



LEAD | GROW | SERVE

***2015 - 2016***

***Annual Investment Report***

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## *Introduction*

Investments in the State of Texas are governed by Chapter 2256 of the Texas Government Code. All investments made by the District shall comply with the Public Funds Investment Act and all federal, state, and local statutes and regulations.

1. Investment policies should include the methods used to monitor the market price and include a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis.
2. The Board of Trustees must act upon an annual review of the District's investment policy and strategies.
3. Training requirements are required of the CFO and investment officers. Eight hours of training is required every two years.
4. A qualified representative of sellers of investments must sign that the District's investment policies have been reviewed.
5. Quarterly investment reports must be in accordance with generally accepted accounting principles and must include accrue interest.
6. A formal annual review of the quarterly reports by an independent auditor is necessary except for investments in pools, money market funds or depository bank investments.

## *Investment Policy*

The District's policy requires focus on safety, liquidity and diversity. Investments are made in a manner that ensures the preservation of capital in the overall portfolio. The District's investments are sufficiently liquid to meet anticipated cash flow needs. Investments are diversified to reduce the risk of any one investment type. Internal controls exist to protect against losses of public funds arising from fraud, employee error, and misrepresentation by a third party.

Investment strategy is applied to each major fund type. Investment strategies for operating funds (including any commingled pools containing operating funds) shall have as their primary objectives safety, investment liquidity, and maturity sufficient to meet anticipated cash flow requirements. The Debt Service fund and Capital Projects funds have longer thresholds for investing due to the nature of the cash flow requirements. Investments for these funds may exceed one year provided legal limits are not exceeded.

For the 2015-2016 school year, the District's investment policy limited any investment to nine types:

1. Obligations of the United States or Texas or its agencies and instrumentalities and political subdivisions.
2. Certificates of deposit.
3. Mutual funds.
4. Public funds investment pools.
5. Commercial paper.
6. Banker's acceptances.
7. Fully collateralized repurchase agreements.
8. A securities lending program.
9. A guaranteed investment contract as an investment vehicle for bond proceeds.

Georgetown ISD investments during 2015-2016 school year were spread among three public funds investment pools (TexPool, TexPool Prime, Lone Star Investment Pool) and money market mutual funds (East West Bank).

Day to day investments are managed by the Executive Director of Business Services. The CFO oversees the investment function of the District and presents quarterly reports to the Board of Trustees. The CFO and Executive Director of Business Services have maintained the appropriate training requirements.

The CDA (Local) policy was updated on February 25, 2014. Copies of the CDA (Legal) and CDA (Local) are on the following pages. No changes are recommended to these policies at this time.

OTHER REVENUES  
INVESTMENTS

CDA  
(LEGAL)

All investments made by a district shall comply with the Public Funds Investment Act (Texas Government Code Chapter 2256, Subchapter A) and all federal, state, and local statutes, rules or regulations. *Gov't Code 2256.026*

WRITTEN POLICIES

Investments shall be made in accordance with written policies approved by the board. The investment policies must primarily emphasize safety of principal and liquidity and must address investment diversification, yield, and maturity and the quality and capability of investment management. The policies must include:

1. A list of the types of authorized investments in which a district's funds may be invested;
2. The maximum allowable stated maturity of any individual investment owned by the district;
3. For pooled fund groups, the maximum dollar-weighted average maturity allowed based on the stated maturity date of the portfolio;
4. Methods to monitor the market price of investments acquired with public funds;
5. A requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis; and
6. Procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the provisions of Government Code 2256.021 [see LOSS OF REQUIRED RATING, below].

