

**Ector County Independent
School District**

INVESTMENT REPORT

For the Year Ended
June 30, 2020

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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, 2020 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 2019-2020 fiscal year.

INVESTMENT REPORT

The School District investment portfolio, at amortized book value, shows an increase of approximately \$34.5 million, from \$109.6 million in FY 2018-2019 to \$144.1 million in FY 2019-2020. The general fund investments increased approximately \$18.6 million from the prior year primarily due to increased property values. The food service fund increased approximately \$13,000 due to cumulative interest earnings. The debt service fund increased \$4.2 million due to increased property values. The medical trust fund investments increased \$4.4 million due to timing on claims. The increase in the worker's compensation fund by approximately \$106,000 is due primarily to cumulative interest earnings. The insurance recovery fund increased by approximately \$7.1 million due to hail damage claims. Investment income decreased approximately \$220,000 from \$2.07 million in fiscal year 2018-2019 to approximately \$1.85 million in fiscal year 2019-2020 as a result of lower interest rates.

Interest rates decreased during the 2019-2020 twelve-month period. Using the TexPool interest rates as a benchmark, the 2019-2020 average earning rate was 1.42%, a decrease from 2.24%, the average rate for fiscal period 2018-2019.

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 2019-2020. The recommendations for investment officers are located on page 38 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 40.

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 41 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, 2020, the School District's TCG Directed Investments 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, 2020, 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: Uvaldina Valenzuela, Accounting Supervisor

SIGNATURE ON FILE

Albessa Chavez, Director of Finance

SIGNATURE ON FILE

Deborah Ottmers, Chief Financial Officer

SIGNATURE ON FILE

ANNUAL REPORT OF INVESTMENTS BY FUND
WITH COMPARATIVE TOTALS
FOR THE YEAR ENDED JUNE 30, 2020

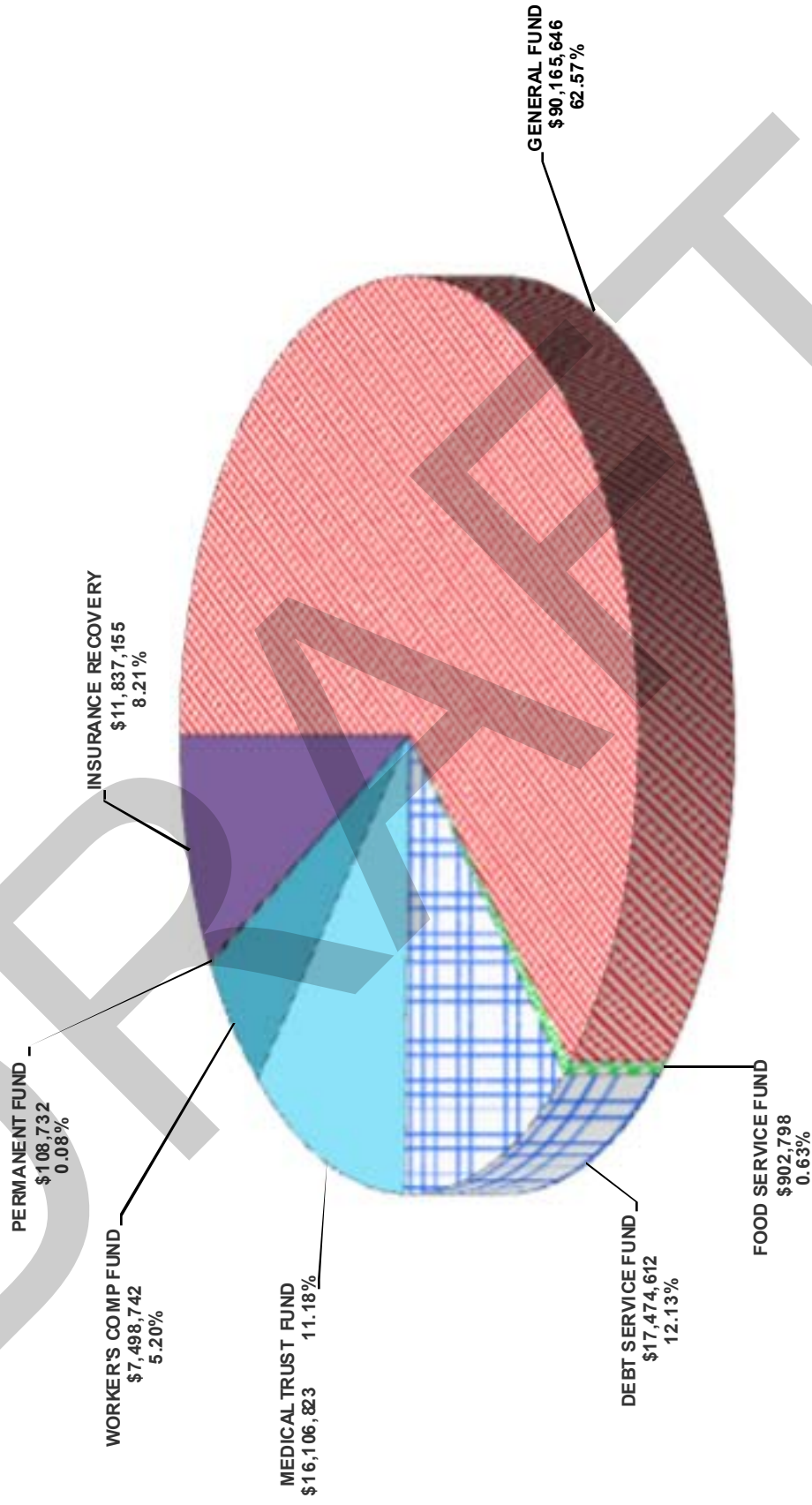
(UNAUDITED)

ALL FUNDS	AMORTIZED BOOK VALUE	%	MARKET (FAIR VALUE)	UNREALIZED GAIN (LOSS)	INTEREST EARNED
GENERAL FUND	\$ 90,165,646	62.57%	\$ 90,165,649	\$ 3	\$ 1,393,043
FOOD SERVICE FUND	902,798	0.63%	902,798	-	12,790
DEBT SERVICE FUND	17,474,612	12.13%	17,474,612	-	106,080
MEDICAL TRUST FUND	16,106,823	11.18%	16,106,823	-	169,635
WORKER'S COMP FUND	7,498,742	5.20%	7,498,802	60	106,294
PERMANENT FUND	108,732	0.08%	108,732	-	1,540
INSURANCE RECOVERY	<u>11,837,155</u>	8.21%	<u>11,837,155</u>	<u>-</u>	<u>63,588</u>
TOTAL	<u>\$ 144,094,508</u>	100.00%	<u>\$ 144,094,571</u>	<u>\$ 63</u>	<u>\$ 1,852,970</u>

PRIOR YEAR COMPARISON

ALL FUNDS	2019 - 2020 AMORTIZED BOOK VALUE	2018 - 2019 AMORTIZED BOOK VALUE	CHANGE	PERCENT CHANGE
GENERAL FUND	\$ 90,165,646	\$ 71,524,462	18,641,184	26.06%
FOOD SERVICE FUND	902,798	890,008	12,790	1.44%
DEBT SERVICE FUND	17,474,612	13,232,205	4,242,407	32.06%
MEDICAL TRUST FUND	16,106,823	11,712,188	4,394,635	37.52%
WORKER'S COMP FUND	7,498,742	7,392,449	106,293	1.44%
PERMANENT FUND	108,732	107,192	1,540	1.44%
INSURANCE RECOVERY	<u>11,837,155</u>	<u>4,755,309</u>	<u>7,081,846</u>	148.93%
TOTAL	<u>\$ 144,094,508</u>	<u>\$ 109,613,813</u>	<u>\$ 34,480,695</u>	31.46%

