Purpose

The purpose of this policy is to set forth the investment and operational policies for the management of the public funds of the District. This policy has been adopted by, and can be changed only by, a majority vote of the Board.

This policy is designed to ensure the prudent management of public funds, the availability of operating, capital, and debt service funds when needed, and an investment return competitive with those of comparable funds and financial market indexes. These objectives shall be ensured by providing sound, responsible investment management in accordance with the investment policy and procedures established by the District and approved by the Board.

This investment policy shall be reviewed annually and revised from time to time to ensure that it adequately reflects changes to the District's investment program and legal authority.

This investment policy applies to all financial assets and funds held by the District. These funds are defined in the District's Comprehensive Annual Financial Report and include the General Fund, Special Revenue Funds, Debt Service Funds, Capital Projects Funds, Custodial Funds, and any new funds established by the District unless specifically exempted by the District and this policy.

A copy of this policy shall be provided to all investment pools, broker/dealers and investment managers doing business with the District as well as other interested parties upon request. Written acknowledgment of receipt shall be confirmed prior to any organization providing investment services to the District. In addition, investment pools and investment managers shall provide policy certification as outlined in CDA(LEGAL) at Sellers of Investments.

Statutory Authority

The responsibility for conducting investment transactions resides with the Board. The Superintendent or designee is designated as the primary investment officer of the District and is responsible for investment decisions and activities.

Organization

The organization of the investment functions of the District shall consist of the Board, the Superintendent or designee and his or her staff, and one or more investment advisers. The responsibilities of these groups are as follows:

Board

This group is the elected body responsible for the administration and investment of the investment assets of the District. The Board may acquire, hold, manage, purchase, sell, assign, trade, transfer, or dispose of any security, evidence of debt, or other investment in which the District's assets may be invested. To assist them in dis-
charging its responsibilities, the Board shall appoint the Superintendent or designee, investment advisers, and custodians of assets.

The Superintendent or designee is the chief administrative officer for funds management. He or she is responsible for executing the investment policy of the Board. In addition, the Superintendent or designee employs the members of the investment staff and is responsible for their compliance with the personal conduct standards described in this policy. He or she recommends to the Board the selection of investment advisers.

The Superintendent or designee is also the investment officer of the District and is granted full authority and responsibility by the Board in the purchase, sale, assignment, exchange, and transfer of securities, and for the safe custody of security holdings, subject to Board policies, rules, regulations, and directives consistent with regulatory and statutory limitations.

The Superintendent or designee shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of the investment staff. The Superintendent or designee shall designate a staff person as a liaison in the event circumstances require timely action and the Superintendent or designee is not available.

No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Superintendent or designee and approved by the Board.

The Superintendent or designee and those designated with investment authority under this policy, when acting in accordance with the "prudent person" rule, shall be relieved of personal responsibility and liability in the management of the portfolio provided that deviations from expectations for a specific security’s credit risk or market price change or portfolio shifts are reported in a timely manner and that appropriate action is taken to control adverse market effects.

The District may retain professional outside investment advisers to assist and advise the investment staff. Advisers shall be registered as investment advisers with the Securities and Exchange Commission (SEC) or be exempt from such registration. Advisers are selected on the basis of experience, past investment results, and the ability to provide competent economic and investment advice. Advisers shall meet quarterly with the staff to review investment objectives and investment policy, review past investment results, consider future market strategy, and make investment recommendations. In addition to quarterly meetings, the advisers
are available to the staff on a daily basis to answer questions and to provide relevant and current information on specific situations or changes in the economic and market outlook and interest rates.

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, must have membership in the Securities Investor Protection Corporation (SIPC) and be in good standing with the Financial Industry Regulatory Authority (FINRA).

Members of the financial services office staff who are assigned investment-related duties are responsible to the chief financial officer. The staff interprets, administers, and advises the chief financial officer on the legal requirements, investment policies, market price of investments, and investment strategies, including specific investments for the District’s investment portfolio. The staff maintains current information on securities owned or considered for ownership. The staff also executes securities transactions through selected brokers/dealers, collects investment income, and prepares reports of an investment nature as may be required by the Board.