*Gov't Code 2256.005(b)*

ANNUAL REVIEW

The board shall review its investment policy and investment strategies not less than annually. The board 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 investment policy or investment strategies. *Gov't Code 2256.005(e)*

ANNUAL AUDIT

A district shall perform a compliance audit of management controls on investments and adherence to the district's established investment policies. The compliance audit shall be performed in conjunction with the annual financial audit. *Gov't Code 2256.005(m)*

INVESTMENT  
STRATEGIES

As part of the investment policy, a board shall adopt a separate written investment strategy for each of the funds or group of funds under the board's control. Each investment strategy must describe

the investment objectives for the particular fund under the following priorities in order of importance:

1. Understanding of the suitability of the investment to the financial requirements of the district;
2. Preservation and safety of principal;
3. Liquidity;
4. Marketability of the investment if the investment needs to be liquidated before maturity;
5. Diversification of the investment portfolio; and
6. Yield.

*Gov't Code 2256.005(d)*

INVESTMENT  
OFFICER

A district shall designate one or more officers or employees as investment officer(s) to be responsible for the investment of its funds. If the board has contracted with another investing entity to invest its funds, the investment officer of the other investing entity is considered to be the investment officer of the contracting board's district. In the administration of the duties of an investment officer, the person designated as investment officer shall exercise the judgment and care, under prevailing circumstances that a prudent person would exercise in the management of the person's own affairs, but the board retains the ultimate responsibility as fiduciaries of the assets of the district. Unless authorized by law, a person may not deposit, withdraw, transfer, or manage in any other manner the funds of the district. Authority granted to a person to invest the district's funds is effective until rescinded by the district or until termination of the person's employment by a district, or for an investment management firm, until the expiration of the contract with the district. *Gov't Code 2256.005(f)*

A district or investment officer may use the district's employees or the services of a contractor of the district to aid the investment officer in the execution of the officer's duties under Government Code, Chapter 2256. *Gov't Code 2256.003(c)*

INVESTMENT  
TRAINING  
INITIAL

Within 12 months after taking office or assuming duties, the chief financial officer and the investment officer of a district shall attend at least one training session from an independent source approved either by the board or by a designated investment committee advising the investment officer. This initial training must contain at least ten hours of instruction relating to their respective responsibilities under the Public Funds Investment Act. *Gov't Code 2256.008(a)*

OTHER REVENUES  
INVESTMENTS

CDA  
(LEGAL)

ONGOING

The chief financial officer and the investment officer must also attend an investment training session not less than once in a two-year period that begins on the first day of the district's fiscal year and consists of the two consecutive fiscal years after that date, and receive not less than eight hours of instruction relating to investment responsibilities under the Public Funds Investment Act from an independent source approved by the board or a designated investment committee advising the investment officer. If a district has contracted with another investing entity to invest the district's funds, this training requirement may be satisfied by having a board officer attend four hours of appropriate instruction in a two-year period that begins on the first day of the district's fiscal year and consists of the two consecutive fiscal years after that date. *Gov't Code 2256.008(a-1)-(b)*

Investment training shall include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with the Government Code, Chapter 2256. *Gov't Code 2256.008(c)*

STANDARD OF  
CARE

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 his or her own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. Investments shall be governed by the following objectives in order of priority:

1. Preservation and safety of principal;
2. Liquidity; and
3. Yield.

In determining whether an investment officer has exercised prudence with respect to an investment decision, the following shall be taken into consideration:

1. The investment of all funds, rather than the prudence of a single investment, over which the officer had responsibility.
2. Whether the investment decision was consistent with a board's written investment policy.

*Gov't Code 2256.006*

PERSONAL  
INTEREST

A district investment officer who has a personal business relationship with a business organization offering to engage in an investment transaction with the district shall file a statement disclosing that personal business interest. An investment officer who is relat-

ed within the second degree by affinity or consanguinity, as determined by Government Code Chapter 573, to an individual seeking to sell an investment to the investment officer's district shall file a statement disclosing that relationship. A required statement must be filed with the board and with the Texas Ethics Commission. For purposes of this policy, an investment officer has a personal business relationship with a business organization if:

1. The investment officer owns ten percent or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;
2. Funds received by the investment officer from the business organization exceed ten percent of the investment officer's gross income for the previous year; or
3. The investment officer has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for the personal account of the investment officer.