OUTSTANDING INVESTMENTS BY FUND AT JUNE 30, 2020



ECTOR COUNTY INDEPENDENT SCHOOL DISTRICT

ANNUAL REPORT OF INVESTMENTS BY TYPE
WITH COMPARATIVE TOTALS
FOR THE YEAR ENDED JUNE 30, 2020

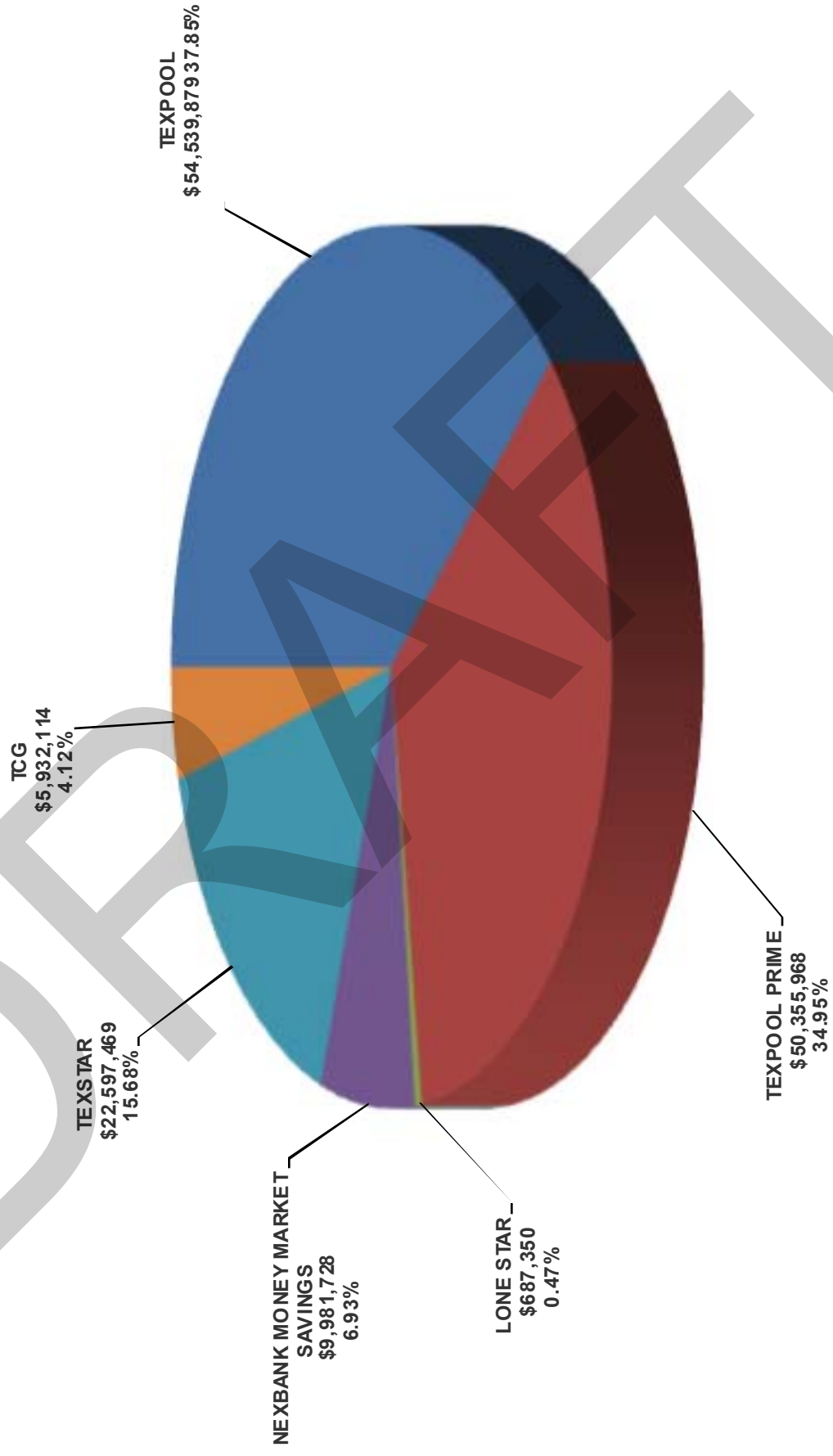
(UNAUDITED)

ALL INVESTMENTS	AMORTIZED BOOK VALUE	%	MARKET (FAIR VALUE)	UNREALIZED GAIN (LOSS)	INTEREST EARNED
TEXPOOL	\$ 54,539,879	37.85%	\$ 54,539,879	\$ -	\$ 611,555
TEXPOOL PRIME	50,355,968	34.95%	50,355,968	-	673,548
LONE STAR	687,350	0.47%	687,413	63	9,800
NEXBANK MONEY MARKET SAVINGS	9,981,728	6.93%	9,981,728	-	159,777
TEXSTAR	22,597,469	15.68%	22,597,469	-	160,851
TCG DIRECTED INVESTMENTS	<u>5,932,114</u>	4.12%	<u>5,932,114</u>	<u>-</u>	<u>237,439</u>
TOTAL	\$ <u>144,094,508</u>	100.00%	\$ <u>144,094,571</u>	\$ <u>63</u>	\$ <u>1,852,970</u>

PRIOR YEAR COMPARISON

ALL INVESTMENTS	2019 - 2020 AMORTIZED BOOK VALUE	2018 - 2019 AMORTIZED BOOK VALUE	CHANGE	PERCENT CHANGE
TEXPOOL	\$ 54,539,879	\$ 48,228,650	\$ 6,311,229	13.09%
TEXPOOL PRIME	50,355,968	30,420,490	19,935,478	65.53%
LONE STAR	687,350	677,550	9,800	1.45%
NEXBANK MONEY MARKET SAVINGS	9,981,728	10,044,181	(62,453)	-0.62%
TEXSTAR	22,597,469	10,680,853	11,916,616	111.57%
TCG DIRECTED INVESTMENTS	<u>5,932,114</u>	<u>9,562,089</u>	<u>(3,629,975)</u>	-37.96%
TOTAL	\$ <u>144,094,508</u>	\$ <u>109,613,813</u>	\$ <u>34,480,695</u>	31.46%

OUTSTANDING INVESTMENTS BY TYPE AT JUNE 30, 2020



ECTOR COUNTY INDEPENDENT SCHOOL DISTRICT
ANNUAL REPORT OF INVESTMENTS
FOR THE YEAR ENDED JUNE 30, 2020

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)

		<u>PURCHASED COST</u>	<u>AMORTIZED BOOK</u>	<u>MARKET</u>	<u>UNREALIZED GAIN OR (LOSS)</u>	<u>WEIGHTED AVERAGE TO MATURITY</u>
<u>BEGINNING</u>	July 1, 2019					
TEXPOOL		\$ 48,228,650	48,228,650	48,228,650	\$ -	31 DAYS
TEXPOOL PRIME		30,420,490	30,420,490	30,420,490	-	41 DAYS
LONE STAR		677,550	677,550	677,578	28	27 DAYS
NEXBANK MONEY MARKET SAVINGS		10,044,181	10,044,181	10,044,181	-	1 DAYS
TEXSTAR		10,680,853	10,680,853	10,680,853	-	23 DAYS
TCG DIRECTED INVESTMENTS		<u>9,562,089</u>	<u>9,562,089</u>	<u>9,562,089</u>	<u>-</u>	1.65 YEARS
		<u>\$ 109,613,813</u>	<u>\$ 109,613,813</u>	<u>\$ 109,613,841</u>	<u>\$ 28</u>	
<u>ENDING</u>	June 30, 2020					
TEXPOOL		\$ 54,539,879	54,539,879	54,539,879	\$ -	33 DAYS
TEXPOOL PRIME		50,355,968	50,355,968	50,355,968	-	51 DAYS
LONE STAR		687,350	687,350	687,413	63	35 DAYS
NEXBANK MONEY MARKET SAVINGS		9,981,728	9,981,728	9,981,728	-	1 DAYS
TEXSTAR		22,597,469	22,597,469	22,597,469	-	33 DAYS
TCG DIRECTED INVESTMENTS		<u>5,932,114</u>	<u>5,932,114</u>	<u>5,932,114</u>	<u>-</u>	1 YEAR
		<u>\$ 144,094,508</u>	<u>\$ 144,094,508</u>	<u>\$ 144,094,571</u>	<u>\$ 63</u>	
CHANGE DURING PERIOD				\$ <u>34,480,730</u>		
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 06/30/2020 the School District's TCG Directed Investments qualified for fair market recognition.

