CITY OF ATHENS

INVESTMENT POLICY 2019

FINANCE DEPARTMENT

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POLICY

It is the Policy of the City of Athens ("City") after allowing for the anticipated cash flow requirements in its bank accounts to meet daily needs and after giving due consideration to the safety and risk of investments, providing protection for both principal and liquidity, to invest public funds in a manner which will provide the highest investment return while conforming to all state and local statues governing the investment of public funds. The purpose of this Policy is to set specific investment Policy and strategy guidelines for the City of Athens, in order to achieve the goals of safety, liquidity, yield, and diversification for all investment activity. In accordance with state statute, the City Council of the City of Athens shall review and adopt by resolution, its investment strategies and Policy no less than annually. The resolution shall state that the Policy has been reviewed and include record of changes made to either the investment Policy or strategy. This Policy satisfies the statutory requirement of Texas Government Code Chapter 2256, the Public Funds Investment Act (the "Act").

SCOPE

This Investment Policy applies to all financial assets of the City. These funds shall be reported in the City's Comprehensive Annual Financial Report (CAFR) and include:

- General Fund
- Special Revenue Funds
- Interest and Sinking Fund
- Capital Projects Funds
- Utility Funds

This Policy does not govern funds that are managed under separate investment programs such as retirement funds, pension funds that are separately maintained, and defeased bond funds held in trust escrow accounts.

Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles. Such earnings from investments will be used in a manner that best serves the public trust and interest of the City as deemed in the annual budget.

OBJECTIVES

The City of Athens shall manage and invest its cash and assets with four major objectives, listed in order of priority: safety, liquidity, diversification and yield.

Safety

Safety of the principal is the primary objective. Safety is defined as the undiminished return of the principal of the City's investments and deposits. All investments shall be managed in a manner responsive to the public trust and consistent with state and local law. The City shall maintain a cash management program which includes timely collection of accounts receivable, vendor payments in accordance with invoice terms, and prudent investment of assets. Cash management is the process of managing monies in order to insure maximum cash availability and reasonable yield on short-term investments. The primary objective of the City's investment activity is the preservation of capital. Each investment transaction shall be conducted in a manner to avoid capital losses, whether they be from security defaults, safekeeping, or erosion of market value.

Liquidity

Liquidity is important to insure sufficient cash to meet all operating requirements. A liquid investment is one that can be easily and quickly converted into cash without a substantial loss of value. The City's investment portfolio shall be structured to meet all expected obligations in a timely manner. This shall be achieved by matching investment maturities with forecasted cash flow liabilities and maintain additional liquidity for unexpected liabilities.

Yield

For the City of Athens, the yield is secondary to those of safety and liquidity. Yield is defined as the rate of annual income return on an investment, expressed as a percentage. The benchmark for the City's portfolio shall be the one-year U.S. Treasury, designated for its comparability to the City's expected average cash flow pattern. The investment program shall seek to augment returns above this threshold consistent with risk limitations identified herein and prudent investment policies.

Diversification

The City's portfolio shall be diversified by market sector and maturity in order to avoid market risk.

INVESTMENT STRATEGY

The City of Athens maintains various portfolio for investment purposes which incorporates the specific investment strategy considerations and the unique characteristics of the fund groups represented in the portfolio:

A. The investment strategy for operating, enterprise and special revenue funds has as its primary objective assurance that anticipated liabilities are matched and adequate investment liquidity provided. The secondary objective is to create a portfolio structure which will experience minimal volatility. This may be accomplished by purchasing high quality, short- to medium-term maturity securities (0-2 years) which will complement each other in a laddered maturity structure permitting some extension for yield enhancement or by using the pools. The maximum dollar weighted average maturity of twelve (12) months or less will be calculated using the stated final maturity date of each security.

B. The investment strategy for debt service funds shall have as its primary objective the assurance of available funds adequate to fund the debt service obligations on a timely basis. Successive debt service dates will be fully funded before extension.

C. The investment strategy for debt service reserve funds shall have as its primary objective the ability to generate a revenue stream to the debt service funds from high quality securities with a low degree of volatility. Securities should be high credit quality and, except as may be required by the bond ordinance specific to an individual issue, of short to intermediate-term maturities. The potential for loss shall be further controlled through the purchase of securities within the desired maturity range.

