

**Ector County Independent
School District**

INVESTMENT REPORT

For the Year Ended
June 30, 2016

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ANNUAL INVESTMENT REPORT

The Annual Investment Report (AIR) of the Ector County Independent School District (School District) for the year ended June 30, 2016 is submitted for your review and approval. This report will consolidate the investment requirements that are mandated by the Public Funds Investment Act, Texas Government Code (Chapter 2256). Included are reports on investment balances and investment income, along with required investment policy review and approval of training sessions from independent sources and selection of broker/dealers, and selection of investment officers for the 2016-2017 fiscal year.

INVESTMENT REPORT

The School District investment portfolio, at amortized book value, shows a decrease of approximately \$103 million, from \$197 million in FY 2014-2015 to \$94 million in FY 2015-2016. The general fund investments decreased \$57.2 million from the prior year. Of this, \$8 million is from an interfund transfer due to the Bond fund and \$3.9 million is from an interfund transfer due from Food Service. The other \$52.9 million decrease in General fund is due to increased maintenance and improvement expenditures. In addition, debt service fund investments decreased by approximately \$3.5 million primarily due to bond payments. The medical trust fund investments decreased by \$1.9 million to \$7.4 million due to timing on claims. The Food Service fund decreased \$4.6 million due to payment to small equipment and capital fund expenditures. The capital projects fund decreased by \$35.3 million due to the purchase of property and construction for the capital projects. The decrease in the worker's compensation fund by approximately \$600,000 is due primarily to a decrease in liabilities. Because of the increase in interest rates, investment income increased approximately \$554,000 from \$100,000 in fiscal year 2014-2015 to approximately \$654,000 in fiscal year 2015-2016.

Interest rates increased during the 2015-2016 twelve month period. Using the TexPool interest rates as a benchmark, the 2015-2016 average earning rate was .2125%, an increase from .0425%, the rate for fiscal period 2014-2015.

INVESTMENT POLICY

As required by the Public Funds Investment Act, Texas Government Code {2256.005(e)}, the governing body of an investing entity shall review its investment policy and strategies not less than annually. As a part of the Annual Investment Report, we ask that the Board review and approve the investment policy. There are no major changes to the Investment Policy as presented. The investment policy begins on page 15 of the AIR.

INVESTMENT OFFICERS

As required by the Public Funds Investment Act, Texas Government Code {2256.005(f)}, the governing body shall designate one or more officers or employees as investment officers to be responsible for the investment of its funds. We ask that the Board review and approve the investment officers for the fiscal year 2016-2017. The recommendations for investment officers are located on page 35 of the AIR.

INVESTMENT SOURCES

As required by the Public Funds Investment Act, Texas Government Code {2256.025}, at least annually, review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the School District. The recommendations for authorized brokers are shown on page 36.

INVESTMENT TRAINING SOURCES

As required by the Public Funds Investment Act, Texas Government Code {2256.008(g)}, investment officer(s) shall attend investment training from an independent source approved by the governing board. On page 37 of the AIR is a listing for your review and approval.

GENERAL STATEMENTS

The General Accounting Standards Board (GASB) GASB 31, requires that investments be reported at fair market value (FMV) except for money market investments, investments with maturities less than 12 months at the time of purchase and nonparticipating contracts (CD's). At June 30, 2016, the School District did not have any investments that qualified for fair market value recognition.

We, the approved investment officers of Ector County Independent School District, hereby certify that the following Annual Investment Report represents the investment position of the School District as of June 30, 2016, in compliance with the Board approved Investment Policy, the Public Funds Investment Act, Texas Government Code (Chapter 2256) and generally accepted accounting principles (GAAP).

Prepared by:

Albessa Chavez, Director of Finance

David Harwell, Chief Financial Officer



The image shows two handwritten signatures in blue ink. The top signature is 'Albessa Chavez' and the bottom signature is 'David Harwell'. Both signatures are written over horizontal lines.

ECTOR COUNTY INDEPENDENT SCHOOL DISTRICT

ANNUAL REPORT OF INVESTMENTS BY FUND
WITH COMPARATIVE TOTALS
FOR THE YEAR ENDED JUNE 30, 2016

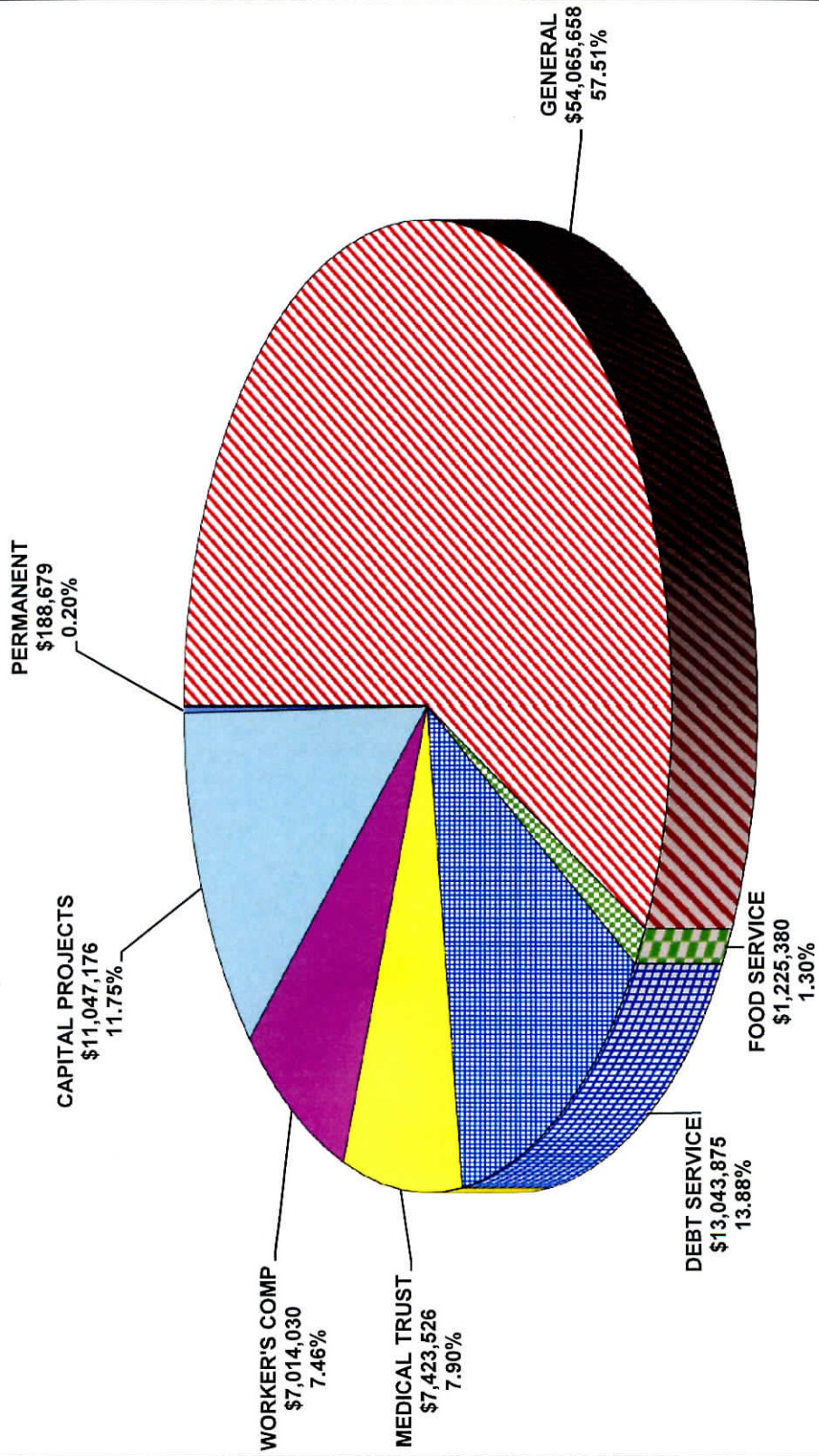
(UNAUDITED)

ALL INVESTMENTS	AMORTIZED BOOK VALUE	%	MARKET (FAIR VALUE)	UNREALIZED GAIN (LOSS)	INTEREST EARNED
GENERAL FUND	\$ 54,065,658	39.69%	\$ 54,017,812	\$ (47,846)	\$ 567,084
FOOD SERVICE FUND	1,225,380	0.57%	1,225,380	-	7,392
DEBT SERVICE FUND	13,043,875	5.00%	13,043,875	-	17,879
CAPITAL PROJECTS FUND	11,047,176	49.26%	11,047,176	-	29,294
MEDICAL TRUST FUND	7,423,526	2.52%	7,423,526	-	17,095
WORKER'S COMP FUND	7,014,030	2.90%	7,013,852	(178)	14,827
PERMANENT FUND	<u>188,679</u>	0.07%	<u>188,679</u>	<u>-</u>	<u>400</u>
TOTAL	\$ <u>94,008,323</u>	100.00%	\$ <u>93,960,300</u>	\$ <u>(48,024)</u>	\$ <u>653,972</u>