ECTOR COUNTY INDEPENDENT SCHOOL DISTRICT
ANNUAL REPORT OF EARNINGS
JULY 1, 2019 THRU JUNE 30, 2020

SUMMARY INVESTMENT EARNINGS

(UNAUDITED)

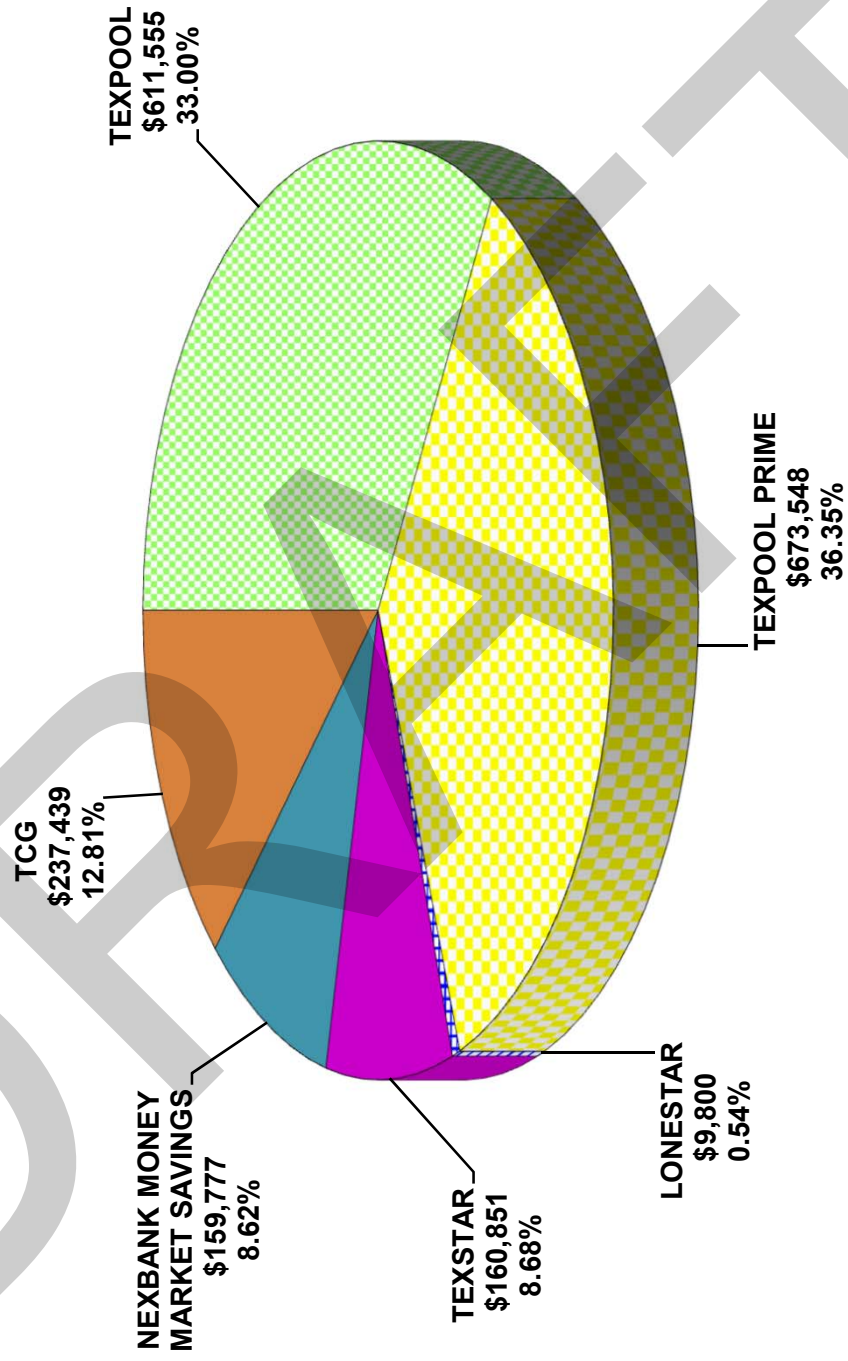
<u>FUND</u>	<u>TEXPOOL</u>	<u>TEXPOOL PRIME</u>	<u>LONE STAR</u>	<u>TEXSTAR</u>	<u>NEXBANK MONEY MARKET SAVINGS</u>	<u>TCG DIRECTED INVESTMENTS</u>	<u>TOTAL</u>
GENERAL	\$ 224,478	\$ 673,548	\$ 538	\$ 97,263	\$ 159,777	\$ 237,439	\$ 1,393,043
FOOD SERVICE	12,790	-	-	-	-	-	12,790
DEBT SERVICE	106,080	-	-	-	-	-	106,080
CAPITAL PROJECTS	-	-	-	-	-	-	-
MEDICAL TRUST	169,635	-	-	-	-	-	169,635
WORKER'S COMP	97,032	-	9,262	-	-	-	106,294
PERMANENT	1,540	-	-	-	-	-	1,540
INSURANCE REC	-	-	-	63,588	-	-	63,588
	<u>\$ 611,555</u>	<u>\$ 673,548</u>	<u>\$ 9,800</u>	<u>\$ 160,851</u>	<u>\$ 159,777</u>	<u>\$ 237,439</u>	<u>\$ 1,852,970</u>
PERCENT OF TOTAL	33.00%	36.35%	0.54%	8.68%	8.62%	12.81%	100.00%

