

INVESTMENT POLICY

WHARTON COUNTY JUNIOR COLLEGE DISTRICT

Wharton County Junior College (“WCJC”) funds available for investment shall be invested in compliance with the Public Funds Investment Act, Government Code, Chapter 2256 and Education Code 23.80, 51.003 (b), 51.0031 (a), and 51.0032 and in accordance with the guidelines that follow. This Policy will be reviewed and adopted by the Wharton County Junior College Board of Trustees (the “Board”), annually, in accordance with Government Code 2256.005 (e).

I. INVESTMENT OF COLLEGE FUNDS

A. Investment of Funds

This Policy applies to all financial assets of all funds of the Wharton County Junior College District (WCJC) and any funds held in custody by WCJC, excluding the endowment fund, unless expressly prohibited by law or unless it is in contravention of any depository contract between WCJC and its depository bank. Any investments purchased prior to amendment of the Public Funds Investment Act which no longer meet current investment guidelines may be held to maturity or sold when advantageous to WCJC [Government Code 2256.017].

B. Designation of Investment Officer

The Board designates the Vice President of Administrative Services and the Controller as Investment Officers and authorizes Investment Officers to deposit, withdraw, invest, transfer, or manage WCJC funds that are eligible for investment.

C. Investment Committee

An Investment Committee composed of the Vice President of Administrative Services, the Dean of Financial and Business Services, Controller, and the Administrative Assistant to the Vice President of Administrative Services, serve in an administrative capacity by overseeing and approving investment transactions and strategy decisions. The Committee will approve broker/dealers, training sources and monitor investment performance.

II. OBJECTIVES OF INVESTMENT POLICY

A. General Statement

WCJC funds will be invested in accordance with Federal and State laws, this Policy, and written administrative procedures. Effective cash management is

recognized as essential to good fiscal management. An aggressive cash management and a conservative investment strategy will be pursued by WCJC to take advantage of investment interest as a viable and material source of revenue. The portfolio is to be designed and managed in a manner to promote the best interest of WCJC. WCJC will invest according to fund-type investment strategies incorporated in this Policy and adopted by the Board in accordance with the Public Funds Investment Act Section 2256.005 (d).

B. Specific Objectives

Investments shall be made with the following general objectives in priority order:

- Safety and preservation of principal
- Maintenance of sufficient liquidity to meet operating needs
- Diversification
- Public Trust, and
- Optimization of earnings in the portfolio (Yield).

The College will accomplish these general objectives through the following specific methodologies:

1. Assure the safety of the funds. WCJC is concerned with the return of its principal; therefore, safety of principal is a primary objective.
2. Maintain sufficient liquidity to provide adequate and timely working funds. The investment portfolio must be structured to provide for liquidity necessary to pay obligations as they become due.
3. Diversify investment as to maturity, instruments, and financial institutions where permitted under State law and as appropriate. Diversification may reduce the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer, or a specific class of investments.
4. Seek to act responsibly as custodians of the public trust. Investment Officers shall avoid any transaction that might impair public confidence in the WCJC's ability to govern effectively.
5. Attain the highest possible rate of return while providing necessary protection of principal consistent with WCJC's operating requirements. The objective is to earn the maximum rate of return allowed on its investments within the policies imposed by its safety and liquidity objectives, investment strategies for each fund, and State and Federal law governing investment of public funds.

6. Match the maturity of investment instruments to the cash flow requirement of WCJC. Portfolio maturities will be structured to meet the obligations of WCJC first and then to achieve the highest return of interest.
7. Develop investment strategies for each fund in accordance with the Public Funds Investment Act, Section 2256.005 (d).

C. Training

Members of the Board of Trustees and Investment Officers shall acquire at least the minimum hours of investment training per requirements of the Public Funds Investment Act Section 2256 within 6 months after taking office or assuming duties. Training must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with the Act.

Thereafter, Investment Officers shall additionally complete at least ten (10) hours of required training during each state fiscal biennium. Training must be obtained from an independent source approved by the Investment Committee.

Additionally, members of the Board will receive training as specified in the Public Funds Investment Act, Section 2256.007.

D. Standard of Care

1. In accordance with Government Code 2256.006 and the prudent person rule, investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. Investment of funds shall be governed by the following investment objectives in order of priority: preservation and safety of principal; liquidity; and risk-commensurate yield.
2. In determining whether an Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:
 - i. the investment of all funds, or funds under WCJC's control, over which the Officer had responsibility rather than a consideration as to prudence of a single investment;
 - ii. whether the investment decision was consistent with the written Investment Policy.