PRIOR YEAR COMPARISON

ALL INVESTMENTS	2015 - 2016 AMORTIZED BOOK VALUE	2014 - 2015 AMORTIZED BOOK VALUE	CHANGE	PERCENT CHANGE
GENERAL FUND	\$ 54,065,658	\$ 111,269,162	\$ (57,203,505)	-51.41%
FOOD SERVICE FUND	1,225,380	5,809,594	(4,584,213)	-78.91%
DEBT SERVICE FUND	13,043,875	16,548,333	(3,504,458)	-21.18%
CAPITAL PROJECTS FUND	11,047,176	46,314,163	(35,266,987)	-76.15%
MEDICAL TRUST FUND	7,423,526	9,379,262	(1,955,736)	-20.85%
WORKER'S COMP FUND	7,014,030	7,577,226	(563,196)	-7.43%
PERMANENT FUND	<u>188,679</u>	<u>188,279</u>	<u>400</u>	0.21%
TOTAL	\$ <u>94,008,323</u>	\$ <u>197,086,018</u>	\$ <u>(103,077,695)</u>	-52.30%

OUTSTANDING INVESTMENTS BY FUND AT JUNE 30, 2016



ECTOR COUNTY INDEPENDENT SCHOOL DISTRICT
 ANNUAL REPORT OF INVESTMENTS BY TYPE
 WITH COMPARATIVE TOTALS
 FOR THE YEAR ENDED JUNE 30, 2016

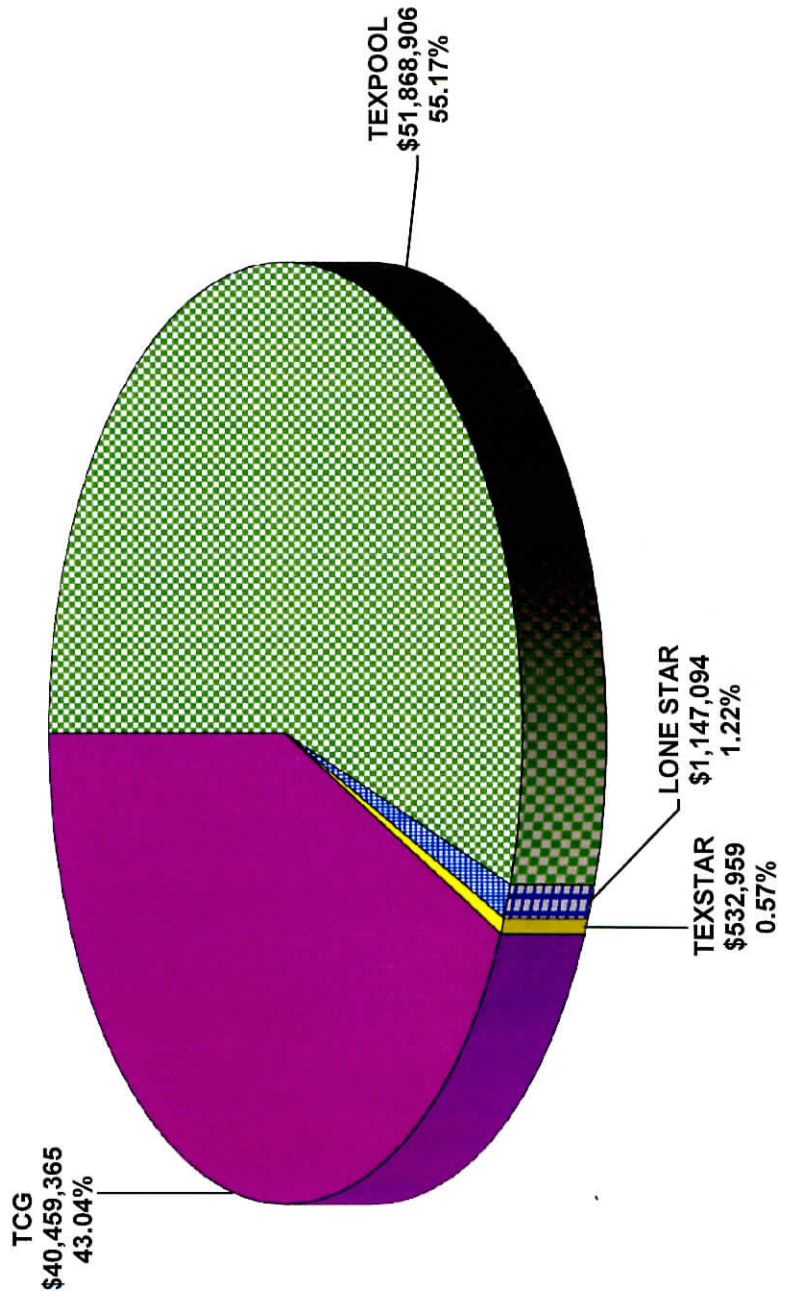
(UNAUDITED)

ALL INVESTMENTS	<u>AMORTIZED BOOK VALUE</u>	<u>%</u>	<u>MARKET (FAIR VALUE)</u>	<u>UNREALIZED GAIN (LOSS)</u>	<u>INTEREST EARNED</u>
TEXPOOL	\$ 51,868,906	55.17%	\$ 51,868,906	\$ -	\$ 186,520
LONE STAR	1,147,094	1.22%	1,146,762	(332)	4,839
TEXSTAR	532,959	0.57%	532,959	-	3,249
TCG DIRECTED INVESTMENTS	<u>40,459,365</u>	43.04%	<u>40,411,672</u>	<u>(47,692)</u>	<u>459,365</u>
TOTAL	\$ <u><u>94,008,323</u></u>	100.00%	\$ <u><u>93,960,300</u></u>	\$ <u><u>(48,024)</u></u>	\$ <u><u>653,972</u></u>

PRIOR YEAR COMPARISON

ALL INVESTMENTS	<u>2015 - 2016 AMORTIZED BOOK VALUE</u>	<u>2014 - 2015 AMORTIZED BOOK VALUE</u>	<u>CHANGE</u>	<u>PERCENT CHANGE</u>
TEXPOOL	\$ 51,868,906	\$ 152,259,274	\$ (100,390,368)	-65.93%
LONE STAR	1,147,094	16,942,255	(15,795,161)	-93.23%
MONEY MARKET	-	12,653,251	(12,653,251)	-100.00%
TEXSTAR	532,959	15,229,711	(14,696,752)	-96.50%
TCG DIRECTED INVESTMENTS	40,459,365	-		100.00%
HIGH YIELD SAVINGS	<u>-</u>	<u>1,527</u>	<u>(1,527)</u>	-100.00%
TOTAL	\$ <u><u>94,008,323</u></u>	\$ <u><u>197,086,018</u></u>	\$ <u><u>(143,537,059)</u></u>	-52.30%

OUTSTANDING INVESTMENTS BY TYPE AT JUNE 30, 2016



ECTOR COUNTY INDEPENDENT SCHOOL DISTRICT
 QUARTERLY REPORT OF INVESTMENTS
 FOR THE YEAR ENDED JUNE 30, 2016

OPERATING FUND PORTFOLIO SUMMARY REPORT
 (UNAUDITED)

THIS QUARTERLY REPORT IS IN COMPLIANCE WITH THE INVESTMENT
 STRATEGY AS ESTABLISHED FOR THE POOLED INVESTMENT FUND AND THE
PUBLIC FUNDS INVESTMENT ACT
 TEXAS GOVERNMENT CODE (CHAPTER 2256)

		PURCHASED COST	AMORTIZED BOOK	MARKET	UNREALIZED GAIN OR (LOSS)	WEIGHTED AVERAGE TO MATURITY
<u>BEGINNING</u>	June 30, 2015					
TEXPOOL		\$ 152,259,274	152,259,274	152,259,274	\$ -	1
LONE STAR		16,942,255	16,942,255	16,941,265	(990)	1
MONEY MARKET		12,653,251	12,653,251	12,653,251	-	1
TEXSTAR		15,229,711	15,229,711	15,229,711	-	1
HIGH YIELD SAVINGS		1,527	1,527	1,527	-	1
TCG DIRECTED INVESTMENTS		-	-	-	-	1
		<u>\$ 197,086,018</u>	<u>\$ 197,086,018</u>	<u>\$ 197,085,028</u>	<u>\$ (990)</u>	1
<u>ENDING</u>	June 30, 2016					
TEXPOOL		\$ 51,868,906	51,868,906	51,868,906	\$ -	1
LONE STAR		1,147,094	1,147,094	1,146,762	(332)	1
MONEY MARKET		-	-	-	-	1
TEXSTAR		532,959	532,959	532,959	-	1
HIGH YIELD SAVINGS		-	-	-	-	1
TCG DIRECTED INVESTMENTS		40,459,365	40,459,365	40,411,672	(47,692)	1
		<u>\$ 94,008,323</u>	<u>\$ 94,008,323</u>	<u>\$ 93,960,300</u>	<u>\$ (48,024)</u>	1

CHANGE DURING PERIOD

\$ (103,124,728)

NOTE: MARKET (FAIR VALUE) IS ESTIMATED AND PROVIDED BY AN OUTSIDE SOURCE.