SUMMARY OF VARIOUS EARNINGS RATES

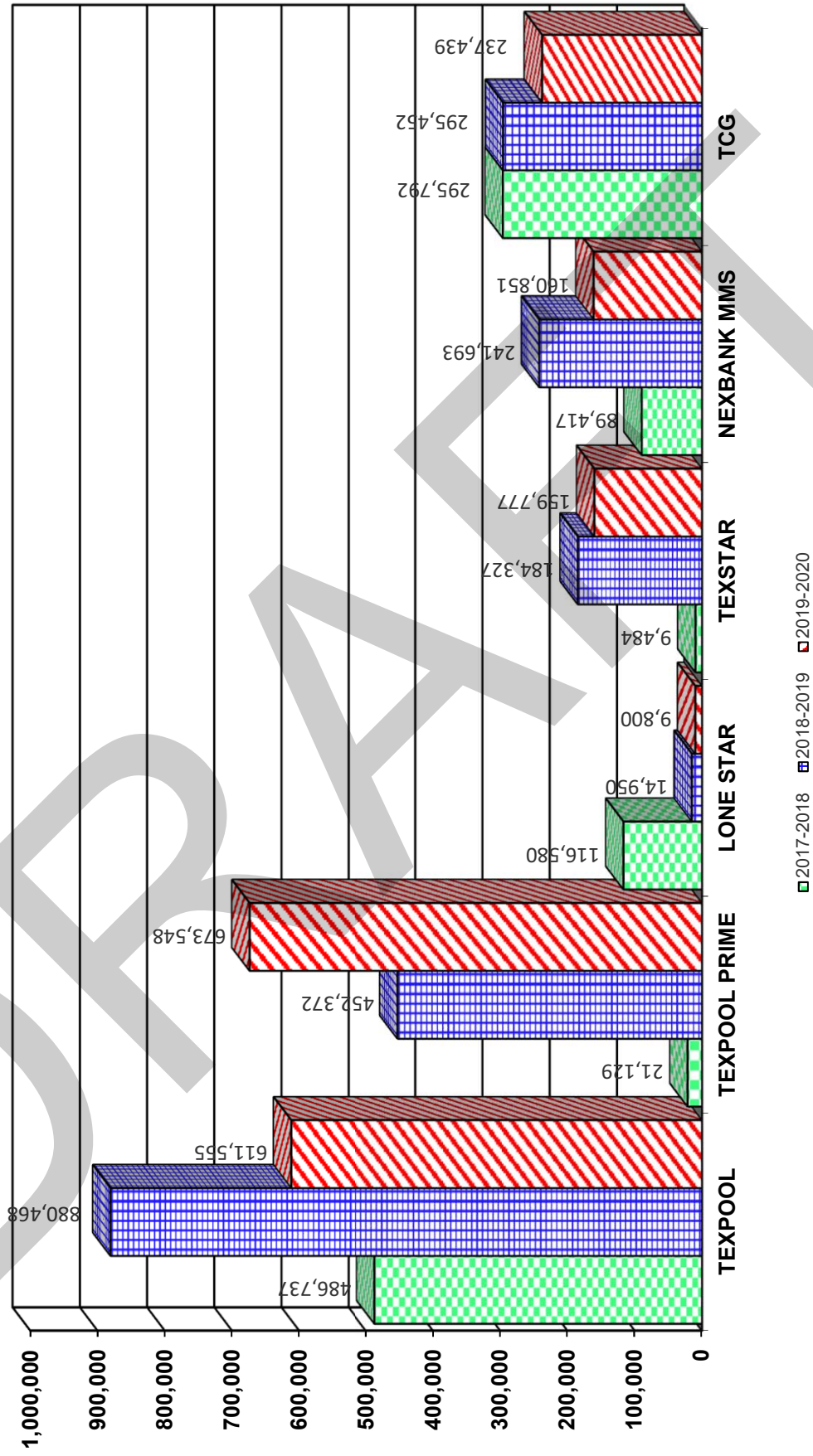
<u>PERIOD</u>	<u>TEXPOOL</u>	<u>TEXPOOL PRIME</u>	<u>LONE STAR</u>	<u>TEXSTAR</u>	<u>NEXBANK MONEY MARKET SAVINGS</u>	<u>TCG DIRECTED INVESTMENTS</u>	<u>COMPARISON 90 DAY T-BILL</u>
JULY 2019	2.3876%	2.4998%	2.3713%	2.3883%	2.6500%	3.0800%	2.1500%
AUGUST 2019	2.1715%	2.3470%	2.1640%	2.1258%	2.3700%	3.0800%	1.9600%
SEPTEMBER 2019	2.1635%	2.2749%	2.0963%	2.1065%	2.1500%	3.0800%	1.9200%
OCTOBER 2019	1.9115%	2.0701%	1.8976%	1.8510%	1.8000%	2.4200%	1.6500%
NOVEMBER 2019	1.6774%	1.8665%	1.7126%	1.6177%	1.8000%	2.8700%	1.5600%
DECEMBER 2019	1.6226%	1.8321%	1.6207%	1.5643%	1.8000%	2.9400%	1.5300%
JANUARY 2020	1.5925%	1.8006%	1.5837%	1.5514%	1.8040%	2.9400%	1.5200%
FEBRUARY 2020	1.5908%	1.7636%	1.5662%	1.5641%	1.8300%	2.9300%	1.2500%
MARCH 2020	1.0034%	1.3354%	1.1067%	0.9570%	0.5000%	2.9400%	0.1100%
APRIL 2020	0.4552%	0.9409%	0.5593%	0.4447%	0.5000%	2.9400%	0.2500%
MAY 2020	0.2685%	0.7532%	0.3130%	0.2444%	0.5000%	2.9500%	0.1200%
JUNE 2020	0.2165%	0.5240%	0.1923%	0.1974%	0.5000%	2.3000%	0.1700%
AVERAGE FOR PERIOD	<u>1.4218%</u> (2)	<u>1.6673%</u> (2)	<u>1.4320%</u> (2)	<u>1.3844%</u> (2)	<u>1.5170%</u> (2)	<u>2.8725%</u> (2)	<u>1.1825%</u> (3)
PRIOR PERIOD AVERAGE	<u>2.2382%</u> (2)	<u>2.4345%</u> (2)	<u>2.2347%</u> (2)	<u>2.2431%</u> (2)	<u>2.5200%</u> (2)	<u>2.0800%</u> (2)	<u>2.2708%</u> (3)

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

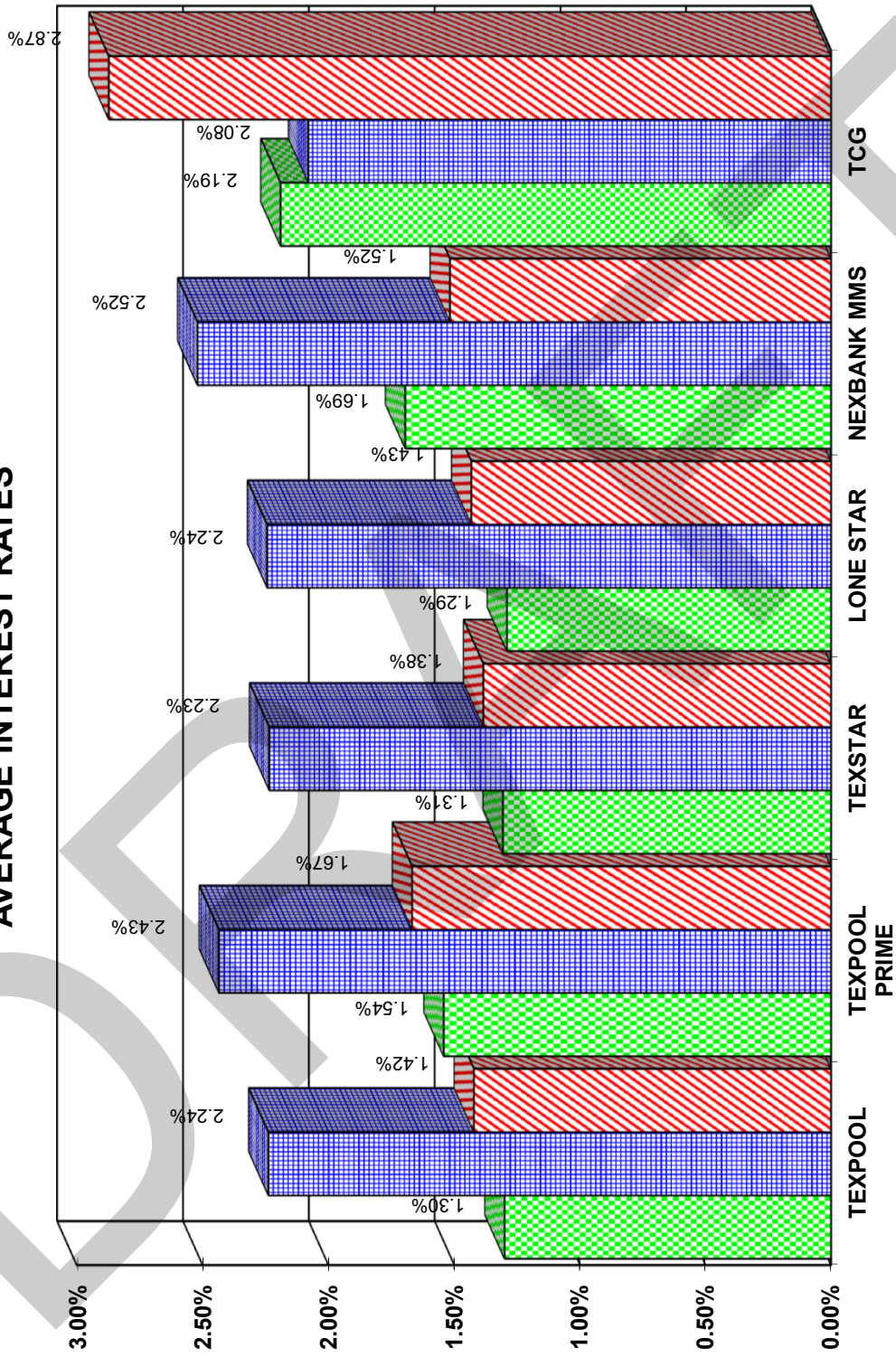
INTEREST EARNED FOR THE YEAR ENDED JUNE 30, 2020



