

McLennan Community College

POLICIES AND PROCEDURES

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| Subject: | Investment of College Funds | | |
| Source: | Board of Trustees | | |
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| Remarks: | | | |

College funds available for investment shall be invested in compliance with the Public Funds Investment Act, Government Code Chapter 2256 and Education Code 45.209, 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 resolution at least annually according to Government Code 2256.005(e).

I. Investment of College Funds

A. Investment of Funds

This investment policy applies to all financial assets of all funds of the McLennan County Junior College District (MCC) at the present time and any funds to be created in the future and any other funds held in custody by MCC, unless expressly prohibited by law or unless it is in contravention of any depository contract between MCC and its depository bank.

B. Designation of Investment Officer

The Board designates the Vice President, Finance & Administration as the college investment officer and authorizes the investment officer to deposit, withdraw, invest, transfer, or manage the college's funds that are eligible for investment. An Investment Committee (composed of the Vice President, Finance & Administration, the Director of Financial Services, and two faculty members or employees appointed by the President) will review investments on a monthly basis and serve in an advisory capacity on investments.

II. Objectives of Investment Policy

A. General Statement

POLICIES AND PROCEDURES

Funds of MCC will be invested in accordance with federal and state laws, this investment policy, and written administrative procedures. Effective cash management is recognized as essential to good fiscal management. An aggressive cash management and conservative investment strategy will be pursued by the college to take advantage of investment interest as a viable and material source of revenue to all restricted and unrestricted funds. The college's portfolio is to be designed and managed in a manner to promote the best interest of the college and the public. MCC will invest according to investment strategies for each fund as they are adopted by the MCC Board of Trustees in accordance with Sec. 2256.005(d). Settlement of all transactions, except investment pool funds and mutual funds, will be on a delivery versus payment basis.

B. Specific Objectives

1. Assure the safety of the college's funds. MCC is concerned about the return of its principal; therefore, safety of principal is a primary objective in any investment transaction.
2. Maintain sufficient liquidity to provide adequate and timely working funds. The college's investment portfolio must be structured to provide for liquidity necessary to pay obligations as they become due.
3. Attain the highest possible rate of return and interest earnings while providing necessary protection of principal consistent with the college's operating requirements as determined by the Board. It will be the objective of the college 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.
4. Match the maturity of investment instruments to the cash flow requirements of the college. Portfolio maturities will be structured to meet the obligations of the college first and then to achieve the highest return of interest.
5. Diversify investments as to maturity, instruments, and financial institutions where permitted under state law. It will be the policy of MCC to diversify its portfolio to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer, or a specific class investment. Investments of the college shall always be

POLICIES AND PROCEDURES

selected that provide for stability of income and reasonable liquidity.

Portfolio diversification that shall be achieved by the following general guidelines:

- Limiting investments to avoid overconcentration in investments from a specific issuer or business sector (excluding U.S. Treasury securities and certificates of deposit that are fully insured and collateralized in accordance with state and federal law),
 - Limiting investment in investments that have higher credit risks,
 - Investing in investments with varying maturities, and
 - Continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.
6. Actively pursue portfolio management techniques. It is MCC's policy to provide training per requirements of the Public Funds Investment Act, Section 2256.008 and periodic training in investments for the Investment Committee through seminars offered by professional organizations and associations in order to insure the quality, capability, and currency of the Investment Committee in making investment decisions. Additionally, Board of Trustee members will receive training as specified in Public Funds Investment Act, Section 2256.007. The Vice President, Finance & Administration will present a report to the Board of Trustees within 180 days after the last day of each regular session of the legislature.
7. Develop investment strategies for each fund. In accordance with the Public Funds Investment Act, Section 2256.005(d), a separate written investment strategy will be developed for each of the funds under MCC's control. Investment strategies are described in Attachment A. The investment objectives for all funds will use the following priorities of importance:
- a. understanding of the suitability of the investment to the financial requirements of the college;
 - b. preservation and safety of principal;
 - c. liquidity;
 - d. marketability of the investment if the need arises to liquidate the

POLICIES AND PROCEDURES

- investment before maturity;
- e. diversification of the investment portfolio;
- f. and yield.