GASB Statement No. 31 requires all investments to be reported at fair market value (FMV) except for money market investments, investments with maturities less than 12 months at time of purchase and nonparticipating contracts (CD's). At 6/30/16, none of the above investments are reported on the books at FMV.

ECTOR COUNTY INDEPENDENT SCHOOL DISTRICT
ANNUAL REPORT OF EARNINGS
JULY 1, 2015 THRU JUNE 30, 2016

SUMMARY INVESTMENT EARNINGS
(UNAUDITED)

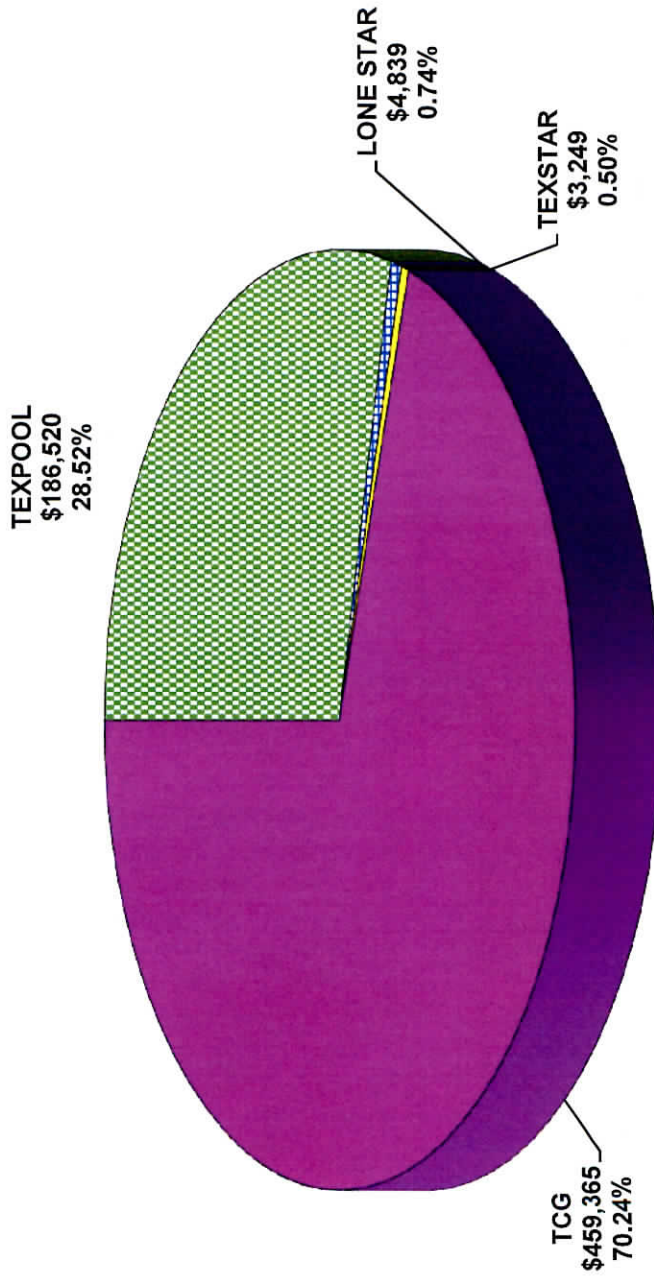
FUND	TEXPOOL	LONE STAR	TEXSTAR	MONEY MARKET	HIGH YIELD SAVINGS	TCG DIRECTED INVESTMENTS	TOTAL
GENERAL	\$ 100,935	3,537	3,249	-	-	459,365	\$ 567,084
FOOD SERVICE	7,392	-	-	-	-	-	7,392
DEBT SERVICE	17,879	-	-	-	-	-	17,879
CAPITAL PROJECTS	29,294	-	-	-	-	-	29,294
MEDICAL TRUST	17,095	-	-	-	-	-	17,095
WORKER'S COMP	13,525	1,302	-	-	-	-	14,827
PERMANENT	400	-	-	-	-	-	400
	<u>\$ 186,520</u>	<u>\$ 4,839</u>	<u>\$ 3,249</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 459,365</u>	<u>\$ 653,972</u>
PERCENT OF TOTAL	28.52%	0.74%	0.50%	0.00%	0.00%	70.24%	100.00%

SUMMARY OF VARIOUS EARNINGS RATES

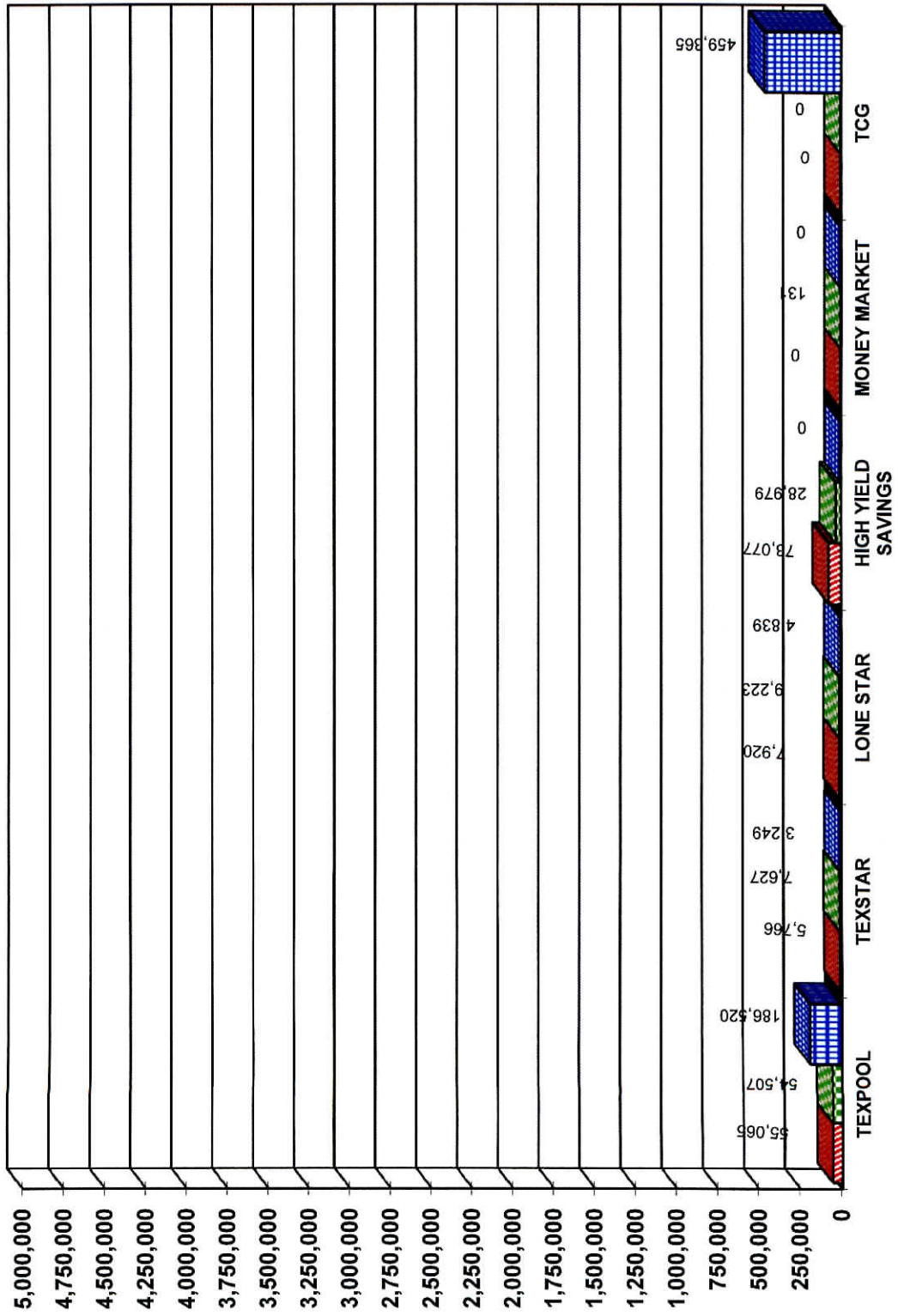
PERIOD	TEXPOOL	LONE STAR	TEXSTAR	MONEY MARKET	HIGH YIELD SAVINGS	TCG DIRECTED INVESTMENTS	COMPARISON 90 DAY T-BILL
JULY 2015	0.0630%	0.0787%	0.0722%	0.0000%	0.0000%	0.0000%	0.0150%
AUGUST 2015	0.0716%	0.0874%	0.0823%	0.0000%	0.0000%	0.0000%	0.1250%
SEPTEMBER 2015	0.0850%	0.0872%	0.0994%	0.0000%	0.0000%	1.3390%	0.0750%
OCTOBER 2015	0.0966%	0.0940%	0.1099%	0.0000%	0.0000%	1.3390%	0.0000%
NOVEMBER 2015	0.1105%	0.0916%	0.1155%	0.0000%	0.0000%	1.3390%	0.1350%
DECEMBER 2015	0.1863%	0.1718%	0.1868%	0.0000%	0.0000%	1.3390%	0.2800%
JANUARY 2016	0.2674%	0.2811%	0.2713%	0.0000%	0.0000%	1.3390%	0.2150%
FEBRUARY 2016	0.3010%	0.3078%	0.3147%	0.0000%	0.0000%	1.3390%	0.3150%
MARCH 2016	0.3273%	0.3266%	0.3450%	0.0000%	0.0000%	1.3390%	0.3150%
APRIL 2016	0.3380%	0.3330%	0.3696%	0.0000%	0.0000%	1.3390%	0.2300%
MAY 2016	0.3399%	0.3319%	0.3664%	0.0000%	0.0000%	1.3390%	0.2400%
JUNE 2016	0.3633%	0.3578%	0.3927%	0.0000%	0.0000%	1.3390%	0.2850%
AVERAGE FOR PERIOD	<u>0.2125%</u> (2)	<u>0.2124%</u> (2)	<u>0.2272%</u> (2)	<u>0.0000%</u> (2)	<u>0.0000%</u> (2)	<u>1.1158%</u> (2)	<u>0.1858%</u> (3)
PRIOR PERIOD AVERAGE	<u>0.0425%</u> (2)	<u>0.0542%</u> (2)	<u>0.0502%</u> (2)	<u>0.0000%</u> (2)	<u>0.1500%</u> (2)	<u>0.0383%</u> (2)	<u>0.022%</u> (3)