3. Investment Officers acting in good faith and in accordance with this Investment Policy shall be relieved of personal liability.
4. The Investment Officer(s) will place investments only with organizations who have delivered a signed certification form.
5. Investment transactions will be settled on a delivery versus payment basis, when applicable. 2256.005 (b) (4) (E).

E. Ethics and Disclosure of Conflicts of Interest

Investment Officers and employees of WCJC 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 their ability to make impartial investment decisions.

All Investment Officers shall provide an initial complete disclosure related to potential conflicts of interest and as conditions change. Investment Officers must file a disclosure statement with the Texas Ethics Commission and the Board if:

1. The Officer has a personal business relationship with a business organization offering to engage in an investment transaction with WCJC.
2. The Officer is related within the second degree by affinity or consanguinity, as determined by Chapter 573 of the Texas Government Code, to an individual seeking to transact investment business with WCJC.

F. Audit Control

In conjunction with the annual financial audit by an independent auditing firm, the Board will request a compliance audit of management controls on investments, adherence to the established investment policies, and preparation of investment reports in accordance with the Public Funds Investment Act.

III. INVESTMENT STRATEGIES

The Public Funds Investment Act requires that the Investment Policy contain a separate written investment strategy for each fund or fund group. The strategies for each of WCJC funds are described in Attachment A. The investment objectives for all funds will use the following priorities of importance;

- i. understanding of the suitability of the investment to the financial requirements of WCJC;
- ii. preservation and safety of principal;
- iii. liquidity;
- iv. marketability of the investment if the need arises to liquidate the investment before maturity;
- v. diversification of the investment portfolio; and
- vi. yield.

IV. INVESTMENT REPORTING AND PERFORMANCE EVALUATION

A. Quarterly Report

In accordance with Government Code 2256.023, not less than quarterly, the Investment Officers shall prepare and submit to WCJC president and the Board a written report of investment transactions for all funds for the preceding reporting period within a reasonable time after the end of the period.

The report shall include a summary statement of investment activity prepared in compliance the Public Funds Investment Act. The reports will be prepared in a manner that will allow the reader and WCJC to ascertain whether investment activities during the reporting period have conformed to this Policy. The report will include the following at a minimum:

1. A detailed listing of individual investments and depository accounts by maturity date at the end of the reporting period;
2. A summary of the portfolio by market sectors and maturities;
3. The beginning market value of each pooled fund group for the reporting period;
4. The ending book and market value of each security and position by the type of asset and fund type invested;
5. The account or fund or pooled group fund for which each individual investment was acquired;
6. Interest earnings for the reporting period (accrued net of amortization);

7. Statement of compliance with the Public Funds Investment Act and WCJC's Investment Policy and strategy as approved by the Board. This statement must be signed by each Investment Officer.

B. Market Values

Market values used in the quarterly reports will be obtained from reputable and independent sources. Information sources may include: financial/investment publications and electronic media, available software for tracking investments, depository banks, commercial or investment banks, financial advisors, and representatives/advisors of investment pools or money market funds.

C. Notification of Investment Changes

It will be the duty of the Vice President of Administrative Services to notify WCJC president of any significant changes in current investment methods and procedures prior to their implementation, regardless of whether or not they are authorized by this Policy.

V. INVESTMENT INSTITUTIONS

A. Investment Institutions Defined

The Investment Officer(s), in consultation with the Investment Committee, shall invest WCJC funds with any or all of the following institutions or groups consistent with Federal and State law and the current primary depository bank contract:

1. Primary depository bank;
2. Other state or national banks that are insured by FDIC;
3. Public funds investment pools approved by the Board; or
4. Broker/dealers that are authorized to engage in business with WCJC. A list of broker/dealers annually adopted by the Investment Committee will be provided to the Board to assure that information is given for ethics compliance purposes. Sec 2256.025

B Certification of Investment Providers

Prior to doing investment business with a financial institution, broker/dealer, or investment pool, a written copy of this Policy shall be presented to that organization. The qualified representative of the business organization

approved to sell an authorized investment shall execute a written instrument (Attachment B) substantially to the effect that the business organization has;

- i. received and thoroughly reviewed the Investment Policy of WCJC; and
- ii. acknowledged that the organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between WCJC and the organization that are not authorized by the Investment Policy, except to the extent that this authorization is dependent on a analysis of the makeup of the entire portfolio or requires an interpretation of subjective investment standards.