THREE YEAR COMPARISON INTEREST EARNED

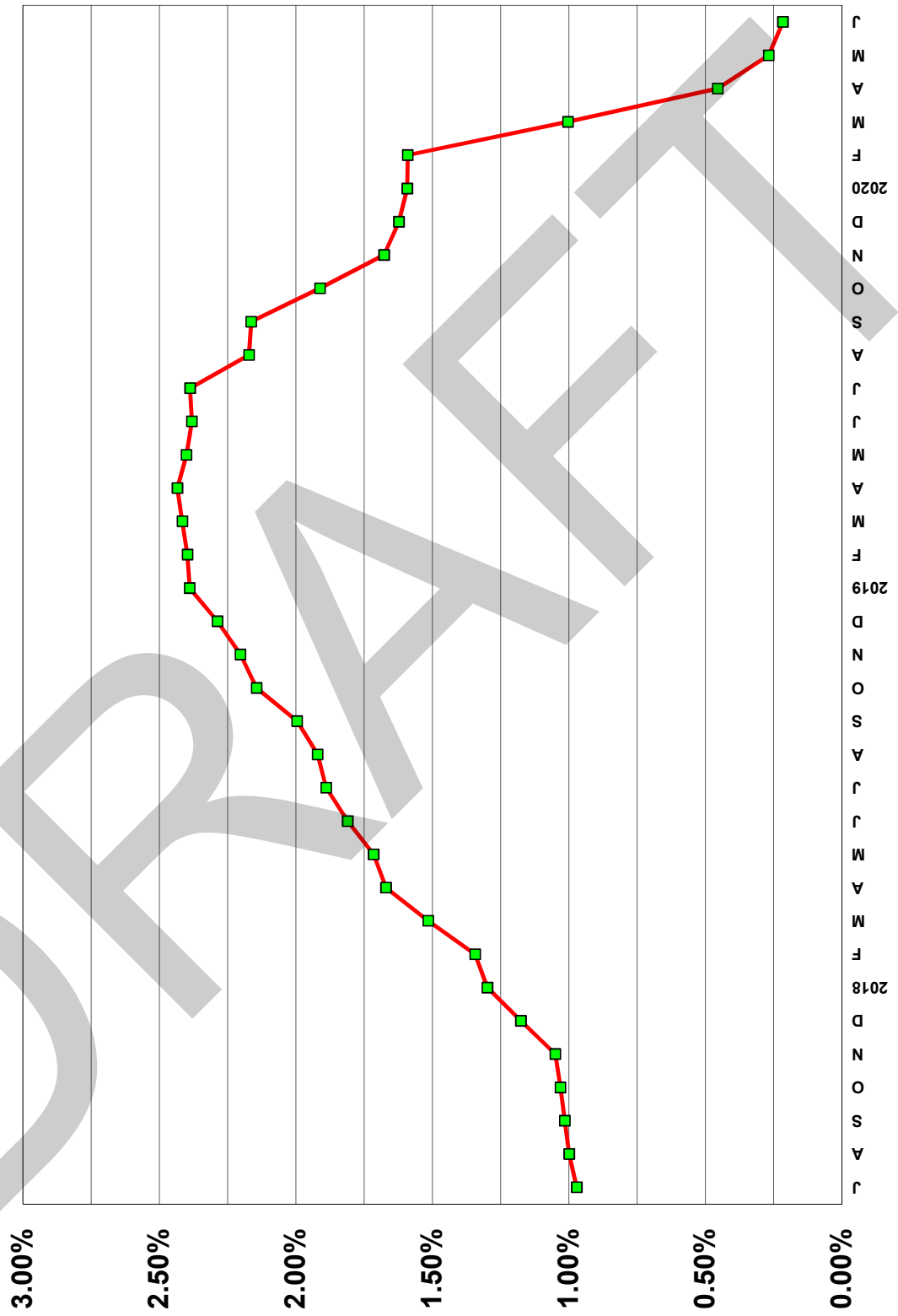


THREE YEAR COMPARISON AVERAGE INTEREST RATES



2017-2018 2018-2019 2019-2020

THREE YEARS TEXPOOL INTEREST RATES



ECTOR COUNTY INDEPENDENT SCHOOL DISTRICT
ANNUAL REPORT OF INVESTMENTS
FOR THE PERIOD FROM JULY 1, 2019 THRU JUNE 30, 2020

	BEGINNING BALANCE @ COST		ADDITIONS		DEDUCTIONS		INTEREST EARNED		ENDING BALANCE @ COST		%		AMORTIZED BOOK VALUE		MARKET (FAIR VALUE)		UNREALIZED GAIN (LOSS)	
	No.		No.		No.													
TEXPOOL																		
GENERAL FUND	253	15,534,980.85	81	387,656,723.21	81	390,318,375.56	224,477.76	\$	13,097,806.26	\$	24.02%	\$	13,097,806.26	\$	13,097,806.26	\$	-	
FOOD SERVICE FUND	0	890,008.12	0	-	0	-	12,789.88		902,798.00		1.66%		902,798.00		902,798.00		-	
DEBT SERVICE FUND	14	13,232,205.56	6	17,278,694.37	6	13,142,368.76	106,080.37		17,474,611.54		32.04%		17,474,611.54		17,474,611.54		-	
MEDICAL TRUST FUND	13	11,712,187.87	45	22,200,000.00	45	17,975,000.00	169,634.87		16,106,822.74		28.53%		16,106,822.74		16,106,822.74		-	
WORKER'S COMP FUND	0	6,752,076.11	0	-	0	-	97,031.97		6,849,108.08		12.56%		6,849,108.08		6,849,108.08		-	
PERMANENT FUND	0	107,191.62	0	-	0	-	1,540.41		108,732.03		0.20%		108,732.03		108,732.03		-	
TEXPOOL	280	48,228,650.13	132	427,135,417.58	132	421,435,744.32	611,555.26	\$	54,539,878.65	\$	100.00%	\$	54,539,878.65	\$	54,539,878.65	\$	0.00	
% OF GRAND TOTAL		44.00%							37.85%									
TEXPOOL PRIME																		
GENERAL FUND	13	30,420,489.64	8	124,261,930.17	8	105,000,000.00	673,548.14	\$	50,355,967.95	\$	100.00%	\$	50,355,967.95	\$	50,355,967.95	\$	-	
TEXPOOL PRIME	13	30,420,489.64	8	124,261,930.17	8	105,000,000.00	673,548.14	\$	50,355,967.95	\$	100.00%	\$	50,355,967.95	\$	50,355,967.95	\$	0.00	
% OF GRAND TOTAL		27.75%							34.95%									
LONE STAR																		
GENERAL FUND	0	37,177.51	0	-	0	-	537.73	\$	37,715.24	\$	5.49%	\$	37,715.24	\$	37,718.70	\$	3.46	
WORKER'S COMP FUND	0	640,372.52	0	-	0	-	9,262.21		649,634.73		94.51%		649,634.73		649,694.29		59.56	
LONE STAR	0	677,550.03	0	0.00	0	0.00	9,799.94	\$	687,349.97	\$	100.00%	\$	687,349.97	\$	687,412.99	\$	63.02	
% OF GRAND TOTAL		0.62%							0.48%									
NEXBANK MONEY MARKET SAVINGS																		
GENERAL FUND	0	10,044,181.30	9	-	9	222,228.51	159,776.49	\$	9,981,729.28	\$	0.00%	\$	9,981,729.28	\$	9,981,729.28	\$	-	
MONEY MARKET	0	10,044,181.30	9	0.00	9	222,228.51	159,776.49	\$	9,981,729.28	\$	100.00%	\$	9,981,729.28	\$	9,981,729.28	\$	0.00	
% OF GRAND TOTAL		9.16%							6.93%									
TEXSTAR																		
GENERAL FUND	8	5,925,544.03	0	4,737,505.98	0	-	97,263.34	\$	10,760,313.35	\$	47.62%	\$	10,760,313.35	\$	10,760,313.35	\$	-	
INSURANCE RECOVERY	6	4,755,309.14	8	11,755,764.24	8	4,737,505.98	63,587.98		11,837,155.38		52.38%		11,837,155.38		11,837,155.38		-	
TEXSTAR	14	10,680,853.17	8	16,493,270.22	8	4,737,505.98	160,851.32	\$	22,597,468.73	\$	100.00%	\$	22,597,468.73	\$	22,597,468.73	\$	0.00	
% OF GRAND TOTAL		9.74%							15.68%									
TCG DIRECTED INVESTMENTS																		
GENERAL FUND	0	9,562,088.84	18	-	18	3,867,413.91	237,438.71	\$	5,932,113.64	\$	100.00%	\$	5,932,113.64	\$	5,932,113.64	\$	-	
TCG DIRECTED INVESTMENTS	0	9,562,088.84	18	0.00	18	3,867,413.91	237,438.71	\$	5,932,113.64	\$	100.00%	\$	5,932,113.64	\$	5,932,113.64	\$	0.00	
% OF GRAND TOTAL		8.72%							4.12%									
TOTAL ALL INVESTMENTS	307	109,613,813.11	175	567,890,617.97	175	535,262,892.72	1,852,969.96	\$	144,094,508.22	\$	100.00%	\$	144,094,508.22	\$	144,094,571.24	\$	63.02	