D. The investment strategy for capital projects or capital project funds will have as its primary objective assurance that anticipated cash flows are matched and provide adequate investment liquidity. At least 10% total liquidity is planned to provide flexibility and for unanticipated project outlays. The stated final maturity dates of securities held may not exceed the estimated project completion date. The City of Athens intends to match investments with the projected cash flow analysis and liquidity needs of the City. In no case will the average maturity of the portfolio exceed twelve (12) months. The maximum final stated maturity of any investment shall not exceed two years. The City shall pursue conservative portfolio management strategy. Securities may be sold before they mature if market conditions present an opportunity for the City to benefit from the trade but the strategy will be primarily buy-and-hold. The investment officer will continuously monitor the contents of the portfolio, the available markets, and the relative value of competing instruments to adjust the portfolio in response to market conditions.

STANDARDS OF CARE

Investment Officer(s)

The Finance Director is designated by Council as the Investment Officer of the City, responsible for investment decisions and activities. Other Investment Officers may be so designated. The City may further contract with a registered investment advisor to advise in the management of the City's portfolio. No person may engage in an investment transaction except as provided under the terms of this Policy and supporting procedures.

Training of Investment Officer(s)

All investment officers shall attend at least one training session provided by an independent source approved by Council, in accordance with the Act, within 12 months after assuming investment duties and shall attend eight hours of training every two successive fiscal years beginning at the first day of the fiscal year. For the purposes of this policy, an "independent source" from which investment training shall be obtained shall include a professional organization, an institute of higher learning or any other sponsor other than a Business Organization with whom the City of Athens may engage in an investment transaction. Such training shall include education in investment controls, credit risk, market risk, investment strategies, and compliance with investment laws, including the Public Funds Investment Act.

Internal Controls

The Finance Director is responsible for establishing and maintaining an internal control structure designed to reasonably assure that assets of the City are protected from loss, theft, or misuse. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and, the valuation of costs and benefits requires ongoing estimates and judgments by management. The internal controls shall address the following points at a minimum: Control of collusion, Separation of transaction authority from accounting and record keeping, Custodial safekeeping, Clear delegation of authority, Written confirmation for all transactions, and Review, maintenance and monitoring of security procedures both manual and automated. The external auditor shall provide an annual independent review of quarterly investment reports to assure compliance with state law, policies and procedures. The Investment Officer or Adviser may monitor, on no less than a weekly basis, the credit rating on all authorized investments in the portfolio based upon independent information from a nationally recognized rating agency. If any security falls below the minimum rating required by Policy, the Investment Officer or Adviser shall notify the City Manager of the loss of rating, conditions affecting the rating and possible loss of principal with liquidation options available, within two weeks after the loss of the required rating. All prudent measures will be taken to liquidate an investment that is downgraded to less than the required minimum rating. The Investment Officer shall monitor, on no less than a weekly basis, the status and ownership of all banks issuing brokered CDs owned by the City based upon information from the FDIC. If any bank has been acquired or merged with another bank in which brokered CDs are owned, the Investment Officer shall immediately liquidate any brokered CD which is above the FDIC insurance level.

Prudence

The standard of prudence to be applied to all City investments shall be the "prudent person" rule, which states: "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived." In determining whether an investment officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the investment of all funds under the City's control, over which the officer has responsibility rather than a consideration as to the prudence of a single investment. The Investment Officer, acting in accordance with written procedures and exercising due diligence, shall be held responsible, but not personally liable for a specific security's credit risk or market price changes, provided that these deviations are reported immediately, and that appropriate action is taken to control adverse developments.

Conflicts of Interest

Investment Officers and city staff involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair the ability to make impartial investment decisions. City staff shall disclose to the City Manager any personal business with or material financial interests in financial institutions that conduct business with the City. An Investment Officer of the City who has a personal business relationship with an organization seeking to sell an investment to the City shall file a statement disclosing that personal business interest to the City Council and the Texas Ethics Commission. An investment officer who is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the City shall file a like statement disclosing that relationship.

AUTHORIZED INVESTMENTS

Assets of the City of Athens may be invested only in the following instruments as further defined by the Act. If changes are made to the Act they will not be authorized until this Policy is modified and adopted by the City Council. At least three competitive offers or bids are required for all individual security purchases and sales (excluding transactions with money market mutual funds, local government investment pools and when issued securities, which are deemed to be made at prevailing market rates):

A. Obligations of the United States Government, its agencies and instrumentalities with a maximum stated maturity of two years, to exclude mortgage-backed securities.

B. Fully insured or collateralized depository certificates of deposit of banks doing business in Texas, with a maximum maturity of one year guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or secured in accordance with this Policy and with a market value not less than the 102% of the amount of the certificates.

C. Fully FDIC insured brokered certificate of deposit securities in any U.S. state delivered versus payment to the City's safekeeping depository with a maximum maturity of one year. Before purchase, the Investment Officer or Adviser must verify the FDIC status of the bank on www.fdic.gov to assure that the bank is FDIC insured.