NOTE: (1) WEIGHED AVERAGE YIELD (2) SIMPLE INTEREST RATES (3) FIRST AUCTION OF MONTH: SOURCE WSJ

**INTEREST EARNED
FOR THE YEAR ENDED JUNE 30, 2016**

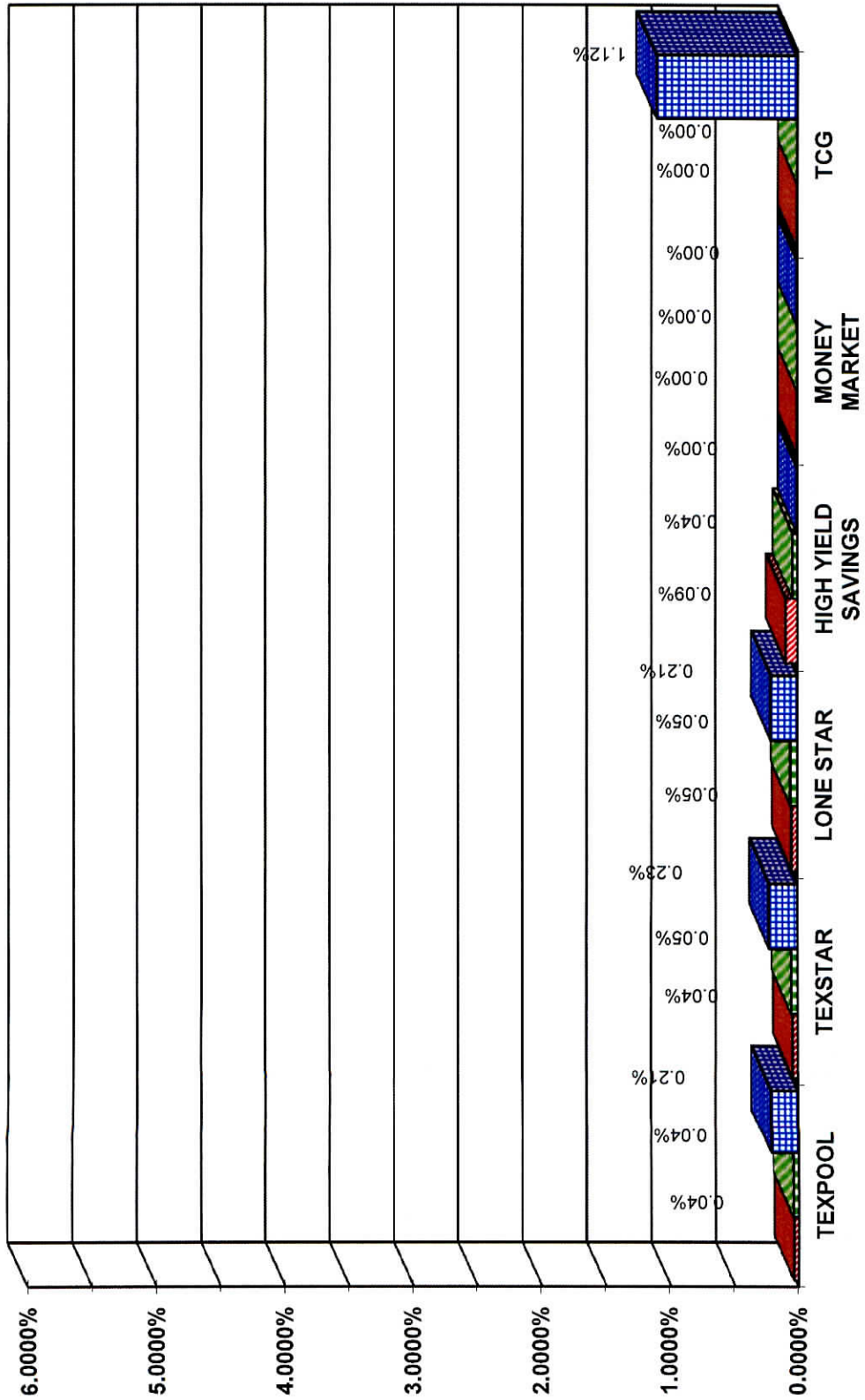


THREE YEAR COMPARISON INTEREST EARNED



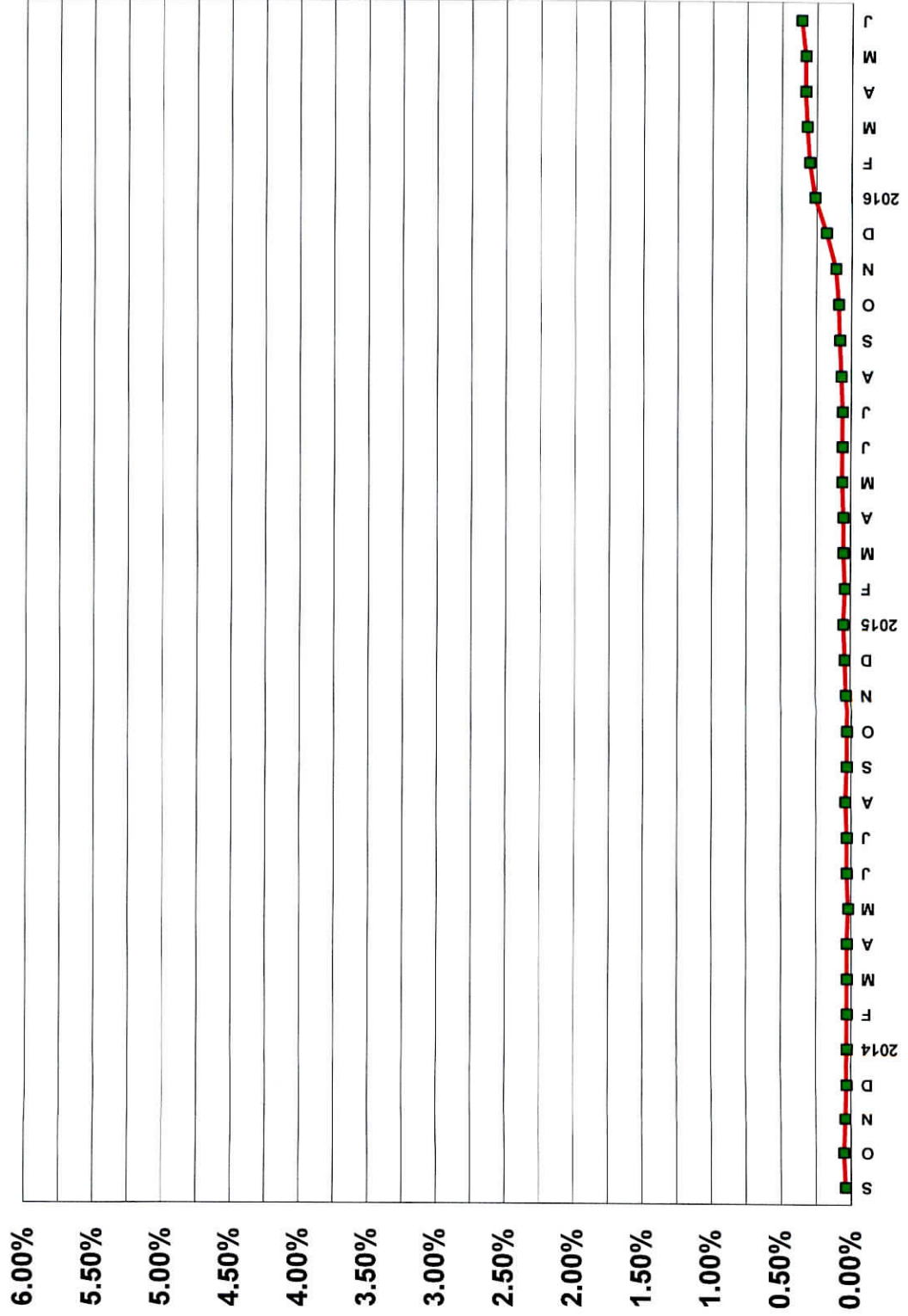
■ 2013-2014
 ■ 2014-2015
 ■ 2015-2016

THREE YEAR COMPARISON AVERAGE INTEREST RATES



▨ 2013-2014
 ▨ 2014-2015
 ▨ 2015-2016

THREE YEARS TEXPOOL INTEREST RATES



ECTOR COUNTY INDEPENDENT SCHOOL DISTRICT
ANNUAL REPORT OF INVESTMENTS
FOR THE PERIOD FROM JULY 1, 2015 THRU JUNE 30, 2016

	BEGINNING BALANCE @ COST	ADDITIONS No.	DEDUCTIONS No.	INTEREST EARNED	ENDING BALANCE @ COST	%	AMORTIZED BOOK VALUE	MARKET (FAIR VALUE)	UNREALIZED GAIN (LOSS)
HIGH YIELD SAVINGS									
GENERAL FUND	\$ 197.15	0	1	197.15	\$ -	0.00%	\$ -	\$ -	\$ -
FOOD SERVICE FUND	-	0	0	-	-	0.00%	-	-	-
DEBT SERVICE FUND	-	0	0	-	-	0.00%	-	-	-
CAPITAL PROJECTS FUND	1,328.69	0	1	1,328.69	-	0.00%	-	-	-
MEDICAL TRUST FUND	-	0	0	-	-	0.00%	-	-	-
WORKER'S COMP FUND	-	0	0	-	-	0.00%	-	-	-
PERMANENT FUND	-	0	0	-	-	0.00%	-	-	-
HIGH YIELD SAVINGS	\$ 1,526.84	0	2	1,526.84	\$ 0.00	0.00%	\$ 0.00	\$ 0.00	\$ 0.00
% OF GRAND TOTAL	0.00%				0.00%				
TEXPOOL									
GENERAL FUND	69,465,907.06	304	210,658,970.58	100,934.67	\$ 12,541,238.39	24.19%	\$ 12,541,238.39	\$ 12,541,238.39	\$ -
FOOD SERVICE FUND	5,802,185.99	1	705,166.00	7,392.33	1,225,380.31	2.36%	1,225,380.31	1,225,380.31	-
DEBT SERVICE FUND	16,542,912.20	14	15,038,699.59	17,876.61	13,043,874.78	25.15%	13,043,874.78	13,043,874.78	-
CAPITAL PROJECTS FUND	46,290,046.73	4	8,726,981.26	29,294.09	11,047,175.94	21.30%	11,047,175.94	11,047,175.94	-
MEDICAL TRUST FUND	7,006,433.34	12	18,655,997.66	17,094.75	7,423,525.75	14.31%	7,423,525.75	7,423,525.75	-
WORKER'S COMP FUND	6,963,529.15	1	156,147.31	13,525.03	6,389,030.93	12.34%	6,389,030.93	6,389,030.93	-