ECTOR COUNTY INDEPENDENT SCHOOL DISTRICT
ANNUAL REPORT OF INVESTMENTS
FOR THE PERIOD FROM JULY 1, 2019 THRU JUNE 30, 2020

	BEGINNING BALANCE @ COST		ADDITIONS		DEDUCTIONS		INTEREST EARNED		ENDING BALANCE @ COST		%		AMORTIZED BOOK VALUE		MARKET (FAIR VALUE)		UNREALIZED GAIN (LOSS)	
	No.		No.		No.	AMOUNT												
RECAP																		
ALL FUNDS																		
GENERAL FUND	274	\$ 71,524,462.17		516,656,159.36	116	499,408,017.98		1,393,042.17		90,165,645.72		62.57%		90,165,645.72		90,165,649.18		3.46
FOOD SERVICE FUND	0	890,008.12		-	0	-		12,789.88		902,798.00		0.63%		902,798.00		902,798.00		-
DEBT SERVICE FUND	14	13,232,205.56		17,278,694.37	6	13,142,368.76		106,080.37		17,474,611.54		12.13%		17,474,611.54		17,474,611.54		-
MEDICAL TRUST FUND	13	11,712,187.87		22,200,000.00	45	17,975,000.00		169,634.87		16,106,822.74		11.18%		16,106,822.74		16,106,822.74		-
WORKER'S COMP FUND	0	7,392,448.63		-	0	-		106,294.18		7,498,742.81		5.20%		7,498,742.81		7,498,802.37		59.56
PERMANENT FUND	0	107,191.62		-	0	-		1,540.41		108,732.03		0.08%		108,732.03		108,732.03		-
INSURANCE RECOVERY	6	4,755,309.14		11,755,764.24	8	4,737,505.98		63,587.98		11,837,155.38		8.21%		11,837,155.38		11,837,155.38		-
TOTAL	307	\$ 109,613,813.11		567,890,617.97	175	535,262,892.72		1,852,969.86		144,094,508.22		100.00%		144,094,508.22		144,094,571.24		63.02
ALL INVESTMENTS																		
TEXPOOL	280	48,228,650.13		427,135,417.58	132	421,435,744.32		611,555.26		54,539,878.65		37.85%		54,539,878.65		54,539,878.65		-
TEXPOOL PRIME	13	30,420,489.64		124,261,930.17	8	105,000,000.00		673,548.14		50,355,967.95		34.95%		50,355,967.95		50,355,967.95		-
LONE STAR	0	677,550.03		-	0	-		9,799.94		687,349.97		0.48%		687,349.97		687,412.99		63.02
NEXBANK MONEY MARKET SAVINGS	0	10,044,181.30		-	9	222,228.51		159,776.49		9,981,729.28		6.93%		9,981,729.28		9,981,729.28		-
TEXSTAR	14	10,680,853.17		16,493,270.22	8	4,737,505.98		160,851.32		22,597,468.73		15.68%		22,597,468.73		22,597,468.73		-
TCG DIRECTED INVESTMENTS	0	9,562,088.84		-	18	3,867,413.91		237,438.71		5,932,113.64		4.12%		5,932,113.64		5,932,113.64		-
TOTAL	307	\$ 109,613,813.11		567,890,617.97	175	535,262,892.72		1,852,969.86		144,094,508.22		100.00%		144,094,508.22		144,094,571.24		63.02

**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.

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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*

Definitions

Bond Proceeds

"Bond proceeds" means the proceeds from the sale of bonds, notes, and other obligations issued by a district, and reserves and funds maintained by a district for debt service purposes.

Investment Pool

"Investment pool" means an entity created under the Texas Government Code to invest public funds jointly on behalf of the entities that participate in the pool and whose investment objectives in order of priority are preservation and safety of principal, liquidity, and yield.

Pooled Fund Group

"Pooled fund group" means an internally created fund of a district in which one or more institutional accounts of a district are invested.

Separately Invested Asset

"Separately invested asset" means an account or fund of a district that is not invested in a pooled fund group.

Gov't Code 2256.002(1), (6), (9), (12)

Pledged Revenue

"Pledged revenue" means money pledged to the payment of or as security for:

1. Bonds or other indebtedness issued by a district;
2. Obligations under a lease, installment sale, or other agreement of a district; or
3. Certificates of participation in a debt or obligation described by item 1 or 2.

Gov't Code 2256.0208(a)

Repurchase Agreement

"Repurchase agreement" means a simultaneous agreement to buy, hold for a specified time, and sell back at a future date obligations, described by Government Code 2256.009(a)(1) (obligations of governmental entities) or 2256.013 (commercial paper) or if applicable, 2256.0204 (corporate bonds), at a market value at the time the funds are disbursed of not less than the principal amount of the funds disbursed. The term includes a direct security repurchase agreement and a reverse security repurchase agreement. *Gov't Code 2256.011(b)*

Hedging

"Hedging" means acting to protect against economic loss due to price fluctuation of a commodity or related investment by entering

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into an offsetting position or using a financial agreement or producer price agreement in a correlated security, index, or other commodity.

Eligible Entity

“Eligible entity” means a political subdivision that has:

1. A principal amount of at least \$250 million in outstanding long-term indebtedness, long-term indebtedness proposed to be issued, or a combination of outstanding long-term indebtedness and long-term indebtedness proposed to be issued; and
2. Outstanding long-term indebtedness that is rated in one of the four highest rating categories for long-term debt instruments by a nationally recognized rating agency for municipal securities, without regard to the effect of any credit agreement or other form of credit enhancement entered into in connection with the obligation.

Eligible Project

“Eligible project” has the meaning assigned by Government Code 1371.001 (issuance of obligations for certain public improvements).

Gov’t Code 2256.0207(a)

Corporate Bond

“Corporate bond” means a senior secured debt obligation issued by a domestic business entity and rated not lower than “AA-” or the equivalent by a nationally recognized investment rating firm. The term does not include a debt obligation that, on conversion, would result in the holder becoming a stockholder or shareholder in the entity, or any affiliate or subsidiary of the entity, that issued the debt obligation, or is an unsecured debt obligation. *Gov’t Code 2256.0204(a)*

Written Policies

The board shall adopt by rule, order, ordinance, or resolution, as appropriate, a written investment policy regarding the investment of its funds and funds under its control. 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 the 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;

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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(a), (b)

Annual Review

The board shall review its investment policy and investment strategies not less than annually. The board 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. *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 an integral part of the investment policy, the 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 the investment objectives for the particular fund using 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 need arises to liquidate the investment before maturity;
5. Diversification of the investment portfolio; and
6. Yield.

