

CITY OF HAYS INVESTMENT POLICY

I. POLICY STATEMENT

It is the policy of the City of Hays that the administration of its funds shall be handled with the highest public trust. The City will invest public funds in a way that will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City. The policy serves to satisfy local law and Texas Public Funds Investment Act ("PFIA") Chapter 2256, Texas Government Code.

II. SCOPE

The investment policy applies to all financial assets and funds held by the City. The City has one general operating fund and one enterprise fund for efficiency and maximum investment opportunity. These funds are accounted for in the City's monthly financial statements.

III. INVESTMENT STRATEGY/OBJECTIVE STATEMENT

The City investment strategy primary objective is to assure that anticipated cash flows are matched with adequate investment liquidity. The objectives, in priority order, of investment activities shall be safety, liquidity, and return on investments.

A. Safety of Principal

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

B. Liquidity

The City's investments shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.

C. Return on Investments

The City's investments shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles. "Market rate of return" may be defined as the average yield of the current three-month United State Treasury Bill.

IV. STANDARDS OF CARE

A. Prudence

Investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital as well as the probable income to be derived. The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with the investment policy and

exercising due diligence shall be relieved of personal responsibility for an individual securities credit risk or market price changes, provided an appropriate action is taken to control adverse developments.

B. Ethics and Conflicts of Interest

City employees and the investment officers involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program or that could impair their ability to make impartial decisions. They shall also disclose any personal financial or investment positions in financial institutions and broker/dealers with which they conduct business. They shall further refrain from undertaking personal investment transactions with the firms with whom the City conducts business.

C. Delegation of Authority

The City Administrator, Mayor and Mayor Pro-Tem, acting on behalf of the City Council are responsible for investment management decisions and activities. The Mayor or the Person appointed by the City Council is responsible for the day to day administration of the investment program and is designated as the City's Investment Officer. The Investment Officer will attend training related to their responsibilities under PFIA within twelve months after taking office. The officer will receive at least ten hours of training every two years, to be provided by an independent source approved under the PFIA.

D. Legal Limitations

Direct specific investment parameters for the investment of public funds in Texas are found in the Public Funds Investment Act, Chapter 2256, Texas Government Code. The Interlocal Cooperation Act, Chapter 791, Texas Government Code, authorizes local governments in Texas to participate in an investment pool established thereunder. That statute and the reference to authorize investment in investment pools are the primary authorities for use of investment pools by political subdivisions in the State of Texas.

E. Internal Controls

It is the intent of this policy to provide a system of internal controls. The controls are designed to prevent loss of public funds due to fraud, employee error and misrepresentation by third parties, unanticipated market changes or imprudent actions by employees of the City.

V. AUTHORIZED INVESTMENTS

A. Certificates of Deposits

Investments may be made in fully collateralized Certificates of Deposits issued by a bank or credit union domiciled in the State of Texas and guaranteed by the Federal Deposit Insurance Corporation, National Credit Union Administration or their successor, not to exceed two years to stated maturity.

B. Investment Pools

Texas Local Government Investments Pools are authorized as defined by the Act. An investment pool shall invest the funds it receives from entities in authorized investments permitted by the Act. A public funds investment 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. An investment pool must provide an offering circular or other similar disclosure instrument and provide monthly and transaction reporting as required by Section 2256.016 of the Texas Government Code. A public funds investment pool created to function as a money market mutual fund must mark its portfolio to market daily and include in its investment objectives the maintenance of a stable net asset value of \$1 for each share.

VI. SAFEKEEPING AND CUSTODY

To the extent not insured by FDIC or NCUA, City funds (including cash on hand and CD's) must be collateralized by securities in compliance with the Texas Public Funds Collateral Act. Only securities prescribed as eligible investments under the PFIA qualify as pledged securities.

VII. REPORTING AND DISCLOSURE

The Public Funds Investment Act requires that the City provide basic information regarding the City's investments. The investment officer shall submit quarterly reports to the City Council and make them available to citizens for review if requested. The report will be prepared in compliance with the PFIA and generally accepted accounting principles. The report will cover the investment position of the City at the end of each fiscal quarter. The contents will include: beginning, ending and significant changes in market value of the portfolio; beginning, ending book value, accrued interest; and a statement as to the compliance with this policy and state law. A compliance audit of management controls and adherence to this policy as it relates to the City's investments and investing activity will be performed on an annual basis in conjunction with the annual financial audit.

VIII. INVESTMENT POLICY ADOPTION

The investment policy of the City shall be adopted by the City Council. The policy shall be reviewed on an annual basis.