*Gov't Code 2256.005(i)*

QUARTERLY  
REPORTS

Not less than quarterly, an investment officer shall prepare and submit to a board a written report of investment transactions for all funds covered by the Public Funds Investment Act for the preceding reporting period. This report shall be presented to a board and a superintendent, not less than quarterly, within a reasonable time after the end of the reporting period. The report must:

1. Contain a detailed description of the investment position of a district on the date of the report.
2. Be prepared jointly and signed by all district investment officers.
3. Contain a summary statement for each pooled fund group (i.e., each internally created fund in which one or more accounts are combined for investing purposes) that states the:
  - a. Beginning market value for the reporting period;
  - b. Ending market value for the period; and
  - c. Fully accrued interest for the reporting period.
4. State the book value and market value of each separately invested asset at the end of the reporting period by the type of asset and fund type invested.
5. State the maturity date of each separately invested asset that has a maturity date.



OTHER REVENUES  
INVESTMENTS

CDA  
(LEGAL)

6. State the account or fund or pooled group fund in a district for which each individual investment was acquired.
7. State the compliance of the investment portfolio of a district as it relates to the district's investment strategy expressed in the district's investment policy and relevant provisions of Government Code, Chapter 2256.

If a district invests in other than money market mutual funds, investment pools or accounts offered by its depository bank in the form of certificates of deposit, or money market accounts or similar accounts, the reports shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the board by that auditor.

*Gov't Code 2256.023*

SELECTION OF  
BROKER

A board or a designated investment committee, shall, at least annually, review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with a district.

*Gov't Code 2256.025*

AUTHORIZED  
INVESTMENTS

A board may purchase, sell, and invest its funds and funds under its control in investments described below, in compliance with its adopted investment policies and according to the standard of care set out in this policy. Investments may be made directly by a board or by a nonprofit corporation acting on behalf of the board or an investment pool acting on behalf of two or more local governments, state agencies, or a combination of the two. *Gov't Code 2256.003(a)*

In the exercise of these powers, a board may contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control. A contract made for such purpose may not be for a term longer than two years. A renewal or extension of the contract must be made by a board by order, ordinance, or resolution. *Gov't Code 2256.003(b)*

The following investments are authorized for districts, although the board may specify in its investment policy that any such investment is not suitable, per Government Code 2256.005(j):

1. Obligations, including letters of credit, of the United States or its agencies and instrumentalities; direct obligations of the state of Texas or its agencies and instrumentalities; collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the

United States; other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the state of Texas, the United States, or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or by the explicit full faith and credit of the United States; obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; and bonds issued, assumed, or guaranteed by the state of Israel. *Gov't Code 2256.009(a)*

The following investments are not authorized:

- a. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal.
- b. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest.
- c. Collateralized mortgage obligations that have a stated final maturity date of greater than ten years.
- d. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

*Gov't Code 2256.009(b)*

2. Certificates of deposit or share certificates issued by a depository institution that has its main office or a branch office in Texas that is guaranteed or insured by the FDIC or its successor or the National Credit Union Share Insurance Fund or its successor and is secured by obligations described in item 1 above, including mortgage-backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates [but excluding those mortgage-backed securities described in Section 2256.009(b)] or secured in any other manner and amount provided by law for the deposits of the investing entity. *Gov't Code 2256.010(a)*

In addition to the authority to invest funds in certificates of deposit under the previous section, an investment in certificates of deposit made in accordance with the following conditions is an authorized investment under Government Code 2256.010:

- a. The funds are invested by the district through a broker that has its main office or a branch office in this state and is selected from a list adopted by the district as required by Government Code 2256.025, or a depository institution that has its main office or a branch office in this state and that is selected by the district;
- b. The broker or depository institution selected by the district 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 district;
- c. The full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and
- d. The district appoints the depository institution selected by the district, an entity described by Government Code 2257.041(d), or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the district with respect to the certificates of deposit issued for the account of the district entity.