Gov't Code 2256.005(d)

Investment Officer

A district shall designate by rule, order, ordinance, or resolution, as appropriate, one or more officers or employees as investment officer(s) to be responsible for the investment of its funds consistent

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with the investment policy adopted by the board. 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

Investment training must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with the Public Funds Investment Act. *Gov't Code 2256.008(c)*

Initial

Within 12 months after taking office or assuming duties, the treasurer, the chief financial officer if the treasurer is not the chief financial officer, and the investment officer of a district shall attend at least one training session from an independent source approved by the board or 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)*

Ongoing

The treasurer, or the chief financial officer if the treasurer is not the chief financial officer, and the investment officer of a district shall 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 by a designated investment committee advising the investment officer. *Gov't Code 2256.008(a-1)*

Exception

The ongoing training requirement does not apply to the treasurer, chief financial officer, or investment officer of a district if:

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1. The district does not invest district funds or only deposits those funds in interest-bearing deposit accounts or certificates of deposit as authorized by Government Code 2256.010; and
2. The treasurer, chief financial officer, or investment officer annually submits to the agency a sworn affidavit identifying the applicable criteria under item 1 that apply to the district.

Gov't Code 2256.008(g)

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 the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. Investment of funds 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, or funds under the district's control, over which the officer had responsibility rather than the prudence of a single investment; and
2. Whether the investment decision was consistent with the district'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 related within the second degree by affinity or consanguinity, as determined by Government Code Chapter 573 (nepotism prohibition), 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:

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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, the investment officer shall prepare and submit to the 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 not less than quarterly to the board and the superintendent within a reasonable time after the end of the period. The report must:

1. Describe in detail the investment position of the district on the date of the report;
2. Be prepared jointly and signed by all district investment officers;
3. Contain a summary statement of each pooled fund group 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;
6. State the account or fund or pooled group fund in the district for which each individual investment was acquired; and
7. State the compliance of the investment portfolio of the district as it relates to the investment strategy expressed in the district's investment policy and relevant provisions of the Public Funds Investment Act.

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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 prepared by the investment officers 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

The board or the 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

Bond Proceeds

The investment officer of a district may invest bond proceeds or pledged revenue only to the extent permitted by the Public Funds Investment Act, in accordance with:

1. Statutory provisions governing the debt issuance or the agreement, as applicable; and
2. The district's investment policy regarding the debt issuance or the agreement, as applicable.

Gov't Code 2256.0208(b)

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. *Gov't Code 2256.003(a)*

In the exercise of these powers, the 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 under this authority may not be for a term longer than two years. A renewal or extension of the contract must be made by the board by order, ordinance, or resolution. *Gov't Code 2256.003(b)*

The board may specify in its investment policy that any authorized investment is not suitable. *Gov't Code 2256.005(j)*

Obligations of
Governmental
Entities

The following are authorized investments:

1. Obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks;

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2. Direct obligations of this state or its agencies and instrumentalities;
3. 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;
4. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state, 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;
5. 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;
6. Bonds issued, assumed, or guaranteed by the state of Israel;
7. Interest-bearing banking deposits that are guaranteed or insured by the FDIC or its successor, or the National Credit Union Share Insurance Fund or its successor; and
8. Interest-bearing banking deposits other than those described at item 7 above if:
 - a. The funds are invested through a broker with a main office or a branch office in this state that the district selects from a list the board or designated investment committee of the district adopts as required at Selection of Broker above or a depository institution with a main office or a branch office in this state and that the district selects;
 - b. The broker or depository institution selected as described above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the district's account;
 - c. The full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and
 - d. The district appoints as the district's custodian of the banking deposits issued for the district's account the de-

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pository institution selected as described above, an entity described by Government Code 2257.041(d) (custodian with which to deposit securities), or a clearing broker-dealer registered with the Securities and Exchange Commission and operating under Rule 15c3-3 (17 C.F.R. Section 240.15c3-3).

Gov't Code 2256.009(a)

*Unauthorized
Obligations*

The following investments are not authorized:

1. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
2. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
3. Collateralized mortgage obligations that have a stated final maturity date of greater than ten years; and
4. 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)

*Certificates of
Deposit and Share
Certificates*

A certificate of deposit or share certificate is an authorized investment if the certificate is issued by a depository institution that has its main office or a branch office in Texas and is:

1. Guaranteed or insured by the FDIC or its successor or the National Credit Union Share Insurance Fund or its successor;
2. Secured by obligations described at Obligations of Governmental Entities, 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 at Unauthorized Obligations, above; or
3. Secured in accordance with Government Code Chapter 2257 (Public Funds Collateral Act) or in any other manner and amount provided by law for the deposits of the district.

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:

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1. 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 at Selection of Broker, above or a depository institution that has its main office or a branch office in this state and that is selected by the district;
2. 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;
3. 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
4. The district appoints the depository institution selected by the district, an entity described by Government Code 2257.041(d) (custodian with which to deposit securities), 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.

Gov't Code 2256.010(b)

The district's 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)*

Repurchase
Agreements

A fully collateralized repurchase agreement is an authorized investment if it:

1. Has a defined termination date;
2. Is secured by a combination of cash and obligations described by Government Code 2256.009(a)(1) (obligations of governmental entities) or 2256.013 (commercial paper) or if applicable, 2256.0204 (corporate bonds);
3. Requires 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 at the time the investment is made with the district or a third party selected and approved by the district; and
4. Is placed through a primary government securities dealer, as defined by the Federal Reserve or a financial institution doing business in Texas.

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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.

Government Code 1371.059(c) (validity and incontestability of obligations for certain public improvements) applies to the execution of a repurchase agreement by a district.

Gov't Code 2256.011

Securities Lending
Program

A securities lending program is an authorized investment if:

1. The value of securities loaned is not less than 100 percent collateralized, including accrued income;
2. A loan allows for termination at any time;
3. A loan is secured by:
 - a. Pledged securities described at Obligations of Governmental Entities, above;
 - b. 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
 - c. Cash invested in accordance with Government Code 2256.009 (obligations of governmental entities), 2256.013 (commercial paper), 2256.014 (mutual funds), or 2256.016 (investment pools);
4. The terms of a loan require that the securities being held as collateral be pledged to the district, held in the district's name, and deposited at the time the investment is made with the district or with a third party selected by or approved by the district; and
5. A loan is placed through a primary government securities dealer, as defined by 5 C.F.R. Section 6801.102(f), as that regulation existed on September 1, 2003, 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

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Banker's
Acceptances

A banker's acceptance is an authorized investment if it:

1. Has a stated maturity of 270 days or fewer from the date of issuance;
2. Will be, in accordance with its terms, liquidated in full at maturity;
3. Is eligible for collateral for borrowing from a Federal Reserve Bank; and
4. Is accepted by a bank organized and existing under the laws of the United States or any state, if the short-term obligations of the bank, or of a bank holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or an equivalent rating by at least one nationally recognized credit rating agency.

Gov't Code 2256.012

Commercial Paper

Commercial paper is an authorized investment if it has a stated maturity of 365 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:

1. Two nationally recognized credit rating agencies; or
2. One nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States law or any state.

Gov't Code 2256.013

Mutual Funds

A no-load money market mutual fund is an authorized investment if the mutual fund:

1. Is registered with and regulated by the Securities and Exchange Commission;
2. Provides the 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.); and
3. Complies with federal Securities and Exchange Commission Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.).

Gov't Code 2256.014(a)

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In addition to the no-load money market mutual fund authorized above, a no-load mutual fund is an authorized investment if it:

1. Is registered with the Securities and Exchange Commission;
2. Has an average weighted maturity of less than two years; and
3. Either has a duration of:
 - a. One year or more and is invested exclusively in obligations approved by the Public Funds Investment Act, or
 - b. Less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities.

Gov't Code 2256.014(b)

Limitations

A district is not authorized to:

1. Invest in the aggregate more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in mutual funds described in Government Code 2256.014(b);
2. Invest any portion of bond proceeds, reserves and funds held for debt service, in mutual funds described in Government Code 2256.014(b); or
3. Invest its funds or funds under its control, including bond proceeds and reserves and other funds held for debt service, in any one mutual fund described in Government Code 2256.014(a) or (b) in an amount that exceeds ten percent of the total assets of the mutual fund.