The Investment Policy is to be submitted to each business organization seeking to sell an authorized investment, annually, after approval of the Policy by the Board.

V. RULES GOVERNING INVESTMENT TYPES

The Investment Officer(s) shall ensure maintenance of minimum account balances necessary to operate WCJC each day. Excess cash in any fund shall be invested in the optimum investment allowed by this Policy and State law.

A. Investment Instruments

Except as provided by Government Code 2256.009 (b), the Investment Officer(s), in consultation with the Investment Committee, shall from this date forward use the following authorized investment instruments:

1. Treasury Bills, Treasury Notes, Treasury Strips, and Treasury Bonds of the United States and other direct obligations of the agencies and instrumentalities of the United States.
2. Obligations of states, agencies, counties, cities and other political subdivisions of any state deposits that are expressly defined in the Public Funds Investment Act as enacted or as it may be amended from time to time.
3. Fully collateralized repurchase agreements and reverse purchase agreements that are expressly defined in the Public Funds Investment Act as enacted or as it may be amended from time to time.
4. Depository certificates of deposit, credit union share certificates, and other financial institution deposits that are expressly defined in the Public Funds Investment Act as enacted or as it may be amended from

time to time. Depository CD's must be insured by FDIC and share certificates by NCUSIF.

Investment pools as approved by Board resolution and that are authorized by the Public Funds Investment Act as enacted or as it may be amended from time to time

5. Commercial paper that is expressly defined in the Public Funds Investment Act as enacted or as it may be amended from time to time.
6. A no-load money market mutual fund that is expressly defined in the Public Funds Investment Act as enacted or as it may be amended from time to time.
7. Cash management and fixed income funds sponsored by organizations exempt from federal income taxation under Section 501 (f), Internal Revenue Code.
8. Negotiable certificates of deposit that are expressly defined in the Public Funds Investment Act as enacted or as it may be amended from time to time.
9. Corporate bonds, debentures, or similar debt obligations that are expressly defined in the Public Funds Investment Act as enacted or as it may be amended from time to time.

The following are not authorized investments:

1. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pay no principal;
2. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
3. Collateralized mortgage obligations that have a stated final maturity of greater than 10 years and,
4. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

B. Gifts and Donated Assets

Investments donated to the WCJC for a particular purpose or under terms of use specified by the donor are not subject to the requirements of the Public Funds Investment Act nor of this Policy. When possible, WCJC would seek to convert any such donation into a fully conforming asset under the Act.

C. Credit Rating Review and Effect of Loss of Required Rating

Not less than quarterly, the Investment Officer will obtain the current credit rating for each investment, as applicable, from a reliable source to ensure that the investment has maintained the required minimum rating. All prudent measures will be taken to liquidate an investment downgraded to less than the required minimum rating.

D. Financial Institution Deposits

Primary depositories shall be selected through WCJC's banking services procurement process, which shall include a formal Request for Proposals (RFP) issued in compliance with applicable State law. This contract can be extended as per the RFP specifications. In selecting depositories, the credit worthiness of institutions shall be considered, and WCJC shall conduct a review of prospective depositories' credit characteristics and financial history.

All depository deposits shall be insured or collateralized in compliance with applicable State law. WCJC reserves the right, in its sole discretion, to accept or reject any form of insurance or collateralization pledged towards depository deposits. Financial institutions serving as WCJC depositories will be required to sign a depository agreement with WCJC. The collateralized deposit portion of the agreement shall define WCJC's rights to the collateral in case of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with Federal and State regulations, including:

- The agreement must be in writing;
- The agreement has to be executed by the Depository and WCJC contemporaneously with the acquisition of the asset;
- The 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 WCJC; and
- The agreement must be part of the Depository's "official record" continuously since its execution.

The market value of the investments, or letter of credit securing the deposit of funds shall be at least equal to 102% market value of the amount of the deposits of funds reduced to the extent that the deposits are insured by the Federal Deposit Insurance Corporation (FDIC). The depository shall be liable for monitoring and maintaining the collateral and collateral margins at all times. The Letter of Credit shall expire not less than two business days after the anticipated deposit withdrawal. Securities pledged as collateral shall be held by an independent third party. The custodial agreement is to specify provisions relating to possession of the collateral, the substitution or release of investment securities, ownership of securities in the event of default, and the method of valuation of securities. All collateral shall be subject to inspection and audit by WCJC's internal audit staff or by its independent auditors on a reasonable basis.