8. Assure the public trust with the prudent investment activities that are controlled by this policy.

III. Rules Governing Investment Types

The Vice President, Finance & Administration shall maintain minimum account balances necessary to operate the college each day. Excess cash in any fund shall be invested in the highest yield investment allowed by law.

- A. Except as provided by Government Code 2256.009(b), the Vice President, Finance & Administration, in consultation with the Investment Committee, shall from this date forward use the following authorized investment instruments provided in the Public Funds Investment Act:
 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. Fully collateralized direct repurchase agreements with a defined termination date secured by obligations of the United States or its agencies and instrumentalities. These shall be pledged to the college, held in the college's name, and deposited at the time the investment is made with the college or with a third party selected and approved by the college. All repurchase agreement transactions will be on a delivery vs. payment basis and in compliance with the Public Funds Investment Act as enacted or as it may be amended from time to time.
 3. Certificates of deposit, which are expressly defined in the Public Funds Investment Act as enacted or as it may be amended from time to time.
 4. Local government investment pools, which (1) meet the requirements of Chapter 2256.026 of the Public Funds Investment Act as enacted or as it may be amended from time to time, (2) are rated no lower than AAA or an equivalent rating by at least one nationally recognized rated service, and (3) are authorized by resolution or ordinance by the Board.
 5. Money Market Mutual funds that are (1) registered and regulated by the

POLICIES AND PROCEDURES

Securities and Exchange Commission, (2) have a dollar weighted average stated maturity of 90 days or less, (3) rated AAA by at least one nationally recognized rating service, and (4) seek to maintain a net asset value of \$1.00 and in compliance with the Public Funds Investment Act as enacted or as it may be amended from time to time.

In selecting investment instruments and advisors, all statutes and college policies relating to bidding and purchasing, as they currently exist or may be amended in the future, will be complied with. The following maximum limits, by instrument, are established for the college's total portfolio:

- a. U. S. Treasury Bills, Notes, Strips, and Bonds, and Direct Obligations of the Agencies and Instrumentalities – 100%
 - b. Repurchase Agreements (excluding flexible repurchase agreements for bond proceeds investments) – 75%
 - c. Certificates of Deposit – 100%
 - d. Money market Funds –75%
 - e. Authorized Investment Pools –75%
- B. Other investments authorized by the Public Funds Investment Act as enacted or as it may be amended from time to time are approved if (1) comprehensive description of instrument is provided to the college and (2) written approval from the Vice President, Finance & Administration is given. The college president and the Board of Trustees must be notified of the transaction on a timely basis.
- C. The maximum allowable stated maturity of any individual investment owned by the college shall be as provided for in the Public Funds Investment Act as enacted or as it may be amended from time to time. If no maximum allowable stated maturity is provided for a particular investment owned by the college, the maximum allowable stated maturity for such investment shall be for a term no greater than 5 years except for purchase of investments related to the refunding of bonds in which case the maturity of the escrowed amount will be no greater than the life of the bond. The composite portfolio will have a weighted average maturity of 365 days or less. This dollar-weighted average maturity will be calculated using the

POLICIES AND PROCEDURES

stated final maturity dates of each security (PFIA 2265.005 (b) (4) (C). For pooled groups, the maximum dollar weighted average maturity and rating shall be as provided in the Public Investment Funds Act as enacted or as it may be amended from time to time.

- D. For pooled groups, the maximum dollar weighted maturity and rating shall be as provided in the Public Funds Investment Act as enacted or as it may be amended from time to time.