*Gov't Code 2256.010(b)*

The investment policies may provide that bids for certificates of deposit be solicited orally, in writing, electronically, or in any combination of those methods. *Gov't Code 2256.005(c)*

3. Fully collateralized "repurchase agreements" [as defined by Government Code 2256.011(b)] that have a defined termination date; are secured by a combination of cash and obligations of the United States or its agencies and instrumentalities; require the securities being purchased by the district or cash held by the district to be pledged to the district, held in the district's name, and deposited with the district or a third party selected and approved by the district, and are placed through a primary government securities dealer, as defined by the Federal Reserve or a financial institution doing business in Texas. The term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered. Money received by a district under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized investments acquired must mature not later than the expiration date stated in

the reverse security repurchase agreement. *Gov't Code 2256.011*

4. A securities lending program if:
  - a. The value of securities loaned is not less than 100 percent collateralized, including accrued income, and the loan allows for termination at any time;
  - b. The loan is secured by:
    - (1) Pledged securities described by Government Code 2256.009;
    - (2) Pledged irrevocable letters of credit issued by a bank that is organized and existing under the laws of the United States or any other state and continuously rated by at least one nationally recognized investment rating firm at not less than A or its equivalent; or
    - (3) Cash invested in accordance with Government Code 2256.009, 2256.013, 2256.014, or 2256.016;
  - c. The terms of the loan require that the securities being held as collateral be pledged to the investing entity, held in the investing entity's name, and deposited at the time the investment is made with the entity or with a third party selected by or approved by the investing entity; and
  - d. The loan is placed through a primary government securities dealer or a financial institution doing business in this state.

An agreement to lend securities under a securities lending program must have a term of one year or less.

*Gov't Code 2256.0115*

5. Banker's acceptance, with a stated maturity of 270 days or fewer from the date of issuance that will be liquidated in full at maturity, which is eligible for collateral for borrowing from a Federal Reserve Bank, and is accepted by a bank meeting the requirements of Government Code 2256.012(4). *Gov't Code 2256.012*
6. Commercial paper that has a stated maturity of 270 days or fewer from the date of issuance and is rated not less than A-1 or P-1 or an equivalent rating by at least two nationally recognized credit rating agencies or by one nationally recognized credit rating agency provided the commercial paper is fully

secured by an irrevocable letter of credit issued by a bank organized and existing under United States law or the law of any state. *Gov't Code 2256.013*

7. No-load money market mutual funds that:
  - a. Are registered with and regulated by the Securities and Exchange Commission;
  - b. Provide a district with a prospectus and other information required by the Securities and Exchange Act of 1934 (15 U.S.C. 78a et seq.) or the Investment Company Act of 1940 (15 U.S.C. 80a-1 et seq.);
  - c. Have a dollar-weighted average stated maturity of 90 days or fewer; and
  - d. Include in their investment objectives the maintenance of a stable net asset value of \$1 for each share.

However, investments in no-load money market mutual funds shall be limited to the percentages authorized by Government Code 2256.014(c).

8. No-load mutual funds that:
  - a. Are registered with the Securities and Exchange Commission;
  - b. Have an average weighted maturity of less than two years;
  - c. Are invested exclusively in obligations approved by Government Code Chapter 2256, Subchapter A, regarding authorized investments (Public Funds Investment Act);
  - d. Are continuously rated by at least one nationally recognized investment rating firm of not less than AAA or its equivalent; and
  - e. Conform to the requirements in Government Code 2256.016(b) and (c) relating to the eligibility of investment pools to receive and invest funds of investing entities.

Investments in no-load mutual funds shall be limited to the percentages authorized by Government Code 2256.014(c). In addition, a district may not invest any portion of bond proceeds, reserves, and funds held for debt service, in no-load mutual funds described in this item.

*Gov't Code 2256.014*

9. A guaranteed investment contract, as an investment vehicle for bond proceeds, if the guaranteed investment contract:
  - a. Has a defined termination date.
  - b. Is secured by obligations described by Government Code 2256.009(a)(1), excluding those obligations described by Section 2256.009(b), in an amount at least equal to the amount of bond proceeds invested under the contract.
  - c. Is pledged to a district and deposited with the district or with a third party selected and approved by the district.