PERMANENT FUND	186,279.09	0	-	400.39	186,679.48	0.36%	186,679.48	186,679.48	-
TEXPOOL	\$ 152,259,273.56	336	253,941,962.40	186,519.87	\$ 51,868,905.58	100.00%	\$ 51,868,905.58	\$ 51,868,905.58	\$ 0.00
% OF GRAND TOTAL	77.26%				55.17%				
LONE STAR									
GENERAL FUND	16,328,548.87	0	15,800,000.00	3,536.51	\$ 532,065.38	46.39%	\$ 532,065.38	\$ 531,941.56	\$ (163.82)
FOOD SERVICE FUND	-	0	0	-	-	0.00%	-	-	-
DEBT SERVICE FUND	-	0	0	-	-	0.00%	-	-	-
CAPITAL PROJECTS FUND	-	0	0	-	-	0.00%	-	-	-
MEDICAL TRUST FUND	-	0	0	-	-	0.00%	-	-	-
WORKER'S COMP FUND	613,696.62	0	0	1,302.04	614,998.66	53.61%	614,998.66	614,820.88	\$ (177.78)
PERMANENT FUND	-	0	0	-	-	0.00%	-	-	-
LONE STAR	\$ 16,942,255.49	0	15,800,000.00	4,838.55	\$ 1,147,064.04	100.00%	\$ 1,147,064.04	\$ 1,146,762.44	\$ (331.60)
% OF GRAND TOTAL	8.60%				1.22%				
MONEY MARKET									
GENERAL FUND	10,244,788.48	12	27,533,557.70	37,778,346.18	\$ -	0.00%	\$ -	\$ -	\$ -
FOOD SERVICE FUND	7,427.51	6	47,656.06	55,083.57	-	0.00%	-	-	-
DEBT SERVICE FUND	5,420.79	3	16,262.37	21,683.16	-	0.00%	-	-	-
CAPITAL PROJECTS FUND	22,786.24	3	68,558.72	91,144.86	-	0.00%	-	-	-
MEDICAL TRUST FUND	2,372,828.36	3	4,576,595.57	6,949,423.93	-	0.00%	-	-	-
WORKER'S COMP FUND	-	0	-	-	-	0.00%	-	-	-
PERMANENT FUND	-	0	-	-	-	0.00%	-	-	-
MONEY MARKET	\$ 12,653,251.38	27	32,242,430.42	44,895,681.80	\$ 0.00	0.00%	\$ 0.00	\$ 0.00	\$ 0.00
% OF GRAND TOTAL	6.62%				0.00%				
TEXSTAR									
GENERAL FUND	15,229,710.77	0	14,700,000.00	3,248.58	\$ 532,959.35	100.00%	\$ 532,959.35	\$ 532,959.35	\$ -
FOOD SERVICE FUND	-	0	0	-	-	0.00%	-	-	-
DEBT SERVICE FUND	-	0	0	-	-	0.00%	-	-	-
CAPITAL PROJECTS FUND	-	0	0	-	-	0.00%	-	-	-
MEDICAL TRUST FUND	-	0	0	-	-	0.00%	-	-	-
WORKER'S COMP FUND	-	0	0	-	-	0.00%	-	-	-
PERMANENT FUND	-	0	0	-	-	0.00%	-	-	-
TEXSTAR	\$ 15,229,710.77	0	14,700,000.00	3,248.58	\$ 532,959.35	100.00%	\$ 532,959.35	\$ 532,959.35	\$ 0.00
% OF GRAND TOTAL	7.73%				0.57%				