IV. Investment Responsibility and Control

A. Investment Institutions Defined

The Vice President, Finance & Administration (in consultation with the Investment Committee) shall invest college funds with any or all of the following institutions or groups consistent with federal and state law and the current depository bank contract:

1. Depository bank;
2. Other state or national banks that have their main office or a branch office in Texas that are insured by FDIC;
3. Fully FDIC insured brokered certificates of deposits issued by a U.S. national banking association or state bank;
4. Public funds investment pools; or
5. Government securities brokers and dealers

B. Qualifications for Approval of Broker/Dealers

1. In accordance with Government Code 2256.005(k), a written copy of this investment policy shall be presented to any person seeking to sell to the college an authorized investment. The qualified representative of the business organization seeking to sell an authorized investment shall execute a written instrument substantially to the effect that the registered principal has:
 - a. received and reviewed the investment policy of the college; and
 - b. acknowledged that the organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the college and the organization that are not authorized by the college's investment policy, except

POLICIES AND PROCEDURES

to the extent that this authorization is dependent on an analysis of the make-up of the college's entire portfolio or requires an interpretation of subjective investment standards.

2. The Vice President, Finance & Administration may not buy any securities from a person who has not delivered to the college a signed certification form as provided according to Government Code 2256.005(l).
3. The Investment Committee will, at least annually, revise, review, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the college.

C. Standard of Care

1. In accordance with Government Code 2256.006, 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 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:
 - a. the investment of all funds, or funds under the college's control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment; and
 - b. whether the investment decision was consistent with the written investment policy of the college.

Ethics and Conflicts of Interest

The College President, Vice Presidents and members of the Investment Committee shall refrain from personal business activity that would conflict with the proper execution and management of the investment program, or that would impair their ability to make impartial decisions. If the college

POLICIES AND PROCEDURES

President, any Vice President, or any member of the Investment Committee has a personal business relationship with an entity or is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the college, the person must file a statement disclosing that personal business interest or relationship with the Texas Ethics Commission and the Board of Trustees in accordance with Government Code 2256.005 (l). Additionally, the college President, Vice Presidents, and all members of the Investment Committee will sign a commitment to abide by the college's Purchasing Ethics Policy and the Board of Trustees will sign a commitment to abide by the Board's Ethics Policy.

E. Audit Control

In addition to the annual financial audit of all college funds by an independent auditing firm, the Board of Trustees will request a compliance audit of management controls on investments and adherence to the college's established investment policies in accordance with Government Code 2256.005(n).

V. Investment Reporting and Performance Evaluation

A. Quarterly Report

In accordance with Government Code 2256.023, not less than quarterly, the Investment Committee shall prepare and submit to the college president and the Board of Trustees 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 will contain a summary statement that the report is prepared in compliance with generally accepted accounting principles and will include a description of investment activity as described in Section 2256.023 of the Public Funds Investment Act as enacted or as it may be amended from time to time. These reports shall be formally reviewed annually by the college's independent auditor who will report to the Board of Trustees.

B. Notification of Investment Changes

It will be the duty of the Vice President, Finance & Administration to notify the college president of any significant changes in current investment methods and procedures prior to their implementation, regardless of whether they are authorized by this policy or not.

POLICIES AND PROCEDURES

- C. The Investment Committee will monthly monitor the market prices of all investments by contacting at least two sources. A report of book value and market value will be prepared. When quotes suggest that the market is favorable, attempts will be made to sell those investments purchased prior to the 1995 Public Funds Investment Act amendments which no longer meet current investment guidelines.
- D. To meet performance benchmarks, it is the policy of the college to purchase investments with maturity dates coinciding with cash flow needs. Through this strategy, the college shall seek to optimize interest earnings utilizing allowable investments available on the market at the time the investment is evaluated. The college's portfolio shall be designed with the objective of regularly meeting or exceeding the average rate of return on U. S. Treasury Bills at a maturity level comparable to the college's weighted average maturity in days.

VI. Custodial Credit Risk Management

A. Safekeeping and Custodial Agreements

MCC shall contract with a bank or banks for the safekeeping of securities either owned by MCC as part of its investment portfolio or held as collateral to secure demand or time deposits. Securities owned by MCC shall be held in MCC's name as evidenced by safekeeping receipts of the institution holding the securities.