Bond proceeds, other than bond proceeds representing reserves and funds maintained for debt service purposes, may not be invested in a guaranteed investment contract with a term longer than five years from the date of issuance of the bonds.

To be eligible as an authorized investment:

- a. A board must specifically authorize guaranteed investment contracts as eligible investments in the order, ordinance, or resolution authorizing the issuance of bonds.
- b. A district must receive bids from at least three separate providers with no material financial interest in the bonds from which proceeds were received.
- c. A district must purchase the highest yielding guaranteed investment contract for which a qualifying bid is received.
- d. The price of the guaranteed investment contract must take into account the reasonably expected drawdown schedule for the bond proceeds to be invested.
- e. The provider must certify the administrative costs reasonably expected to be paid to third parties in connection with the guaranteed investment contract.

*Gov't Code 2256.015*

10. A public funds investment pool meeting the requirements of Government Code 2256.016 and 2256.019, if a board authorizes the investment in the particular pool by resolution. *Gov't Code 2256.016, .019*
11. Corporate bonds: A district that qualifies as an issuer as defined by Government Code 1371.001 [see CCF] may purchase, sell, and invest its funds and funds under its control in

“corporate bonds” (as defined in Government Code 2256.0204(a)) that, at the time of purchase, are rated by a nationally recognized investment rating firm “AA” or the equivalent and have a stated final maturity that is not later than the third anniversary of the date the corporate bonds were purchased. *Gov’t Code 2256.0204(b)–(c)*

The district is not authorized to:

- a. Invest in the aggregate more than 15 percent of its monthly average fund balance, excluding bond proceeds, reserves, and other funds held for the payment of debt service, in corporate bonds; or
- b. Invest more than 25 percent of the funds invested in corporate bonds in any one domestic business entity, including subsidiaries and affiliates of the entity.

*Gov’t Code 2256.0204(d)*

The district may purchase, sell, and invest its funds and funds under its control in corporate bonds if the board:

- a. Amends its investment policy to authorize corporate bonds as an eligible investment;
- b. Adopts procedures to provide for monitoring rating changes in corporate bonds acquired with public funds, and liquidating the investment in corporate bonds; and
- c. Identifies the funds eligible to be invested in corporate bonds.

*Gov’t Code 2256.0204(e)*

The district investment officer, acting on behalf of the district, shall sell corporate bonds in which the district has invested its funds not later than the seventh day after the date a nationally recognized investment rating firm:

- a. Issues a release that places the corporate bonds or the domestic business entity that issued the corporate bonds on negative credit watch or the equivalent, if the corporate bonds are rated “AA” or the equivalent at the time the release is issued; or
- b. Changes the rating on the corporate bonds to a rating lower than “AA” or the equivalent.

*Gov’t Code 2256.0204(f)*

Corporate bonds are not an eligible investment for a public funds investment pool. *Gov’t Code 2256.0204(g)*

OTHER REVENUES  
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CDA  
(LEGAL)

CHANGE IN LAW	A district is not required to liquidate investments that were authorized investments at the time of purchase. <i>Gov't Code 2256.017</i>
LOSS OF REQUIRED RATING	An investment that requires a minimum rating does not qualify as an authorized investment during the period the investment does not have the minimum rating. A district shall take all prudent measures that are consistent with its investment policy to liquidate an investment that does not have the minimum rating. <i>Gov't Code 2256.021</i>
SELLERS OF INVESTMENTS	<p>A written copy of the investment policy shall be presented to any person offering to engage in an investment transaction with a district or to an investment management firm under contract with a district to invest or manage the district's investment portfolio. For purposes of this section, a business organization includes investment pools and an investment management firm under contract with a district to invest or manage the district's investment portfolio. The qualified representative of the business organization offering to engage in an investment transaction with a district shall execute a written instrument in a form acceptable to the district and the business organization substantially to the effect that the business organization has:</p> <ol style="list-style-type: none"><li>1. Received and thoroughly reviewed the district investment policy; and</li><li>2. Acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the district and the organization that are not authorized by the district's policy, 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.</li></ol> <p>The investment officer may not acquire or otherwise obtain any authorized investment described in a district's investment policy from a person who has not delivered to the district the instrument described above.</p> <p><i>Gov't Code 2256.005(k)-(l)</i></p>
DONATIONS	<p>A gift, devise, or bequest made to provide college scholarships for district graduates may be invested by a board as provided in Property Code 117.004, unless otherwise specifically provided by the terms of the gift, devise, or bequest. <i>Education Code 45.107</i></p> <p>Investments donated to a district for a particular purpose or under terms of use specified by the donor are not subject to the require-</p>