ECTOR COUNTY INDEPENDENT SCHOOL DISTRICT
 ANNUAL REPORT OF INVESTMENTS
 FOR THE PERIOD FROM JULY 1, 2015 THRU JUNE 30, 2016

	BEGINNING BALANCE @ COST		ADDITIONS		DEDUCTIONS		INTEREST EARNED	ENDING BALANCE @ COST	%	AMORTIZED BOOK VALUE	MARKET (FAIR VALUE)	UNREALIZED GAIN (LOSS)
	No.		No.	AMOUNT	No.	AMOUNT						
TCG DIRECTED INVESTMENTS												
GENERAL FUND	-	-	1	40,000,000.00	0	-	459,364.50	40,459,364.50	43.04%	40,459,364.50	40,411,672.49	\$(47,692.01)
FOOD SERVICE FUND	-	-	0	-	0	-	-	-	0.00%	-	-	-
DEBT SERVICE FUND	-	-	0	-	0	-	-	-	0.00%	-	-	-
CAPITAL PROJECTS FUND	-	-	0	-	0	-	-	-	100.00%	-	-	-
MEDICAL TRUST FUND	-	-	0	-	0	-	-	-	0.00%	-	-	-
WORKERS COMP FUND	-	-	0	-	0	-	-	-	0.00%	-	-	-
PERMANENT FUND	-	-	0	-	0	-	-	-	0.00%	-	-	-
TCG DIRECTED INVESTMENTS												
% OF GRAND TOTAL	-	0.00%	1	40,000,000.00	0	-	459,364.50	40,459,364.50	100.00%	40,459,364.50	40,411,672.49	\$(47,692.01)
TOTAL ALL INVESTMENTS												
	\$	197,086,018.04	363	286,184,392.82	224	429,916,056.89	653,971.50	94,008,323.47	100.00%	94,008,323.47	93,960,299.86	\$(48,023.61)
RECAP												
ALL INVESTMENTS												
GENERAL FUND	\$	111,269,162.33	316	238,192,528.28	99	335,963,117.25	567,084.26	54,065,657.62	57.51%	54,065,657.62	54,017,811.79	\$(47,845.83)
FOOD SERVICE FUND		5,809,593.50	7	752,822.06	14	5,344,427.58	7,392.33	1,225,380.31	1.30%	1,225,380.31	1,225,380.31	-
DEBT SERVICE FUND		16,548,332.98	17	15,054,961.96	12	18,577,286.78	17,876.61	13,043,874.78	13.88%	13,043,874.78	13,043,874.78	-
CAPITAL PROJECTS FUND		46,514,162.66	7	8,795,339.98	41	44,091,620.79	29,294.09	11,047,175.94	11.75%	11,047,175.94	11,047,175.94	-
MEDICAL TRUST FUND		9,379,261.70	15	23,232,593.23	54	25,205,423.93	17,084.75	7,423,525.75	7.90%	7,423,525.75	7,423,525.75	-
WORKERS COMP FUND		7,577,225.77	1	156,147.31	4	734,170.56	14,827.07	7,014,029.59	7.46%	7,014,029.59	7,013,851.61	\$(177.78)
PERMANENT FUND		188,279.09	0	-	0	-	400.39	188,679.48	0.20%	188,679.48	188,679.48	-
TOTAL		\$ 197,086,018.04	363	286,184,392.82	224	429,916,056.89	653,971.50	94,008,323.47	100.00%	94,008,323.47	93,960,299.86	\$(48,023.61)
ALL FUNDS												
HIGH YIELD SAVINGS		1,526.84	0	-	2	1,526.84	-	-	0.00%	-	-	-
TEXPOOL		152,259,273.56	336	253,941,962.40	183	354,518,850.25	186,519.87	51,868,905.58	55.17%	51,868,905.58	51,868,905.58	-
LONE STAR		16,942,255.49	0	-	2	15,800,000.00	4,538.55	1,147,094.04	1.22%	1,147,094.04	1,146,762.44	\$(331.60)
MONEY MARKET		12,853,251.38	27	32,242,430.42	35	44,895,681.80	-	-	0.00%	-	-	-
TEXSTAR		15,229,710.77	0	-	2	14,700,000.00	3,246.58	532,959.35	0.57%	532,959.35	532,959.35	-
TCG DIRECTED INVESTMENTS												
	\$	197,086,018.04	364	326,184,392.82	224	429,916,056.89	653,971.50	94,008,323.47	100.00%	94,008,323.47	93,960,299.86	\$(48,023.61)

**Ector County Independent
School District**

INVESTMENT POLICY

ECTOR COUNTY INDEPENDENT SCHOOL DISTRICT
ODESSA, TEXAS

INVESTMENTS - APPROVAL OF INVESTMENT POLICY

Texas Government Code, Sec. 2256.005(e)

- (e) The governing body of an investing entity shall review its investment policy and investment strategies not less than annually. The governing body shall adopt a written instrument by rule, order, ordinance or resolution 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.

It is recommended that the attached investment policy CDA (Legal) and CDA (Local) be reviewed and approved.

OTHER REVENUES
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(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

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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)*

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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.

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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
INVESTMENTS

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">1. Received and thoroughly reviewed the district investment policy; and2. 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. <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>

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INVESTMENTS

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(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)

OBJECTIVES

The investment policy of the District shall be to:

1. Assure the safety of the invested funds of the District.
2. Maintain sufficient liquidity to provide adequate and timely working funds.
3. Attain the highest possible rate of return while providing necessary protection of principal consistent with District operating requirements as determined by the Board.
4. Diversify investments as to maturity, instruments, and financial institutions where permitted under state law.
5. To ensure the quality and capability of investment officers through ongoing training.

INVESTMENT
AUTHORITY

The assistant superintendent for business operations and other persons 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. All investment transactions except investment pool funds and mutual funds shall be settled on a delivery versus payment basis.

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 in only the following investment types, consistent with the strategies and maturities defined in this policy:

1. Obligations of, or guaranteed by, governmental entities 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. A master repurchase agreement must be signed by the bank/dealer prior to investment in a repurchase agreement. All repurchase agreement transactions shall be on a delivery versus payment basis.
4. Banker's acceptances as permitted by Government Code 2256.012.
5. Commercial paper as permitted by Government Code 2256.013.
6. Two types of mutual funds as permitted by Government Code 2256.014: money market mutual funds and no-load mutual funds.

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(LOCAL)

7. 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.
8. Public funds investment pools as permitted by Government Code 2256.016.

SAFEKEEPING
AGREEMENT

The District shall contract with a bank or banks for the safekeeping of securities either owned by the District as part of its investment portfolio or held as collateral to secure demand or time deposits.

SAFEKEEPING AND
CUSTODY

Safekeeping and custody of securities and collateral shall be in accordance with state law. Securities and collateral shall be held by a third party custodian designated by the District, and held in the District's name as evidenced by safekeeping receipts of the institution with which the securities are deposited. Collateral for certificates of deposits in banks shall be registered in the District's name in the bank's trust department or, alternatively, in a Federal Reserve Bank account in the District's name, or a third party bank in the District's name, at the District's discretion.

SAFEKEEPING

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

COLLATERALIZATION

Consistent with the requirements of the Public Funds Collateral Act, it is the policy of the District to require full collateralization of all District investments and funds on deposit with a depository bank, other than investments which are obligations of the U.S. government and its agencies and instrumentalities. As required by Government Code 2257.022, the collateralization level shall be 110 percent of market value of principal and accrued interest on the deposits or investments, less an amount insured by the FDIC or FSLIC. Securities pledged as collateral shall be held by an independent third party with which the District has a current custodial agreement. The director of finance 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. Collateral shall be reviewed at least weekly to assure that the market value of the pledged securities is adequate.

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. In-

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CDA
(LOCAL)

vestments 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.

POOLING OF FUNDS

Except for cash in certain restricted and special funds, the District may consolidate cash balances from all funds to maximize investment earnings. Investment income shall be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles. The portfolio shall have a weighted average maturity of one year or less. This dollar weighted average maturity shall be calculated using the stated final maturity dates of each security.

LIQUIDITY AND
MATURITY

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 over concentration of assets in a specific class of investments, specific maturity, or specific issuer.

MONITORING MARKET
PRICES

Monitoring shall be done monthly or more often as economic conditions warrant by using appropriate reports, indices, or benchmarks for the type of investment. The investment officer 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. All prudent measures shall be taken to liquidate an investment that is downgraded to less than the required minimum rating.