E. Competitive Environment

The Investment Officer(s) shall seek to achieve a competitive yield appropriate for each strategy. Yield objectives shall at all times be subordinate to the objectives of safety and liquidity. Tax-exempt debt proceeds shall be invested to optimize the interest earnings retained by WCJC, while at the same time fully complying with all applicable State laws and Federal regulations, including the arbitrage rebate regulations. A competitive yield environment shall be achieved by soliciting quotes from multiple investment providers, monitoring comparable investment alternatives, and reviewing general market conditions.

VI. Annual Policy Review and Adoption

The Board shall, not less than annually, adopt by resolution, WCJC Investment Policy and incorporated investment strategies. The adopting resolution shall state any changes made to either the Investment Policy or strategies.

ATTACHMENT A

INVESTMENT STRATEGY

The Wharton County Junior College District (WCJC) maintains portfolios that utilize specific investment strategy considerations designated to address the unique characteristics of the fund groups represented in the portfolios:

1. **Operating Funds:** Investment strategies for funds containing operating funds (current unrestricted operating, current restricted operating, agency, and auxiliary) have as their primary objective the suitability of the investment followed by the safety of principal. Anticipated cash flows will not be exceeded to ensure that investment portfolio liquidity will meet operating obligations. WCJC will maintain adequate minimum balances in cash equivalent investments to protect against unanticipated expenditures.

Any authorized Investment Instruments listed in this Policy are suitable for operating funds. The maximum dollar-weighted average maturity for the operating funds shall be three years or less and the maximum allowable maturity shall be five years. Utilizing securities with a narrow bid/offer spread will reduce marketability risk. Diversification, primarily in maturity, will allow the portfolio to achieve a competitive rate of return.

2. **Bond Funds:** WCJC shall maintain as its primary objective for the investment of bond funds the suitability of the investment followed by the safety of principal. Anticipated cash flows will not be exceeded to ensure that investment portfolio liquidity will meet project obligations. WCJC will maintain adequate minimum balances in cash equivalent investments to protect against unanticipated expenditures. The investment of bond funds will adhere to the bond covenants for the specific issuance and will comply with Federal arbitrage regulations.

The investment maturity of project funds shall be determined considering: the lesser of the anticipated cash flow requirements of the funds or the “temporary period” as defined by Federal tax law during which time bond proceeds may be invested at an unrestricted yield. The dollar-weighted average maturity for these funds shall be two years or less and the maximum allowable maturity shall be two years.

Debt service funds have predictable payment schedules. Therefore investment maturities should not exceed the anticipated cash flow requirements. The dollar-weighted average maturity for these funds shall be one year or less and the maximum allowable maturity shall be one year.

Debt service reserve funds have no anticipated expenditures. However, managing debt service reserve fund maturities to not exceed the call provisions of the borrowing reduces

the investment's market risk if WCJC's debt is redeemed and the fund liquidated. No stated final investment maturity shall exceed the shorter of the final maturity of the borrowing or five years. The dollar-weighted average maturity for these funds shall be five years or less and the maximum allowable maturity shall be five years.

Bond funds may be invested in any of the allowable Investment Instruments listed in this Investment Policy, as long as they do not exceed the limitations imposed in the bond covenants.

Utilizing securities with a narrow bid/offer spread will reduce marketability risk. Diversification, primarily in maturity, will allow the portfolio to achieve a competitive rate of return.

3. **Plant Fund:** Investment strategies for the unexpended plant fund shall follow as a primary objective the safety of principal. Secondly, WCJC will seek to enhance the return on such funds while ensuring sufficient funds for timely payments of any obligation.

Any authorized Investment Instruments listed in this Policy are suitable for unexpended plan funds. The dollar-weighted average maturity for these funds shall be five years or less and the maximum allowable maturity shall be five years. Utilizing securities with a narrow bid/offer spread will reduce marketability risk. Diversification, primarily in maturity, will allow the portfolio to achieve a competitive rate of return.

ATTACHMENT B

Texas Public Funds Investment Act Certification by Business Organization

This certification is executed on behalf of the Wharton County Junior College (the “Investor”) and _____ (the “Business Organization”) in connection with investment transactions conducted between the Investor and the Business Organization.

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

1. The Qualified Representative is duly authorized to execute this Certification, and
2. The Qualified Representative has received and reviewed the Investment Policy furnished by the Investor, and
3. The Dealer has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Dealer and the Investor that are not authorized by the Investor's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the Investor's entire portfolio or requires an interpretation of subjective investment standards.

Qualified Representative

Signature

Name (Printed)

Title

Date