Georgetown ISD  
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OTHER REVENUES  
INVESTMENTS

CDA  
(LEGAL)

ments of Government Code Chapter 2256, Subchapter A. *Gov't Code 2256.004(b)*

ELECTRONIC FUNDS  
TRANSFER

A district may use electronic means to transfer or invest all funds collected or controlled by the district. *Gov't Code 2256.051*

OTHER REVENUES  
INVESTMENTS

CDA  
(LOCAL)

The administration of District funds and the investment of those funds shall be handled as the highest public trust. Investments shall be made in a manner that shall provide the maximum security of principal with both liquidity and diversification limitations in order to meet the daily cash flow needs of the District.

This investment policy applies to all financial assets of the District.

INVESTMENT  
AUTHORITY

The chief financial officer and director of budget and finance or other person designated by Board resolution shall serve as the investment officer(s) of the District and shall invest District funds as directed by the Board and in accordance with the District's written investment policy and generally accepted accounting procedures. A registered investment adviser may be contracted to assist in the investment process.

INVESTMENT  
STRATEGY

The strategy for commingled funds shall be to ensure that cash flows are matched with adequate liquidity. This objective may be accomplished by purchasing high credit quality, short-term securities in a ladder structure, and using constant dollar investment pools and other liquid alternatives for liquidity.

The maximum dollar weighted average maturity for the total District portfolio shall be 360 days. The maximum stated maturity of any specific investment shall not exceed two years.

Investments of the following fund categories shall be consistent with this policy and in accordance with the strategies defined below.

OPERATING FUNDS

Investment strategies for operating funds (including any commingled pools containing operating funds) shall have as their primary objectives safety, investment liquidity, diversification and maturities matched to meet anticipated cash flow requirements. A reasonable liquidity buffer shall be maintained for unexpected liabilities.

AGENCY FUNDS

Investment strategies for agency funds shall have as their primary objectives safety, investment liquidity, diversification and maturities matched to meet anticipated cash flow requirements.

DEBT SERVICE  
FUNDS

Investment strategies for debt service funds shall have as their objective sufficient investment liquidity to timely meet debt service payment obligations in accordance with provisions in the bond documents. No future investments may be made until successive debt service payments are funded.

CAPITAL PROJECTS

Investment strategies for capital project funds shall be structured to timely meet capital project obligations. If the District has funds from bond proceeds, the funds shall be invested in accordance with provisions in the policy and in the bond documents.

OTHER REVENUES  
INVESTMENTS

CDA  
(LOCAL)

ALL OTHER FUNDS

Investment strategies for all other funds shall have as their primary objectives safety, investment liquidity, diversification and maturities matched to meet anticipated cash flow requirements.

