

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 will provide the maximum security of principal with both liquidity and diversification limitations in order to meet the daily cash flow needs of the District. All investments shall be in accordance with the Public Funds Investment Act, the Public Funds Collateral Act, and federal and state laws. This investment policy applies to all assets of the District.

Investment Authority

The Superintendent, chief financial officer, or other person designated by Board resolution shall serve as the investment officer 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 while meeting the daily cash flow demands of the District. Authority as investment officer shall be effective until rescinded by the Board or termination of the person's employment with the District.

The investment officer(s) shall, within 12 months of assuming duties, attend ten hours of investment training from a Board-authorized source. The officers shall attend additional training of eight hours every two subsequent fiscal years.

Any business or personal business relationship between the investment officer and any business organization offering to engage in financial transactions with the District shall be disclosed. Disclosure shall be made in accordance with District regulations and the Public Funds Investment Act.

**Approved
Investment
Instruments**

From those investments authorized by law and described further in CDA(LEGAL) under Authorized Investments, the Board shall permit investment of District funds, including bond proceeds and pledged revenue to the extent allowed by law, in only the following investment types, 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 three years to stated maturity and excluding mortgage-backed securities.
2. Obligations of, or guaranteed by, governmental entities as permitted by Government Code 2256.009.
3. Fully FDIC-insured or collateralized depository certificates of deposit and fully NCUSIF-insured CU share certificates as permitted by Government Code 2256.010.
4. Fully collateralized repurchase agreements with a defined termination date as defined by the Public Funds Investment Act

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with banks doing business in Texas or primary dealers, transacted under an executed bond market association master repurchase agreement, with 102 percent collateral. Flex repurchase agreements may be used for bond proceeds and shall not exceed the expenditure schedule of proceeds as permitted by Government Code 2256.011.

5. AAA-rated money market mutual funds that strive to maintain a \$1 net asset value as permitted by Government Code 2256.014.
6. Commercial paper rated no less than A1/P1 or its equivalent by two nationally recognized rating agencies, not to exceed 180 days to stated maturity.
7. Federal Deposit Insurance Corporation (FDIC)-insured brokered certificate of deposit securities from a bank in any state in the United States, delivered versus payment to the District's safekeeping depository, not to exceed one year to maturity. Before purchasing, the investment officer or adviser must verify the [FDIC status of the bank](#)¹ to ensure that the bank is insured by the FDIC.
8. Debt obligations of any state or political entity of any state rated AA or better by a nationally recognized rating agency with a maximum stated maturity of three years.
9. A guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.015.
10. AAA-rated public funds investment pools that strive to maintain a \$1 million net asset value (NAV) as permitted by Government Code 2256.016.
11. Fully insured or collateralized interest bearing accounts in any bank in Texas.

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

Safety

The primary goal of the investment program is to ensure safety of principal, to maintain liquidity, and to maximize financial returns within current market conditions in accordance with this policy. Investments shall be made in a manner that ensures the preservation of capital in the overall portfolio, and offsets during a 12-month

period any market price losses resulting from interest-rate fluctuations by income received from the balance of the portfolio. No individual investment transaction shall be undertaken that jeopardizes the total capital position of the overall portfolio.

**Investment
Management**

In accordance with Government Code 2256.005(3), the quality and capability of investment management for District funds shall be in accordance with the standard of care, investment training, and other requirements set forth in Government Code Chapter 2256. The District may contract with a SEC-registered investment adviser.

**Liquidity and
Maturity**

Any internally created pool fund group of the District shall have a maximum dollar weighted maturity of 365 days. The maximum allowable stated maturity of any other individual investment owned by the District shall not exceed three years from the time of purchase. The District's investment portfolio shall have sufficient liquidity to meet anticipated cash flow requirements.

Diversity

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

**Monitoring Market
Prices**

The investment officer shall monitor the investment portfolio and shall keep the Board informed of significant changes in the market value of the District's investment portfolio. Information sources may include financial/investment publications and electronic media, available software for tracking investments, depository banks, commercial or investment banks, financial advisers, and representatives/advisers of investment pools or money market funds. Monitoring shall be done at least quarterly, as required by law, and more often as economic conditions warrant by using appropriate reports, indices, or benchmarks for the type of investment.

**Monitoring Rating
Changes**

An investment that requires a minimum rating by the act of this policy shall not qualify as an authorized investment during the period the investment does not have the minimum rating. The District shall take all prudent measures that are consistent with this policy to liquidate an investment that does not have the minimum rating.