The chief financial officer and all other employees designated as primary investment officers shall attend at least one ten-hour training session within 12 months after taking office or assuming duties. Training must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio and compliance with Chapter 2256. Additional training of not less than eight instructional hours shall occur in every 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.

Public funds shall be divided into three categories, and the investment objectives and policies vary with the nature of the fund, using income generated as a supplementary source of revenue.

The three categories are as follows:

1. Funds to provide for the ordinary operating expenditures of the District. Portfolio management is designed to balance the inflow and outflow of the principal of the fund, using income generated as a supplementary source of revenue.

2. Funds to provide for major expenditures, capital outlays, and other specified nonrecurring long-term purposes. The portfolio is managed to ensure that funds are available as needed,
preserve the principal, and generate income that can supplement other funding sources.

3. Funds to provide for the payment of principal and interest on the District's bonded indebtedness. The portfolio is managed to ensure that funds are available as needed, preserve the principal, and generate income that can supplement other funding sources.

**Investment Objectives**

The investment objectives of these funds are as follows:

- **Operating Expenditures Objective**
  - *Risk Tolerance*: Because most of the principal of the fund shall be paid out over the course of the fiscal year, volatility of principal is not permitted, although moderate income volatility can be tolerated. Financial risk is not acceptable, and because of the short investment time horizon of the funds, exposure to interest rate risk and purchasing power risk shall be minimal.

- **Capital Expenditures Objective**
  - *Risk Tolerance*: Some principal volatility is tolerated, but enough of the fund shall be invested in nonvolatile, liquid investments to meet funding of capital or other special projects as required.

- **Debt Service Expenditures Objective**
  - *Risk Tolerance*: Some principal volatility is tolerated, but enough of the fund shall be invested in nonvolatile, liquid investments to meet funding of principal and interest on bonded indebtedness as required.

- **Investment Guidelines**
  - 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, consistent investment guidelines defined in this policy:

- **Investment Pools**
  - Assets of any of the funds may be invested in investment pools run and managed by other public bodies and banks. However, no such
investment shall be made in a pool where the investment objectives and restrictions differ from the investment objectives listed in this policy.

**Mutual Funds**

Investment in shares of no-load money market mutual funds may be made if the investments are regulated by the SEC, have a dollar-weighted average stated maturity of 60 days or fewer, and include in their investment objectives the maintenance of a stable net asset value of $1 for each share.

**Cash Holdings**

Each portfolio shall hold sufficient cash equivalent investments or maturing securities to ensure coverage of known obligations for the next six months. Idle cash shall be invested to the fullest extent practicable in interest-bearing investments.

**Operating Expenditure Portfolio (General Operating Fund)**

The operating expenditure portfolio includes the cash and investments reported in the District’s General Fund, Special Revenue Funds, and Custodial Funds. Permissible investments for the operating expenditure portfolio are those investments allowed by law and described further in CDA(LEGAL) under Authorized Investments. They include:

1. Bank checking accounts, time deposits, or certificates of deposit: Certificates of deposits with maturities not exceeding two years, issued by banks or savings banks that are insured by the Federal Deposit Insurance Corporation (FDIC). Certificates of deposit that exceed the insured amount shall be collateralized in accordance with Texas Government Code Section 2256.010.

2. U.S. Treasury obligations: Treasury bills, Treasury notes, and Treasury bonds with maturities not exceeding three years from the date of purchase.

3. Federal Agency Securities: Bonds and mortgage-backed securities with a stated final maturity not exceeding three years from the date of purchase issued by the Government National Mortgage Association (GNMA).

4. Federal Instrumentality Securities: Bonds, discount notes, callable and step-up securities, and stripped principal or coupons with a final maturity not exceeding three years from the date of purchase issued by the following only: Federal Farm Credit Bank (FFCB), Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corporation (FHLMC), and Federal National Mortgage Association (FNMA).