AUTHORIZED  
INVESTMENTS

From those investments authorized by law and described further in the Act and the District's CDA(LEGAL) policy, investments in only the following investment types may be made, consistent with the strategies and maturities defined in this policy:

1. Obligations of, or guaranteed by, the U.S. Government, its agencies and instrumentalities not to exceed two years to stated maturity and excluding mortgage-backed securities. In bond funds, the stated maturity of these securities shall be matched to specific planned liabilities and not extend in maturity beyond the expenditure schedule of the bond funds invested.
2. Fully insured or collateralized certificates of deposit and share certificates with any bank or credit union in Texas under the terms of a written depository agreement, collateralized in accordance with this policy and not to exceed two years to stated maturity.
3. Fully collateralized repurchase agreements as defined by the Act with banks doing business in Texas or primary dealers, not to exceed 90 days to maturity, with 102 percent collateral held by a third party, and under the terms of an executed master repurchase agreement. Flex repurchase agreements may be used for bond proceeds, matched to the expenditure schedule and transacted under an executed Bond Market Master Agreement, not to exceed the expenditure schedule of proceeds.
4. Prime domestic banker's acceptances from a bank with a short-term rating not less than A1/P1 or equivalent, not to exceed six months to maturity.
5. Commercial paper rated no less than A1/P1 or its equivalent by two nationally recognized rating agencies, not to exceed three months to stated maturity.
6. AAA-rated, SEC registered money market mutual funds which strive to maintain a \$1 net asset value.
7. A guaranteed investment contract for use as an investment vehicle for bond proceeds, meeting the criteria and eligibility requirements of the Act.
8. Constant-dollar, local government investment pools as defined by the Act.

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(LOCAL)

9. FDIC brokered certificate of deposit securities from a bank in any state, delivered-versus-payment to the District's safe-keeping agent, not to exceed one year to maturity. Before purchase, the investment officer(s) must verify the FDIC status of the bank with the FDIC to assure coverage.
10. Fully insured or collateralized interest bearing accounts in any bank in Texas.
11. State and local government obligations of any state rated A or above by two nationally recognized rating agencies.

The District may enter into a securities lending program with a bank in Texas or a primary dealer as defined by the Federal Reserve.

INVESTMENT  
OBJECTIVES

The main goal of the investment program is to ensure its safety and maximize financial returns within current market conditions in accordance with this policy. The investment officer(s) or adviser shall monitor financial market indicators, study financial trends, and utilize available educational tools in order to maintain appropriate investment managerial expertise. Investments shall be made in a manner that ensures the preservation of capital in the overall portfolio. No investment transactions shall be undertaken that jeopardize the capital position of the overall portfolio.

LIQUIDITY

The District's investment portfolio shall have sufficient liquidity to meet anticipated cash flow requirements and shall adhere to the investment strategy approved annually by the Board.

DIVERSIFICATION

The investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from over-concentration of assets in a specific class of investments, specific maturity, or specific issuer.

YIELD

The benchmark for the District's portfolio shall be the one-year U.S. Treasury Bill from the comparable period, designated for its comparability to the expected average cash flow pattern and maximum weighted average maturity of the portfolio. The investment program shall seek to augment returns above this threshold consistent with risk limitations identified herein and prudent investment policies.

COLLATERALIZATION

All cash, collateral, and investments of the District shall be held by an independent third party with whom the District has a current safekeeping/custodial agreement. The District shall retain clearly marked receipts providing proof of the District's ownership.

OTHER REVENUES  
INVESTMENTS

CDA  
(LOCAL)

TIME AND DEMAND  
BANK DEPOSITS  
PLEDGED  
COLLATERAL

Collateralization shall be required on all bank time and demand deposits over the applicable FDIC insurance coverage. All securities pledged to the District for these deposits shall be held by an independent third party institution outside the holding company of the pledging bank.

In order to anticipate market changes and provide a level of additional security for all funds, the market value of the collateral shall be maintained at 102 percent of total principal and accrued interest or 110 percent for mortgage-backed securities. The depository shall be responsible for monitoring and maintaining the collateral and margins daily. The custodian shall provide monthly reports to the District detailing the collateral.

Collateral shall be pledged under the terms of a written depository agreement executed under the terms of the Financial Institutions Resource and Recovery Enforcement (FIRREA). (If the custodian is the Federal Reserve the District shall execute as an alternate a FRB Pledgee Agreement of Circular 7 form.) The agreement shall be approved by resolution of the bank's board or loan committee.

