

**Scope**

This policy applies to all financial assets of the District as reported in the District's comprehensive annual financial report and includes the following funds:

1. General funds.
2. Special revenue funds.
3. Debt service fund.
4. Capital project funds.
5. Proprietary funds.
6. Custodial funds.
7. Any other funds as created by the District.

**Objectives**

The primary objectives, in priority order, of the District's investment activities shall be:

1. The main goal of the investment policy shall be to ensure the preservation and safety of principal, liquidity, as well as to maximize financial return within current market conditions in accordance with this policy. Investments of the District shall be undertaken in a manner that seeks to ensure 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.
2. The investment portfolio shall remain sufficiently liquid to meet all operating requirements which might be reasonably anticipated.
3. The District's investment portfolio shall be designed to earn the highest possible rates of return on investments consistent with the foregoing objectives and priorities.
4. Investments shall be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions.

**Investment Authority**

The assistant superintendent of finance shall serve as the investment officer of the District. The investment officer, after consultation with the investment committee, shall recommend appropriate legally authorized and adequately secured investments, and shall direct investment of District funds in accordance with the District's approved written investment policy and generally accepted accounting procedures. The investment officer shall be responsible

for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. In addition, the investment officer shall appoint the investment committee, which shall consist of at least three full-time employees of the District.

**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 the U.S. or Texas or its agencies and instrumentalities and political subdivisions including collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States as permitted by Government Code 2256.009.
2. Certificates of deposit and share certificates as permitted by Government Code 2256.010.
3. Fully collateralized repurchase agreements permitted by Government Code 2256.011.
4. Banker's acceptances as permitted by Government Code 2256.012.
5. Commercial paper as permitted by Government Code 2256.013.
6. Money market mutual funds as permitted by Government Code 2256.014.
7. Public funds investment pools as permitted by Government Code 2256.016-2256.019.

**Investment  
Management**

In accordance with Government Code 2256.0059(b)(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.

**Liquidity and  
Maturity**

To the extent possible, the District will attempt to match its investments with anticipated cash flow requirements. The dollar average weighted maturity of the portfolio as a whole will not exceed 547 days (18 months). Funds are normally invested as follows and are considered suitable to the financial requirements of the District:

1. Investments of less than 60 days shall be considered short term investments. Funds needed to meet daily or short-term operating requirements will usually be held in an investment

pool (TexPool, Logic, and LoneStar) with a maximum dollar weighted maturity of 180 days. These investment pools allow daily liquidation privileges. Interest rates change daily.

2. Investments between 60 days and one year shall be considered intermediate term investments. Treasuries, agencies, agency discount notes, and investment pools are the primary investment vehicle. Agency discount notes are preferred because of the ease with which they are traded, and their return is comparable to other agencies and usually greater than treasuries or investment pools. Investment pools are preferred when short term interest rates are low and there is no significant earning advantage in using other investment instruments.
3. Investments that are one year or longer shall be considered long term investments. Treasuries and agencies are the primary investment vehicle. Investments are laddered so that principal is returned in increments sufficient to meet anticipated operating and capital needs.

**Funds/Strategies**

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

General Funds

Investment strategies for general operating funds shall have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio structure which will experience minimal volatility during economic cycles. This shall be accomplished by purchasing quality securities that will complement each other in a laddered maturity structure.

Special Revenue Funds

Investment strategies for special revenue funds shall have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective shall be to create a portfolio structure that will experience minimal volatility during economic cycles. This shall be accomplished by purchasing quality securities that will complement each other in a laddered maturity structure.

Debt Service Fund

Investment strategies for the debt service fund shall have as its primary objective sufficient investment liquidity to timely meet debt service payment obligations in accordance with provisions in the

OTHER REVENUES  
INVESTMENTS

CDA  
(LOCAL)

bond documents. Maturities longer than one year shall be authorized provided legal limits are not exceeded.

Capital Project  
Funds

Investment strategies for capital project funds shall have as their primary objective sufficient investment liquidity to timely meet capital project obligations. When the District has funds from bond proceeds, they shall be invested in accordance with provisions in the bond documents.

Custodial Funds

Investment strategies for custodial funds shall have as their primary objective preservation and safety of principal, investment liquidity, and maturity sufficient to meet anticipated cash flow requirements.

Proprietary Funds

Investment strategies for proprietary funds shall have as their primary objective preservation and safety of principal, investment liquidity, and maturity sufficient to meet anticipated cash flow requirements.

**Safekeeping and  
Custody**

All security transactions, except investment pools and mutual funds, entered into by the District shall be conducted on a delivery-versus-payment basis. Securities shall be held by a third-party custodian designated by the District and evidenced by safekeeping receipts in order to reduce custodial credit risk.

**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).

**Soliciting Bids**

All purchases of investments, with the exception of investments in pools and new agency issues, shall be placed after receiving competitive quotes from financial institutions, brokers/dealers, or a combination thereof. Quotes will be accepted in writing, by telephone, electronically, or any combination thereof. Funds shall be invested in an authorized investment pool until such time as the bidding process can be completed. Final approval of investments shall be made by the investment officer, after consultation with the investment committee.

**Diversification  
Requirements**

Diversification of the investment portfolio shall be desirable to reduce the risk of losses due to a change in market conditions, such as interest rate changes (interest rate risk) or institutional failure (concentration of credit risk). The District's diversification policies are designed to reduce both types of loss risks.

Diversification is primarily reviewed on a portfolio-wide basis. It is recognized that while specific funds may not have large enough individual investment balances to diversify, the investment portfolio as a whole can be adequately diversified.

**Interest Rate Risk**

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

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

**Internal Controls**

The investment officer shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed with the independent auditor on an annual basis. These controls shall be designed to control collusion and to implement a separation of functions including the separation of transaction authority from accounting and recordkeeping and electronic transfer of funds. The controls shall also establish custodial safekeeping guidelines, and procedures for the delegation of authority to subordinate staff. The controls shall require written confirmation of telephone and electronic transactions and documentation of transaction and strategies.

**Performance Standards**

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs of the District. The basis used for performance evaluation may include, but not be limited to, comparisons to 91-day U.S. Treasury Bills, six-month U.S. Treasury Bills, the average Federal Funds rate, the Lehman bond index, and rates from investment pools.

**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 monthly or more often as economic conditions warrant by using appropriate reports, indices, or benchmarks for the type of investment.

**Monitoring Rating Changes**

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.

**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.