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.

MAXIMUM ALLOWABLE
STATED MATURITY

The maximum allowable stated maturity of any individual investment owned by the entity shall be as follows:

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	Maximum Allowable Maturity
1. U.S. Treasuries and securities with U.S. government guarantee	5 years
2. U.S. government agencies and instrumentalities	5 years
3. Fully insured or collateralized CDs	365 days
4. Banker's acceptance	270 days
5. Commercial paper	270 days
6. Repurchase agreements	365 days
7. Money market funds	90 days
8. Local government investment pool	365 days
9. Mutual funds	365 days

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 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.

AGENCY FUNDS

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

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. Maturities longer than one year are 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. Maturities longer than one year are authorized provided legal limits are not exceeded.

FOOD SERVICE FUNDS

Investment strategies for food service funds shall have as their primary objectives preservation and safety of principal, investment

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	liquidity, and maturity sufficient to meet anticipated cash flow requirements.
INTERNAL SERVICE FUNDS	Investment strategies for workers' compensation insurance and medical trust funds shall have as their primary objectives preservation and safety of principal, investment liquidity, and maturity sufficient to meet anticipated cash flow requirements.
BROKERS / DEALERS	Prior to handling investments on behalf of the District, brokers/dealers must submit required written documents in accordance with law. [See SELLERS OF INVESTMENTS, CDA(LLEGAL)] 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	In order to get the best return on its investments, the District may solicit bids in writing, by telephone, or electronically.
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.
INTERNAL CONTROLS	<p>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:</p> <ol style="list-style-type: none">1. Separation of transaction authority from accounting and recordkeeping and electronic transfer of funds.2. Avoidance of collusion.3. Custodial safekeeping.4. Clear delegation of authority.5. Written confirmation of telephone transactions.6. Documentation of dealer questionnaires, quotations and bids, evaluations, transactions, and rationale.7. Avoidance of bearer-form securities. <p>These controls shall be reviewed by the District's independent auditing firm.</p>
PORTFOLIO REPORT	In addition to the quarterly report required by law and signed by the District's investment officer, a comprehensive report on the invest-

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ment program and activity shall be presented annually to the Board.

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.

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INVESTMENT OFFICERS/COMMITTEE

INVESTMENTS - APPROVAL OF INVESTMENT OFFICERS/COMMITTEE

Texas Government Code, Sec. 2256.005(f)

- (f) Each investing entity shall designate, by rule, order, ordinance, or resolution, as appropriate, one or more officers or employees of the state agency, local government, or investment pool as investment officer to be responsible for the investment of its funds consistent with the investment policy adopted by the entity. Authority granted to a person to invest an entity's funds is effective until rescinded by the investing entity or until termination of the person's employment by the investing entity. 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. Unless authorized by law, a person may not deposit, withdraw, transfer or manage in any other manner the funds of the investing entity.

It is recommended that the following individuals be approved as investment officers for the District. As approved officers, these individuals will also act as the Investment Committee for the District:

David Harwell Chief Financial Officer
Albessa Chavez Director of Finance

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INVESTMENT SOURCES

INVESTMENTS - SELECTION OF AUTHORIZED BROKERS

Texas Government Code, Sec. 2256.0025

The governing body of an entity subject to this subchapter or the designated investment committee of the entity shall, at least annually, review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the entity.

It is recommended that the following be approved as authorized sources of investments:

TexPool	Investment Pool
TexPool – Prime	Investment Pool
LoneStar	Investment Pool
TexStar	Investment Pool
Level Partners	Securities
VFinance Inc.	Securities

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INVESTMENT TRAINING SOURCES

INVESTMENTS - APPROVAL OF INDEPENDENT SOURCES OF INSTRUCTION

Texas Government Code, Sec. 2256.008 Investment Training; Local Governments:

- (a) The treasurer, the chief financial officer if the treasurer is not the chief financial officer, and the investment officer of a local government shall:
 - (1) attend at least one training session relating to the treasurer's or officer's responsibilities under this subchapter within 12 months after taking office or assuming duties; and
 - (2) attend an investment training session not less than once in a two-year period and receive not less than 10 hours of instruction relating to investment responsibilities under this subchapter from an independent source approved by the governing body of the local government or a designated investment committee advising the officer as provided for in the investment policy of the local government.

It is recommended that the following be approved sources of independent instruction:

- Texas Association of School Boards (TASB)
- Texas Association of School Business Officials (TASBO)
- The State of Texas and its Agencies
- TexPool
- LoneStar Investment Pool
- Any Regional CPA Firm
- Any Regional Service Center
- Any Accredited College or University

GLOSSARY OF TERMS

A1/P1 Rating: "A1" is the highest short-term rating category assigned by Standard & Poor's, while "P1" is the highest short-term rating category for Moody's Investor Service. Securities that have been assigned both an A1 and a P1 rating are considered to be of high credit quality. Standard and Poor's designates certain securities within the A1 category with a plus sign (+) indicating that the issuer of the security has an extremely strong capacity to meet its financial obligations.

Accrual (or Accrual Basis): The most common form of accounting, which reports income when earned and expenses when incurred. Accrual accounting may be contrasted to accounting on a cash basis, in which income is reported when received and expenses are reported when paid.

Accrued Interest: The accumulated interest due on a security as of the last interest payment made. A security is always sold with the accrued interest included. Investors who buy securities in the secondary market will be required to purchase any interest on the securities that has accrued prior to settlement. This is because the previous owner of a security earned the income, but will not receive future coupon payments.

Agency: In securities trading, the term Agency refers to a federal government agency that issues securities, other than the U.S. Treasury, i.e. the Federal Home Loan Mortgage Corporation (FHLB).

Agency Discount Note: A note that has been issued by a U.S. governmental-related agency other than the U.S. Treasury.

Amortization: The accounting practice that gradually reduces the cost or book value of an asset through periodic charges to income, such as: (1) the portion of the cost of a limited-life or intangible asset charged as an expense during a particular period, or (2) the reduction of debt by regular payments of principal and interest to retire the debt by maturity. The purpose of amortization is to reflect an asset's resale or redemption value.

Automated Clearing House (ACH) System: A domestic electronic funds transfer system.

Banker's Acceptance (BA): (1) Short-term, non interest-bearing notes sold at a discount and redeemed by the accepting banks at maturity for face value. BA's are generally created based on a letter of credit issued in a foreign trade transaction. (2) A money market instrument that is used to finance import or export transactions. BA's are essentially checks. They represent a bank's promise and ability to pay the face or principal amount on the banker's acceptance on the stipulated maturity date. Maturities for BA's are generally less than three months. Any BA purchased by a public entity must have a stated maturity of 270 days or less, must be accepted by a bank organized and existing under federal law, and the short-term obligations of the bank must be rated not less than A1/P1. Similarly to a treasury bill, a BA typically does not have a coupon, is issued at a discount, and matures at par (face value).

Basis Point (BP): The smallest unit of measurement used in quoting yields on bonds and notes. One basis point is .01%, or one one-hundredth (1/100) of a percent of yield (.01% or .0001). One hundred basis points equals 1%.

Benchmark: The performance of a predetermined group of securities, individual security, or an index used to compare risk and performance to a managed portfolio. A good benchmark should be verifiable, easy to understand, and appropriate to the investment portfolio to which it is being compared. Typical benchmarks used in the public sector include three-month, six-month, and one-year Treasury bill averages over the same measurement period. The benchmark selected should have a similar maturity to the investment portfolio under examination.

Book Entry: The name given to securities whose ownership and transfer occurs on a computer system rather than the physical delivery of a security. This system eliminates the need to physically transfer bearer-form paper, or to register securities by using a central depository facility/bank.

Book Value: The value at which the security is carried in the financial records of an investor. A security's book value reflects the price at which the security was originally bought, plus the net amortization/accretion up to that point in time. In the case of assets subject to reduction by valuation allowances, book value refers to cost or stated value less the appropriate allowance. Sometimes a distinction is made between gross book value (the value before deduction of related allowances) and net book value (which designates the value after the deduction). In the absence of any modifiers, however, book value is understood to be synonymous with net book value.

Broker: An individual who brings security buyers and sellers together in return for a commission or fee. The broker takes no position in a securities trade, and does not act as a principal or own securities. A broker will assist an investor in buying and selling treasuries, agencies, commercial paper and other authorized investments.

Commercial Paper: Defined as unsecured short-term obligations with maturities ranging from one to 270 days issued by banks, corporations, and other borrowers to investors with large temporary cash positions. This type of investment is usually issued at a discount and carries a zero coupon. The accounting process for commercial paper is identical to the accounting process for a treasury bill.