D. Fully collateralized, direct repurchase agreements purchased through a primary government securities dealer, as defined by the Federal Reserve with a maximum maturity of six months. A Bond Market Association Master Repurchase Agreement and independent third party safekeeping are required. A flex repurchase agreement used for bond funds may exceed two years but must match the expected expenditure schedule of the bonds.

E. AAA-rated, constant-dollar Local Government Investment Pools as defined by the Act and authorized by City Council which strive to maintain a $1 net asset value.

F. AAA-rated, SEC registered money market mutual funds which strive to maintain a $1 net asset value, as defined by the Act.

G. Obligations of state and local governments in the U.S. with a minimum A rating from a nationally recognized rating agency with a stated maturity not to exceed two years.

H. A-1/P-1 commercial paper rated by two nationally recognized rating agencies with a maximum maturity of 90 days. Delivery versus Payment - All securities shall be purchased on a delivery versus payment (DVP) settlement basis. Funds shall not be released until receipt of the security by the City's approved custodian. The custodian shall provide the City proof of ownership or claim by an original safekeeping receipt delivered to the City.

Diversification

The City recognizes that investment risks can result from issuer defaults, market price changes, or various technical complications leading to temporary illiquidity. Risk is controlled through portfolio diversification. The maximum limits for diversification will be:

- 100% Local Government Investment Pools
- 100% Fully collateralized interest-bearing commercial checking/savings accounts
- 90% Obligations of U.S. Agencies/Instrumentalities
- 80% Certificates of Deposit
- 40% Municipal & State Obligations
- 40% Repurchase Agreements
- 100% Collateralized Money Market Funds

REPORTING

Quarterly Reporting

The Investment Officers shall submit a signed quarterly investment report to Council in accordance with the Act. The reports shall summarize investment strategies employed in the most recent quarter and fully describe investment securities, maturities, risk characteristics, and investment return for the quarter. The report will include the following: a full description of individual securities held at the end of the reporting period based on amortized value, unrealized gains or losses, overall change in market value during the period as a measure of volatility, weighted average yield of the portfolio and its applicable benchmarks, earnings for the period, analysis of the total portfolio by market sector and maturity, and statement of compliance of the investment portfolio with the Act and the Investment Policy of the City. Market prices for the calculation of market value will be obtained from independent sources. Marketing to market will be done at least quarterly.

FINANCIAL COUNTER-PARTIES

City Depository

At least every five years a City Depository shall be selected through a formal request for proposal (RFP) process in accordance with the Texas Government Code 105.017. In selecting a depository, the services, cost of services, credit worthiness, earnings potential, and collateralization by the institutions shall be considered.

Security Broker/Dealers

All financial institutions and broker/dealers who desire to transact business with the City must supply the following documents will be maintained by the Finance Department.

- Financial Industry Regulatory Authority (FINRA) certification and CRD #
- Proof of Texas State Securities registration
- Policy review certification

Each counter-party must be provided a copy of the current Investment Policy and certify to a review stating understanding of the Policy and that controls are in place to assure only Policy approved investments will be sold to the City. Appendix "A" includes the current list of qualified institutions and broker/dealers authorized by this Investment Policy to engage in investment transactions with the City and have been approved by the City Council.

COLLATERAL, SAFEKEEPING AND CUSTODY

Time and Demand Pledged Collateral

All City time and demand deposits shall be secured above FDIC coverage by pledged collateral. In order to anticipate market changes and provide a level of security for all funds, collateral will be maintained and monitored by the depository at 102% of market value of principal and accrued interest on the deposits. The bank shall review collateral at least weekly to assure that the market value of the pledged securities is maintained at 102% or more. Collateral pledged to secure deposits shall be held by an independent financial institution outside the holding company of the depository in accordance with a safekeeping agreement signed by authorized representatives of the City, the Depository, and the custodian (with the exception of the Federal Reserve as

Custodian). All collateral shall be subject to inspection and audit by the City or the City's independent auditors. Authorized Collateral the City shall accept only the following securities as collateral for time and demand deposits or repurchase agreements:

A. FDIC insurance coverage.

B. Obligations of the United States, its agencies or instrumentalities, or other evidence of indebtedness of the United States guaranteed as to principal and interest including CMO which pass the bank test.

C. Obligations, the principal and interest on which, are guaranteed or insured by the State of Texas.

D. Obligations of other states or of a county, city or other political subdivision of a state having been rated as investment grade (investment rating no less than "A" or its equivalent) by two nationally recognized rating agencies.

INVESTMENT POLICY ADOPTION

The City of Athens Investment Policy and investment strategies shall be reviewed and adopted by resolution of the City Council no less than annually. The approving resolution must include the changes made to the Policy.

