tax and Rev. CO, Series 2010	3.404388%	(11,403.14) (2)	(12,504.27) (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%	N/A	(88,861.91)		
	<u>\$14,785,000</u>	Combined Liability					
Total Cumulative Liability				<u>\$0.00</u>	<u>\$0.00</u>		

- (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.

* 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.