Committee on Uniform Securities Identification Procedures (CUSIP): Assigns codes to securities for the purpose of identification. These codes are often referred to as a security's CUSIP number (a nine-digit, alpha/numeric identification number).

Compensating Balance: The amount of money that a bank requires a customer to maintain in a non-interest bearing account, in order to waive bank fees.

Credit Risk: A type of investment risk. The risk that the issuer of a security will default or fail, or that the issuer's credit rating will be lowered. If one of these events occurs, part or all of the invested principal in the security could be lost. Credit risk exposure can be affected by a concentration of deposits or investments in any ONE type of investment.

Current Yield: The annual interest rate divided by the current market price. Current yield is what a bond is actually yielding today as opposed to the yield to maturity or coupon rate.

Custodial Agreement: A written contract establishing the responsibilities of a custodian who holds collateral for deposits with financial institutions, investment securities or securities underlying repurchase agreements.

Delivery vs. Payment (DVP): This occurs when securities are delivered with an exchange of money or payment for the security.

Discount: (1) The difference between the purchase price (cost) of a security and its par (face) value. This discount represent the income to be earned on the security, and will be accreted over the life of the security. (2) A security selling below the original offering price shortly after the sale is also considered to be a discount. (3) In the context of bonds payable and investments, the amount by which par value exceeds the price paid for a security.

Discount Securities: Non-interest bearing money market securities that are issued at a discount and redeemed at maturity for the full face value.

Face Value: (1) The par value or maturity value of a security. (2) The redemption value printed on the face of the certificate. (3) The amount of the issuer's liability stated in the security document.

Fair Market Value: The price a willing buyer would purchase the security from a willing seller in a bona fide arm's length transaction.

Federal Funds Rate: The rate of interest at which banks with excess reserves charge other banks lacking these reserves for overnight loans in order for the bank in need to meet their reserve requirements. This important overnight rate determines, in large part, the rate at which overnight repurchase agreements will trade. When the Federal Reserve "raises rates", the target federal funds rate is increased and other short-term security yields will follow. Since investment pools and money market funds invest heavily in short-term securities, their interest rates often approximate the federal funds rate at any given time.

Federal Home Loan Bank (FHLB): A banking institution that regulates and lends money to savings and loan associations, cooperative banks and other mortgage lenders in a manner that is similar to the Federal Reserve's relationship with commercial banks. The FHLB system is made up of 12 regional banks. The FHLB system raises money by issuing notes and bonds. It lends money to savings and loans and other mortgage lenders, based on the amount of collateral the borrowing institution can provide. The FHLB issues both callable and noncallable agency securities as well as discount notes.

Federal Home Loan Mortgage Corporation (FHLMC): The FHLMC, otherwise known as "Freddie Mac" is a publicly chartered agency that buys qualifying residential mortgages from lenders. It repackages these pooled mortgages into new securities that are backed by the pooled mortgages, provides certain guarantees, and then resells them in the open market. They issue both callable and noncallable agency securities as well as discount notes.

Federal Housing Administration (FHA): The federally sponsored agency that insures lenders against loss on residential mortgages.

Federal National Mortgage Association (FNMA): The FNMA, otherwise known as "Fannie Mae", is a federal corporation that operates under the auspices of the United States Department of Housing and Urban Development (HUD). This corporation is the largest single provider of residential mortgage funds in the U.S. FNMA is a private stockholder-owned corporation that purchases a variety of adjustable mortgages and second loans in addition to fixed-rate mortgages. It purchases conventional and insured mortgages from governmental

agencies such as the FHA and VA. Its securities are highly liquid and widely accepted. FNMA issues both callable and noncallable agency securities as well as discount notes.

Federal Reserve Bank (or the Fed): Any one of 12 federally chartered banks established to maintain reserves, issue bank notes, and lend money to member banks.

Government Accounting Standards Board (GASB): Established in 1984 as an arm of the Financial Accounting Foundation, it is responsible for developing standards of financial accounting and reporting with respect to the activities of state and local governments.

Government National Mortgage Association (GNMA): The GNMA, otherwise known as "Ginny Mae" buys VA and FHA mortgages, then issues bonds that are secured by pools of these mortgages. An investor in this type of bond receives monthly payments of principal and interest that represent monthly mortgage payments by homeowners.

Investment Pool (or Local Government Investment Pool): A professionally managed pool of funds composed of cash deposits from a large group of cities, counties, school districts and local governments. In Texas, the ability to pool assets was created under the Local Government Cooperation Act. The pool manager purchases a portfolio of securities with the deposits and each pool participant owns a pro rata share in the portfolio.

Investment Portfolio (or Portfolio): The holdings of stocks, bonds, cash equivalents, or other assets by an individual, corporation, or institution.

Investment Risk: The total of all risks associated with an investment security.

Market Value: (1) The price at which a security is trading and could presumably be purchased or sold. (2) The current value of a security, which is determined by multiplying its par (face) value by the current market price. The unrealized gain or loss on a security can be calculated by subtracting the book value from the market value.

Master Repurchase Agreement: To protect investors, many public investors will request that repurchase agreements be preceded by a master repurchase agreement between the investor and the financial institution or dealer. The master agreement should define the nature of the transaction, identify the relationship between the parties, establish normal practices regarding ownership and custody of the collateral securities during the term of the investment, provide remedies in the case of default by either party and clarify issues of ownership. The master repurchase agreement protects the investor by eliminating the uncertainty of ownership and hence, allowing investors to liquidate collateral if a bank or dealer defaults during the term of the agreement.

Maturity (or Maturity Date): This refers to the date when the principal amount of a security or debt becomes due and payable.

Money Market Account: A savings account that generally earns interest at a higher rate than a regular savings account. Money Market accounts have a required minimum balance and other restrictions.

Money Market Fund: (1) A mutual fund that is invested in short-term investments. (2) An open end investment company (mutual fund) that invests in money market instruments. It is a highly liquid investment that pays money market rates of interest.

Net Asset Value Funds (NAV): A mutual fund whose share values fluctuate with changes in market prices. A net asset value fund seeks to offer a higher yield than a constant dollar fund (money market fund) by purchasing longer maturing securities. These net asset value funds experience market fluctuations due to the risk of the longer securities. These fluctuations will subject the investor to a higher level of market price and volatility risk than a constant dollar fund.

Public Funds Investment Act (PFIA): This act is Chapter 2256 of the Texas Government Code and details the state law governing the investment of public funds.

Ratings: Ratings are (1) designations used by investors or by services to give relative indications of credit quality. (2) In the context of bonds, a rating is normally an evaluation of credit-worthiness performed by an independent rating service.

Repurchase Agreement (REPO): An investment agreement involving the purchase of a security with a simultaneous agreement to repurchase that security at a specified price and date. REPO's may be used to earn income on idle cash at or near the federal funds market rate. A holder of securities sells them to an investor with a repurchase agreement. The buyer is in effect lending the seller money for the period of the agreement. The term of the repurchase agreement is structured to compensate the buyer. Dealers often use repurchase agreements to finance their positions. The exception occurs when the Fed is said to be doing repurchase agreements, in this instance it is lending money; i.e., increasing bank reserves. Repurchase agreements should always be governed by an executed PSA Master Repurchase Agreement between the investor and the dealer to reduce both these types of collateral risk.

Settlement Date: The purchase or sale date during which money actually changes hands.

Treasury (or Treasuries): A general term referring to U.S. Treasury securities.

Treasury Bill (T-Bill): A marketable, short-term, noninterest bearing, security that is issued by the U.S. Treasury at a discount to finance the national debt. They are issued to mature in three months (90 days), six months (180 days), or one year (365 days).

Treasury Bond (T-Bond): A marketable, long-term, fixed interest bearing, security that is issued by the U.S. Treasury as a direct debt obligation of the government with a maturity of more than 10 years.

Treasury Note (T-Note): A marketable, medium-term, coupon bearing, security that is issued by the U.S. Treasury as a direct debt obligation of the government with a maturity of 2 to 10 years.

Weighted Average Maturity (WAM): The common term, usually expressed in number of days, which represents a weighted average of the remaining term to maturity of all of the assets in an investment pool or securities portfolio. A longer WAM is generally indicative of more market risk. The maximum WAM for AAA-rated money market pools in Texas is 60 days. An SEC money market fund may have a 90-day WAM.

Yield: Yield is the return, expressed as a percentage, a security will earn as a result of both the coupon rate and any discount or premium paid. A yield will exceed the coupon if purchased at a discount (and vice-versa).