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GLOSSARY

Accrued Interest- interest earned but not yet received.

Amortization- a mathematical calculation that pays off a balance evenly while at the same time adding the interest earned every period that is due.

Arbitrage- the simultaneous buying and selling of similar assets and the profit from the price difference. The term is commonly used by municipal debt issuers (the City is a debt issuer) for investing bond proceeds.

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

Bid- the price offered by a buyer of securities. (When selling securities, you ask for a bid.) See Offer.

Bond Proceeds- the proceeds from the sale of bonds, notes and other obligations issued by an entity, and reserves and funds maintained by an entity for debt service purposes.

Broker- a broker brings buyers and sellers together for a commission.

Certificate of Deposit (CD)- a time deposit with a specific maturity evidenced by a certificate. Large-denomination CDs 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- short-term negotiable unsecured promissory notes of corporations.

Comprehensive Annual Financial Report (CAFR)- the official annual report for the City of Athens. 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 legal and contractual provisions, 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.

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

Debt Service- the payments consisting of the principal and interest due on the amortization schedule of debt, usually referring to the paydown of city debt, normally included in the current year's budget.

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.

Demand Deposit- funds on deposit available at any time, "on demand," such as a checking account.

Derivatives- (a) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (b) Financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

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.

Diversification- dividing investment funds among a variety of securities offering independent returns.

Fannie Mae- the trade name for the Federal National Mortgage Association (FNMA), a U.S. sponsored corporation.

Federal Deposit Insurance Corporation (FDIC)- insurance provided to customers of a subscribing bank that guarantees deposits to a set limit per account.

Federal Reserve System- the central bank of the United States created by Congress and consisting of a 7-member Board of Governors, 12 regional banks and commercial banks that are members of the system.

Financial Industry Regulatory Authority, Inc. (FINRA)- a private corporation that acts as a self-regulatory organization (SRO). FINRA is the successor to the National Association of Securities Dealers, Inc. (NASD) and the member regulation, enforcement and arbitration operations of the New York Stock Exchange.

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 through" is often used to describe Ginnie Maes.

Interest Rate- the price at which a present value is compensated for a future value, expressed as a percentage.

Interest Rate Risk- the risk associated with declines or rises in interest rates that cause an investment in a fixed-income security to increase or decrease in market value.

Investment Pool- an entity created under this code to invest public funds jointly on behalf of the entities that participate in the pool and whose investment objectives in order of priority are: (a) preservation and safety of principal; (b) liquidity; and (c) yield.

Liquidity- a liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

Market Risk- the risk that the value of a security will rise or decline as a result of changes in market conditions, typically interest rates.

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 or stated value of an investment becomes due and payable.

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

National Association of Securities of Dealers (NASD)- a self-regulatory organization (SRO) of brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

Par Value- (face value) the amount of principal that must be paid at maturity.

Portfolio- collection of securities held by an investor.

Premium- the amount by which the price paid for an investment exceeds its face value. A premium price will be paid for a bond that pays 5% coupons in a market that is now paying 2% returns.

Principal- the initial investment paid. The cost associated with an expected return.

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 Depository- 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.

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.

Repurchase Agreement (RP OR REPO)- a holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this.

Reverse Repurchase Agreement- the opposite of a Repurchase Agreement. The investor owns the securities or collateral and a bank or dealer temporarily exchanges cash for collateral, for a specific period at a certain interest rate.

Risk- the degree of uncertainty of return of principal and/or interest.

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.

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

Securities & Exchange Commission- agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC Rule 15C3-1- See Uniform Net Capital Rule.

Treasury Bills- a non-interest-bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in 3 months, 6 months, or 1 year.

Treasury Bonds- long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

Treasury Notes- medium-term, coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

Uniform Net Capital Rule- Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called *net capital rule* and *net capital ratio.* Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

Yield- (return) the income received from interest received. A dollar today is worth more than a dollar tomorrow, therefore an investor expects compensation for giving up a dollar today. The return includes factoring in risk that interest rates will change, that an investment can become worth less or worthless, and that reinvestment rates will be lower when the dollar is returned.

Appendix "A"

The following are the only eligible institutions and broker/dealers authorized by this Investment Policy to engage in investment transactions with the City:

Depository Institutions:

Prosperity Bank (Primary Depository Institution)

Local Government Investment Pool:

Texas Short Term Asset Reserve Fund (TexSTAR)

Texas Local Government Investment Pool (TexPool)

Brokers/Dealers:

This policy does not currently name a third-party broker/dealer for assistance with investing City funds. Council approval to name an authorized third-party broker/dealer must occur prior to involvement in investing City funds.