The investment officer or investment adviser shall monitor, on no less than a weekly basis, the credit rating on all authorized, rated 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 CFO of the loss of rating, conditions affecting the rating, and possible loss of principal, with liquidation options available.

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In accordance with Government Code 2256.005(b), the investment officer shall develop a procedure to monitor changes in investment ratings and to liquidate investments that do not maintain satisfactory ratings.

Funds / Strategies

Investments of the following fund categories shall be consistent with this policy and in accordance with the applicable strategy defined below. All strategies described below for the investment of a particular fund should be based on an understanding of the suitability of an investment to the financial requirements of the District and consider preservation and safety of principal, liquidity, marketability of an investment if the need arises to liquidate before maturity, diversification of the investment portfolio, and yield.

Operating and
Custodial Funds

Investment strategies for operating funds (including any commingled pools containing operating funds) shall have as their primary objectives preservation and safety of principal, investment liquidity, and maturity sufficient to meet anticipated cash flow requirements. The objectives shall be accomplished by purchasing high credit quality, short-term securities in a laddered structure and shall include a liquidity buffer.

Debt Service Funds

Investment strategies for debt service funds shall have as their primary objective sufficient investment liquidity to timely meet debt service payment obligations in accordance with provisions in the bond documents. Each successive debt service liability shall be met before extensions are made.

Capital Project
Funds

Investment strategies for capital project funds shall have as their primary objective sufficient investment liquidity to timely meet capital project obligations. The objectives shall be accomplished by purchasing high credit quality, short-term securities in a laddered structure to match expected liabilities.

**Safekeeping and
Custody**

The District shall retain clearly marked receipts providing proof of the District's ownership. The District may delegate, however, to an investment pool the authority to hold legal title as custodian of investments purchased with District funds by the investment pool.

**Sellers of
Investments**

Prior to handling investments on behalf of the District, a broker/dealer or a qualified representative of a business organization must submit required written documents in accordance with law. [See Sellers of Investments, CDA(LEGAL)]

Representatives of brokers/dealers shall be registered with the Texas State Securities Board and must have membership in the Securities Investor Protection Corporation (SIPC) and be in good standing with the Financial Industry Regulatory Authority (FINRA).

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A list of the brokers/dealers authorized to do business with the District shall be reviewed and adopted by the Board or the committee appointed by the Board annually.

Soliciting Bids for CDs

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

Interest Rate Risk

To reduce exposure to changes in interest rates that could adversely affect the value of investments, the District shall use stated final maturity dates for reporting and weighted-average-maturity limits and diversification.

The District shall monitor interest rate risk using weighted average maturity and specific identification.

Internal Controls

A system of internal controls shall be established and documented in writing and must include specific procedures designating who has authority to withdraw funds. Also, they 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 deemed most important shall include:

1. Separation of transaction authority from accounting and recordkeeping;
2. Avoidance of collusion;
3. Custodial safekeeping;
4. Clear delegation of authority;
5. Written confirmation of all transactions; and
6. Documentation of dealer questionnaires, quotations and bids, evaluations, transactions, and rationale.

All investment transactions except investment pool funds and mutual funds shall be settled on a delivery-versus-payment (DVP) basis.

Monitoring Credit Ratings

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

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Collateral

Collateralization shall be required on time and demand deposits and repurchase agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level shall be 102 percent of market value of principal and accrued interest. Mortgage-backed collateral for time and demand deposit

is required at 110 percent margin. Acceptable collateral shall include only obligations of the U.S. government, its agencies, and instrumentalities, including mortgage-backed securities, municipal bonds of any state rated A or better by two nationally recognized rating agencies, and letters of credit from the FHLB. Preference shall be given to banks offering securities as collateral instead of letters of credit.

Collateral shall always be held by an independent third party with which the District has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt/report) must be supplied to the District and retained. The custodian shall be required to provide monthly collateral reports directly to the District.

The bank or counter-party shall be responsible for monitoring and maintaining the margins daily.

The right of collateral substitution is granted, with prior District approval.

Annual Review

The Board shall review this investment policy and investment strategies not less than annually and shall document its review in writing, which shall include whether any changes were made to either the investment policy or investment strategies.

Annual Audit

In conjunction with the annual financial audit, the District shall perform a compliance audit of management controls on investments and adherence to the District's established investment policies.

¹ FDIC status of the bank: <http://www.fdic.gov>