5. Fully collateralized repurchase agreements that have a market value of collateral at the time the funds are disbursed of...
not less than 102 percent of the principal amount of funds disbursed. Acceptable collateral for repurchase agreements are U.S. Treasury obligations, Federal Agency securities, and Federal Instrumentality securities listed above.

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 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 U.S. law or the law of any state.

7. Obligations and instrumentalities in accordance with Texas Government Code Section 2256.009.

8. Interest-bearing bank savings deposits issued by state and national banks, a savings bank, or a state or federal credit union (having their main or branch office in Texas) that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund (or their successor organizations). Also included are collateralized interest-bearing savings deposits that have secured the uninsured portion of deposits with obligations of the U.S. Treasury and/or federal agencies and instrumentalities.

The Capital Expenditure Portfolio includes the cash and investments reported in the District’s Capital Projects Funds. Permissible investments for the Capital Expenditure Portfolio include all investments permitted for the Operating Fund, provided legal limits are not exceeded, and provided that sufficient liquidity is available to meet major outlays.

The Debt Service Expenditure Portfolio includes the cash and investments reported in the District’s Debt Service Funds. Permissible investments for the Debt Service Expenditure Portfolio include all investments permitted for the Operating Fund, provided legal limits are not exceeded, and provided that sufficient liquidity is available to meet principal and interest payment requirements.

The investment portfolio shall be designed with the objective to earn the maximum rate of return allowed within the policy imposed by the safety and liquidity objectives, investment strategies for each fund, and state and federal law governing investment of public funds. Return on investment is of least importance compared to the safety and liquidity objectives described in this policy.
The investment portfolio shall be diversified to avoid incurring undue concentration in securities of one type or securities of one financial institution, so that no single investment or class of investments can have a disproportionate impact on the total portfolio. This restriction does not apply to U.S. Treasury securities or investment pools.

The responsibility for the execution of security transactions shall rest with such members of the investment staff as designated by the Superintendent or designee. The selection of the broker/dealer for a specific transaction shall be on a “best execution” basis. The lowest commission or net price may not equate with best execution, although every effort shall be made to obtain appropriate discounts on individual orders. The District may solicit bids in writing, by telephone, electronically, or by a combination of these methods. Consideration in selection of brokers/dealers may be given to firms that provide statistical and market information and services, provided that any such benefits are reasonable in view of the services provided.

Receipts for the confirmation of trades of authorized securities shall include information on trade date, par value, maturity, interest rate, price, yield, settlement date, description of securities purchased, agency’s name, amount due, and third-party custodial information. Confirmations shall be received within three business days after the trade.

All security transactions, including collateral for repurchase agreements entered into by the District, shall be conducted on a “delivery vs. payment” (DVP) basis. In doing so, District funds are not released until the District has received the securities purchased.

All purchased securities shall be held in safekeeping by the District, or a District account in a third-party financial institution, or with the Federal Reserve Bank. All certificates of deposit, insured by FDIC, purchased outside the depository bank, shall be held in safekeeping by either the District or a District account in a third-party financial institution. All pledged securities by the depository bank shall be held in safekeeping by the District, or a District account in a third-party financial institution, or with a Federal Reserve Bank.

All deposited District funds other than those funds held in investment pools, or fully collateralized repurchase agreements, shall be fully collateralized or insured consistent with federal and state law and the current bank depository contract. In order to anticipate modest changes and provide a level of additional security for all deposited funds, the collateralization level required shall be not...
less than 110 percent of the market value of the principal and accrued interest.

District funds shall be collateralized or insured by FDIC insurance coverage and/or obligations including FHLB Letter of Credit of the United States or its agencies and instrumentalities.

**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 Texas Government Code Section 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.

**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.

The District shall ensure that the total portfolio’s weighted-average maturity is less than 365 days with final maturities as described in the investment objectives.

**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 and from electronic transfer of funds.

2. Avoidance of collusion.

3. Custodial safekeeping.

5. Written confirmation of telephone transactions.

6. Documentation of dealer questionnaires, quotations and bids, evaluations, transactions, and rationale.

7. Avoidance of bearer-form securities.

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

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.