Acceptable collateral shall include only obligations of the U.S. Government, its agencies and instrumentalities, including mortgage backed securities passing the bank test and excluding letters of credit, and municipal securities rated A or better by two nationally recognized rating agencies. A monthly report of collateral shall be provided directly from the custodian.

REPURCHASE  
AGREEMENTS  
OWNED  
COLLATERAL

Collateral under a repurchase agreement shall be owned by the District. It shall be held by an independent third party safekeeping agent approved by the District under an executed Master Repurchase Agreement. Collateral with a market value totaling 102 percent of the principal and accrued interest shall be required and the counter-party shall be responsible for the monitoring and maintaining of collateral and margins daily.

AUTHORIZED  
FINANCIAL BROKERS /  
DEALERS AND  
INSTITUTIONS

In order to get the best return on its investments, the District may solicit bids in writing, by telephone, or electronically, or by a combination of these methods.

INTERNAL CONTROLS

Internal controls shall be established and documented in writing and shall be designed to protect against losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the District. Controls shall include:

1. Separation of transaction authority from accounting and recordkeeping and electronic transfer of funds.
2. Avoidance of collusion.

OTHER REVENUES  
INVESTMENTS

CDA  
(LOCAL)

3. Custodial safekeeping.
4. Clear delegation of authority.
5. Written confirmation of all transactions.
6. Documentation of transactions.

These controls shall be reviewed by the District's independent auditing firm.

MONITORING FDIC  
STATUS

The investment officer(s) shall monitor on no less than a weekly basis, the status and ownership of all banks issuing brokered certificates of deposits owned by the District based on information from the FDIC. If any bank has been acquired or merged with another bank in which brokered certificates of deposits are owned by the District, the investment officer or adviser shall immediately liquidate any brokered certificates of deposits security which places the District above the FDIC insurance level.

COMPETITIVE  
TRANSACTIONS

All investments shall be purchased or sold on a competitive basis with bids or offers from three authorized broker/dealers for the best yield and maturity. Offers of new issue agencies need not be competitively bid but must be compared to comparable maturity securities on the secondary market.

MONITORING CREDIT  
RATINGS

The investment officer or investment adviser shall monitor, on no less than a monthly 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 Board of the loss of rating, conditions affecting the rating and possible loss of principal with liquidation options available at the next meeting after the loss of the required rating.

DELIVERY VERSUS  
PAYMENT  
SETTLEMENT

All security transactions, including collateral for repurchase agreements, shall be conducted on a delivery-versus-payment (DVP) basis. Securities shall be held by an independent third-party custodian designated by the District and evidenced by original safekeeping receipts.

PORTFOLIO REPORTS

In addition to the quarterly report required by law and signed by the District's investment officer(s), a report on the investment program and activity shall be presented monthly to the Board.

As part of the report to the Board, the investment officer shall inform the Board of significant changes in the portfolio and market conditions. Monitoring shall be included in the monthly report.

The prices used for valuation of market value shall be obtained from an independent source.

# *Annual Investment Reports*

## *Recommendations*

1. We recommend no changes to the District's investment policies CDA (Legal) and CDA (Local).
2. We recommend the following staff members to serve as investment officers:
  - Steve West, Chief Financial Officer
  - Pam Sanchez, Executive Director of Business Services
3. Government Code, Chapter 2256 requires investment officers to receive instruction relating to investment responsibilities under the Public Funds Investment Act from an independent source approved by the Board or a designated investment committee advising the investment officer, as provided for in the District's investment policy. We recommend the following providers for investment training:
  - Texas Association of School Administrators (TASA)
  - Texas Association of School Boards (TASB)
  - Texas Association of School Business Officials (TASBO) and its local affiliates
  - Texas Society of Certified Public Accountants and its approved providers
  - Regional Education Service Centers including Region XIII
  - Government Treasurers' Organization of Texas
  - TexPool Academy
  - University of North Texas Center for Public Management
4. We recommend approval of the 2015-2016 Investment Report.