Collateral for deposits will be held by a third party custodian designated by MCC and pledged to MCC as evidenced by safekeeping receipts of the institution with which the collateral is deposited. Original safekeeping receipts shall be obtained. Collateral may be held by the depository bank's trust department, a Federal Reserve bank or branch of a Federal Reserve bank, a Federal Home Loan Bank, or a third party bank approved by MCC.

B. Collateral Policy (Government Code 2257.023)

Consistent with the requirements of the Public Funds Collateral Act, it is the policy of MCC to require full collateralization of all MCC funds on deposit with a depository bank or a bank acting as a depository for college funds. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be a minimum of 100% of market value

POLICIES AND PROCEDURES

of principal and accrued interest on the deposits or investments less an amount insured by the FDIC. At its discretion, MCC may require a higher level of collateralization for certain investment securities. Securities pledged as collateral shall be held by an independent third party with whom MCC has a current custodial agreement. The Vice President, Finance & Administration is responsible for entering into collateralization agreements with third party custodians in compliance with this Policy. The agreements are to specify the acceptable investment securities for 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. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to MCC and retained. Collateral shall be reviewed at least monthly to assure that the market value of the pledged securities is adequate.

C. Collateral Defined

MCC shall accept only the following types of collateral:

- Obligations of the United States or its agencies and instrumentalities
- Direct obligations of the state of Texas or its agencies and instrumentalities
- Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized rating firm not less than A or its equivalent with a remaining maturity of ten (10) years or less
- A surety bond issued by an insurance company rated as to investment quality by a nationally recognized rating firm not less than A
- A letter of credit issued to MCC by the Federal Home Loan Bank

D. Subject to Audit

All collateral shall be subject to inspection and audit by the Vice President, Finance & Administration or MCC's independent auditors.

ATTACHMENT A

INVESTMENT STRATEGY

The McLennan County Junior College District (MCC) maintains portfolios which utilize specific investment strategy considerations designed to address the unique characteristics of the fund groups represented in the portfolios:

1. **Operating Funds.** Investment strategies for operating funds and commingled pools containing operating funds have as their primary objective assurance that anticipated cash flows are matched with adequate investment liquidity. In order to accomplish this, the college will maintain adequate balances in short-term investments with necessary liquidity to ensure that sufficient funds are available for the continued operations of the college. Funds will not be invested in securities with stated maturities that exceed the reasonable expected expenditure time period.
2. **Debt Service Funds.** MCC shall maintain as its primary objective, the safety of principal with regard to all monies collected or allocated for debt service. Secondly, MCC will seek to maximize the return on such funds while insuring sufficient funds for timely payments of its debt obligations. In order to accomplish this, MCC will invest such funds in amounts and maturity dates that most likely will meet the debt service requirements of the college.
3. **Debt Service Reserve Funds.** Investment strategies for debt service reserve fund shall have as the primary objective the ability to generate a dependable revenue stream to the appropriate debt service fund from securities with a low degree of volatility. Except as may be required by the bond ordinance specific to an individual issue, securities should be of high quality, with short to intermediate term maturities. Volatility shall be further controlled through the purchase of securities carrying the highest coupon available with the desired maturity and quality range.
4. **Capital Improvement Fund.** The college shall maintain as its primary objective, the safety of principal with regard to all monies collected. The college will seek to maximize the return on such funds, while insuring sufficient funds for timely payments of its obligations.
5. **Special Projects or Special Purpose Funds.** Portfolios for these funds will have as their primary objective assurance that anticipated cash flows are matched with adequate investment liquidity. The stated maturity dates of securities held should not exceed the estimated project completion date.

McLennan Community College

POLICIES AND PROCEDURES

CERTIFICATION

In compliance with the Texas Government Code (Public Funds Investment Act) Sec. 2256.005(k)-(1), ("Broker") acknowledges that the qualified representative conducting investments transactions with McLennan Community College ("MCC") have received and have reviewed the MCC Investment Policy. Broker acknowledges that Broker has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the MCC investment policy, except to the extent that this authorization is dependent on an analysis of the make-up of MCC's entire portfolio or requires an interpretation of subjective investment standards.

(Firm)

(Signature of Qualified Representative)

(Name)

(Title)

(Date)