Gov't Code 2256.014(c)

A guaranteed investment contract is an authorized investment for bond proceeds if the guaranteed investment contract:

1. Has a defined termination date;
2. Is secured by obligations described at Obligations of Governmental Entities, above, excluding those obligations described at Unauthorized Obligations, in an amount at least equal to the amount of bond proceeds invested under the contract; and
3. Is pledged to the district and deposited with the district or with a third party selected and approved by the district.

Guaranteed
Investment
Contracts

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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:

1. The board must specifically authorize guaranteed investment contracts as eligible investments in the order, ordinance, or resolution authorizing the issuance of bonds;
2. The district must receive bids from at least three separate providers with no material financial interest in the bonds from which proceeds were received;
3. The district must purchase the highest yielding guaranteed investment contract for which a qualifying bid is received;
4. The price of the guaranteed investment contract must take into account the reasonably expected drawdown schedule for the bond proceeds to be invested; and
5. The provider must certify the administrative costs reasonably expected to be paid to third parties in connection with the guaranteed investment contract.

Government Code 1371.059(c) (validity and incontestability of obligations for certain public improvements) applies to the execution of a guaranteed investment contract by a district.

Gov't Code 2256.015

Investment Pools

A district may invest its funds or funds under its control through an eligible investment pool if the board by rule, order, ordinance, or resolution, as appropriate, authorizes the investment in the particular pool. *Gov't Code 2256.016, .019*

To be eligible to receive funds from and invest funds on behalf of a district, an investment pool must furnish to the investment officer or other authorized representative of the district an offering circular or other similar disclosure instrument that contains the information specified in Government Code 2256.016(b). To maintain eligibility, an investment pool must furnish to the investment officer or other authorized representative investment transaction confirmations and a monthly report that contains the information specified in Government Code 2256.016(c). A district by contract may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds. *Gov't Code 2256.016(b)-(d)*

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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 above) 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.

A district is not authorized to:

1. 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
2. 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.

A district subject to these provisions may purchase, sell, and invest its funds and funds under its control in corporate bonds if the board:

1. Amends its investment policy to authorize corporate bonds as an eligible investment;
2. Adopts procedures to provide for monitoring rating changes in corporate bonds acquired with public funds and liquidating the investment in corporate bonds; and
3. Identifies the funds eligible to be invested in corporate bonds.

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:

1. 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
2. Changes the rating on the corporate bonds to a rating lower than "AA-" or the equivalent.

Gov't Code 2256.0204

Hedging
Transactions

The board of an eligible entity (as defined above) shall establish the entity's policy regarding hedging transactions. An eligible entity may enter into hedging transactions, including hedging contracts,

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and related security, credit, and insurance agreements in connection with commodities used by an eligible entity in the entity's general operations, with the acquisition or construction of a capital project, or with an eligible project. A hedging transaction must comply with the regulations of the federal Commodity Futures Trading Commission and the federal Securities and Exchange Commission.

Government Code 1371.059(c) (validity and incontestability of obligations for certain public improvements) applies to the execution by an eligible entity of a hedging contract and any related security, credit, or insurance agreement.

An eligible entity may:

1. Pledge as security for and to the payment of a hedging contract or a security, credit, or insurance agreement any general or special revenues or funds the entity is authorized by law to pledge to the payment of any other obligation.
2. Credit any amount the entity receives under a hedging contract against expenses associated with a commodity purchase.

An eligible entity's cost of or payment under a hedging contract or agreement may be considered an operation and maintenance expense, an acquisition expense, or construction expense of the eligible entity; or a project cost of an eligible project.

Gov't Code 2256.0206

Prohibited
Investments

Except as provided by Government Code 2270 (prohibited investments), a district is not required to liquidate investments that were authorized investments at the time of purchase. *Gov't Code 2256.017*

Note: As an "investing entity" under Government Code 2270.0001(7)(A), a district must comply with Chapter 2270, including reporting requirements, regarding prohibited investments in scrutinized companies listed by the comptroller in accordance with Government Code 2270.0201.

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. *Gov't Code 2256.021*

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**Sellers of
Investments**

A written copy of the investment policy shall be presented to any business organization (as defined below) offering to engage in an investment transaction with a district. 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:

1. Received and reviewed the district investment policy; and
2. 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 investment policy, except to the extent that this authorization:
 - a. Is dependent on an analysis of the makeup of the district's entire portfolio;
 - b. Requires an interpretation of subjective investment standards; or
 - c. Relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority.

The investment officer of a district may not acquire or otherwise obtain any authorized investment described in the district's investment policy from a business organization that has not delivered to the district the instrument required above.

Gov't Code 2256.005(k)-(l)

Nothing in this section relieves the district of the responsibility for monitoring investments made by the district to determine that they are in compliance with the investment policy.

For purposes of the provisions at Sellers of Investments above, "business organization" means an investment pool or investment management firm under contract with a district to invest or manage the district's investment portfolio that has accepted authority granted by the district under the contract to exercise investment discretion in regard to the district's funds.

Gov't Code 2256.005(k)

Donations

A gift, devise, or bequest made to a district to provide college scholarships for district graduates may be invested by the board as provided in Property Code 117.004 (Uniform Prudent Investor Act),

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unless otherwise specifically provided by the terms of the gift, devise, or bequest. *Education Code 45.107*

Investments donated to a district for a particular purpose or under terms of use specified by the donor are not subject to the requirements of the Public Funds Investment Act. *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*

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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; and
5. Ensure the quality and capability of investment officers through ongoing training.

Investment Authority

The chief financial officer 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, including bond proceeds and pledged revenue to the extent allowed by law, in only the following investment types, consistent with the strategies and maturities defined in this policy:

1. Obligations of, or guaranteed by, 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.

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6. No-load mutual funds, except for bond proceeds, and no-load money market mutual funds, as permitted by Government Code 2256.014.
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.

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.

Safety

The primary goal of the investment program is to ensure safety of principal, to maintain liquidity, and to maximize financial returns within current market conditions in accordance with this policy. Investments shall be made in a manner that ensures the preservation of capital in the overall portfolio, and offsets during a 12-month period any market price losses resulting from interest-rate fluctuations by income received from the balance of the portfolio. No individual investment transaction shall be undertaken that jeopardizes the total capital position of the overall portfolio.

**Investment
Management**

In accordance with Government Code 2256.005(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.

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

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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 chief financial 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:

	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

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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.

Custodial Funds Investment strategies for custodial 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 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.

**Sellers of
Investments**

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

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

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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

A system of internal controls shall be established and documented in writing and must include specific procedures designating who has authority to withdraw funds. Also, they shall be designed to protect against losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the District. Controls deemed most important shall include:

1. Separation of transaction authority from accounting and recordkeeping and 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; and
7. Avoidance of bearer-form securities.

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

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:

Deborah Ottmers	Chief Financial Officer
Albessa Chavez	Director of Finance
Uvaldina Valenzuela	Accounting Supervisor

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INVESTMENT SOURCES

INVESTMENTS - SELECTION OF AUTHORIZED BROKERS

Texas Government Code, Sec. 2256.025

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
TexPool – Prime
LoneStar
TexStar
VFinance Inc.
Global Financial Services LLC
NexBank

Investment Pool
Investment Pool
Investment Pool
Investment Pool
Securities
Securities
Money Market Savings

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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) Except as provided by Subsections (a-1), (b), (b-1), (e), and (f), 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 from an independent source approved by the governing body of the local government or a designated investment committee advising the investment officer as provided for in the investment policy of the local government and containing at least 10 hours of instruction 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 that begins on the first day of that local government's fiscal year and consists of the two consecutive fiscal years after that date, 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 investment officer as provided for in the investment policy of the local government.
- (a-1) In addition to the requirements of Subsection (a)(1), the treasurer, or the chief financial officer if the treasurer is not the chief financial officer, and the investment officer of a school district or a municipality shall attend an investment training session not less than once in a two-year period that begins on the first day of the school district's or municipality'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 this subchapter from an independent source approved by the governing body of the school district or municipality, or by a designated investment committee advising the investment officer as provided for in the investment policy of the school district or municipality.

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
Any CPA Firm
Any 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 represents 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).