Policy

The District shall invest public funds in a manner that assures the safety of invested funds, maintains sufficient liquidity to provide for the daily needs of the District, and provides the highest investment return.

Scope

This investment policy covers all financial assets under the direct authority of the District. These funds include all governmental, proprietary, and fiduciary funds and are accounted for in the District's annual comprehensive financial report.

Objectives

The primary objectives of the District's investment activities, in order of importance, are:

1. Safety: Investments of the District shall be selected in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the portfolio must be diversified in such a way that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
2. Liquidity: The District's investment portfolio will remain sufficiently liquid to enable the District to meet all operating requirements that can be reasonably anticipated based upon cash flow projections that are to be prepared on a combination of weekly, monthly, and annual bases.
3. Return on investment: The District's investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with the District's investment risk constraints and the cash flow characteristics of the portfolio.

Investment Authority

In accordance with the Public Funds Investment Act, the responsibility for conducting investment transactions resides with the Trustees. Management oversight responsibility for the investment program is delegated to the chief financial officer and director of financial services, who shall recommend appropriate legally authorized and adequately secured investments 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. The investment officers shall be bonded or shall be covered under a fidelity insurance policy. 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, including bond proceeds and pledged revenue to the extent allowed by law, in only the following

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

1. Obligations of the U.S. or its agencies and instrumentalities.
    a. Agency products shall be defined as nonfloating, nonadjustable, and nonprinciple reducing.
    b. Agency products with call features shall not exceed 37.5 percent of the individual fund portfolio at the time of purchase.
    c. Agencies at the time of purchase shall not exceed 85 percent of the total portfolio.
    d. Agencies shall be limited to the following: Federal Home Loan Bank, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Farm Credit Banks, and Federal Agricultural Mortgage Corporation.
    e. The maximum dollar par value to mature in any one month is limited to $25 million.
2. Certificates of deposit and share certificates to include CDARS investments, as permitted by Government Code 2256.010.
3. Public funds investment pools as permitted by Government Code 2256.016-2256.019, if the Board authorizes the investment in the particular pool by resolution.
4. Repurchase and reverse repurchase agreements involving investment instruments approved above, for example, obligations of the U.S. or its agencies. The proceeds of a reverse repurchase agreement may not be leveraged to buy additional securities. Board officers must be notified before any reverse repurchase agreements are executed.
5. No-load mutual funds, except for bond proceeds, and no-load money market mutual funds, as permitted by Government Code 2256.014.
6. Commercial paper as permitted by Government Code 2256.013.

Safety

The investment officers shall observe financial market indicators, study financial trends, and utilize available educational tools in order to maintain appropriate investment managerial expertise. Investments shall be made in a manner that ensures the preservation of capital in the overall portfolio 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(b)(3), the quality and capability of investment management for District funds shall be in accordance with the standard of care, investment training, and other requirements set forth in Government Code Chapter 2256.

Liquidity and Maturity

For all fund categories except capital projects and debt service, the maximum allowable stated maturity of any individual investment owned by the District shall not exceed ~~two~~ three years from the time of purchase. The maximum single investment maturity for capital projects funds are specified below under Funds/Strategies. The Board may specifically authorize a longer maturity for a given investment, within legal limits for any funds.

The District's investment portfolio shall have sufficient liquidity to meet anticipated cash flow requirements, projected on a weekly, monthly, and annual basis. The District shall have procedures to determine cash flow requirements according to generally accepted financial and accounting procedures.

Interest Rate Risk

Interest rate risk recognizes that changes in interest rates could adversely affect the value of investments. The District reduces exposure to this risk through the use of final and weighted average maturity limits and diversification.

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

Collateral

Collateral shall be required on all time and demand deposits and repurchase agreements. The level of collateral shall be at least equal to 110 percent of the aggregate market value of the deposit or investment, including accrued interest, less any amount insured by the Federal Deposit Insurance Corporation (FDIC) or its successor. Evidence of the pledged collateral shall be documented by original safekeeping receipts showing a pledge to or ownership by the District. All transactions shall take place under an executed tri-party custodial agreement or a BMA master repurchase agreement with the terms for the pledged collateral clearly referenced in the agreement. Collateral shall be reviewed monthly for time and demand deposits and daily for repurchase agreements to ensure that the market value of the securities pledged equals or exceeds the related deposit or investment balance. Liability for monitoring collateral market value and maintaining margins shall fall to the District's counterparty.

The bank shall have the right and privilege of substituting approved securities upon obtaining the approval of the District.

Collateral requirements shall be in accordance with, and limited to, that which is approved in Government Code Chapters 2256-2257 and Education Code 45.201.

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.

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. The maximum maturity of an individual investment shall not exceed ~~two~~ three years. The maximum dollar-weighted average maturity shall not exceed ~~360~~ 730 days.

Capital Project Funds

Investment strategies for capital projects funds shall have as their primary objective sufficient investment liquidity to timely meet capital project obligations. If the District has funds from bond proceeds, they shall be invested in accordance with provisions in the bond documents. Stated maturities longer than ~~two~~ three years from the time of purchase are authorized provided legal limits are not exceeded. The maximum dollar weighted average maturity shall not exceed ~~540~~ 730 days.

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~~ three years are authorized provided legal limits are not exceeded.

Internal Service Funds

Investment strategies for internal service funds (workers' compensation self-insurance) shall have as their primary objectives safety, investment liquidity, and maturity sufficient to meet anticipated cash flow requirements.

Custodial Funds

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

Safekeeping and Custody

All security transactions entered into by the District shall be conducted on a delivery-versus-payment ("DVP") basis. Securities shall be held by a third-party custodian and evidenced by safekeeping receipts.

Sellers of Investments

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

Representatives of brokers/dealers and representatives with distributors of investment pools 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). Distributors of investment pools shall also be a registrant in good standing with the Municipal Securities Rulemaking Board (MSRB).

Soliciting Bids

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

Internal Controls

The investment portfolio, as well as compliance with this policy, shall be reviewed annually by the District's external auditor in conjunction with the annual audit of the District's financial statements.

Controls deemed most important shall include:

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.

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

Monitoring Market Value

The market price of acquired investments shall be monitored through treasury management software services subscribed to by the District.

Monitoring Rating Changes

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

Quarterly Report

The investment officers shall present to the Board at least quarterly, a report on the investment portfolio, which will include a summary statement by fund with the following:

1. The beginning market value for the period, additions and changes to the market value during the period, and the ending market value for the period.
2. The book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset invested.
3. The maturity of each investment.
4. A breakdown of the percentage of portfolio of each instrument.
5. The average buy yield versus the established benchmark.
6. The compliance of the investment portfolio as it relates to this policy and the District's investment strategy.

Portfolio Report

In addition to the quarterly report (not less than quarterly is required by law) that shall be signed by the District's investment officers, a comprehensive report on the investment 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.