

Scope	This investment policy covers all financial assets under the direct authority of the District. These funds include all governmental, proprietary, and fiduciary funds that are accounted for in the District's annual financial report. This policy does not apply to the assets administered for the benefit of the District by outside agencies under deferred compensation programs.
Pooling of Funds	Except for cash in restricted funds, the District shall 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.
Funds / Strategies	Investments of the following fund categories shall be consistent with this policy and in accordance with the strategy defined below.
Operating Funds	Investment strategies for operating funds, including any commingled pools containing operating funds, shall have as their primary objectives safety, investment liquidity, and maturity sufficient to meet anticipated cash flow requirements.
Debt Service Funds	Investment strategies for debt service funds shall have as their objective sufficient investment liquidity to promptly meet debt service payment obligations in accordance with provisions in the bond documents. Maturities longer than one year shall be authorized provided legal limits are not exceeded.
Capital Projects	Investment strategies for capital project funds shall have as their objective sufficient investment liquidity to promptly meet capital project obligations. If the District has funds from bond proceeds, the funds shall be invested in accordance with provisions in the bond documents. Maturities longer than one year shall be authorized provided legal limits are not exceeded.
Internal Service Funds	Investment strategies for internal service funds 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.
Suitability of the Investment	Investments shall be made in accordance with this policy. The District's investment strategy is passive and places preservation of principal and liquidity before yield.
Preservation and Safety of Principal	Safety of principal is intended such that all investments are undertaken in a manner that ensures the preservation of capital. Capital losses are to be avoided, whether from security defaults or erosion of market value. Securities shall be purchased with maturity dates

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within the time for projected cash flow needs. Risk of default shall be minimized by adequate collateralization. Investments shall be diversified by security type and institution.

Liquidity

A cash flow analysis shall be prepared as appropriate for each fund for the purpose of determining the availability of investment funds. Adequate operating funds shall be maintained in demand accounts. Funds in excess of operating needs shall be invested with appropriate liquidity to meet the cash flow requirements of the fund. Investments may be liquidated before maturity for actual cash flow needs, which may result in market gains or losses. Any losses for early maturity liquidation should be minimized to the extent possible.

Marketability

Investments shall be made only in instruments that are required to be repurchased by the issuing entity, that are redeemable by the issuing entity, or for which there is a readily available resale market through a major exchange.

Diversification

The investment portfolio shall be diversified in terms of investment instruments, maturities, and financial institutions to reduce risk of loss.

Yield

The investment portfolio shall be designed with the objective of obtaining a rate of return commensurate with the investment risk constraints and cash flow needs. The basis used to determine whether market yields are being achieved for invested funds shall be the three-month T-Bill rate.

Investment Officer

The chief financial officer shall serve as the investment officer for the District.

The chief financial officer is responsible for investment decisions, execution of transactions, internal controls, safekeeping, custodial and collateral duties, and all other duties necessary to carry out this policy. The chief financial officer may designate other employees to assist with the management of investment funds.

The chief financial officer and other finance employees requiring investment training may receive training from any organization that provides training meeting the requirements of Government Code, Section 2256.

**Designated
Investment
Committee**

The Superintendent, the assistant superintendent of finance and operations, and the chief financial officer shall serve as the designated investment committee for the Board. The purpose of this committee shall be to approve entities providing investment training to review, revise, and adopt a list of qualified brokers and to discuss other investment-related business as needed.

**Monitoring the
Portfolio**

The chief financial officer shall routinely monitor the contents and market value of the investment portfolio, the available markets and the relative values of competing instruments, and shall adjust the investment portfolio accordingly.

Information sources for market values and investment yields may include financial publications, electronic media, investment firms and advisors, and published data from investment pools.

The chief financial officer shall keep the Superintendent and the assistant superintendent of finance and operations informed of significant declines in the market value and of the credit or other risk of securities within the investment portfolio. The Superintendent shall inform the Board as appropriate.

**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.

Internal Controls

A system of internal controls shall be maintained to prevent losses arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions. Proper segregation of duties shall be included as an integral part of internal controls. Dual authorization shall be mandatory for transfers or withdrawals of funds except for transactions between District accounts or to settle security purchases when the securities are already in custody of the District safekeeping agent (delivery-versus-payment method).

Procedures necessary to ensure adequate internal controls shall be documented in writing.

Reporting

In addition to the quarterly report required by the Texas Public Funds Investment Act and detailed in the CDA(LEGAL) section of this investment policy, a comprehensive report on the District's investment program and investment activity shall be presented annually to the Board. This report shall provide a performance evaluation that may include, but not be limited to, comparisons to 91-day U.S. Treasury Bills, six-month U.S. Treasury Bills, the Fed Funds rate, and rates from investment pools. The annual report shall also include a review of the investment activities and earnings during the preceding 12 months, as well as any proposed changes to investment policy and/or investment strategies.

**Authorized
Investments**

The Board may authorize any investment within the limits established by CDA(LEGAL). The chief financial officer may authorize any investment of District funds, including bond proceeds and

pledged revenue to the extent allowed by law, within the limits established by this policy. The chief financial officer shall obtain Board approval of any investment beyond the limits of this policy, which is authorized by CDA(LEGAL).

The chief financial officer is authorized to invest in the following instruments within the limits established by CDA(LEGAL):

1. Checking, savings, or other accounts subject to immediate availability, which are in the District depository bank as selected pursuant to Board policy;
2. U.S. Treasury and federal agency issues;
3. Certificates of deposit;
4. Fully collateralized repurchase agreements with fixed maturities not to exceed 30 days, as well as flexible repurchase agreements, for use in the investment of bond proceeds, which allow for withdrawal of funds on demand and have a maturity date that does not exceed the expected construction period;
5. Banker's acceptances limited to 90-day maximum maturity;
6. Commercial paper limited to 90-day maximum maturity; and
7. Public fund investment pools approved by resolution of the Board.

The investment portfolio shall be invested within the following additional guidelines:

1. At any point in time, no more than 30 percent of the total portfolio shall be composed of securities with remaining maturities of over six months;
2. The maximum maturity on any individual investment shall be 36 months;
3. The maximum average dollar-weighted maturity for pooled funds, based on stated maturity date, shall be six months;
4. Banker's acceptances and commercial paper shall not make up more than 20 percent of the total portfolio; and
5. With the exception of U.S. Treasury securities and agency and authorized public funds investment pools, no more than 50 percent of the total investment portfolio shall be invested in a single security type or with a single financial institution.

The chief financial officer is specifically prohibited from investing in:

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1. Investments having a variable rate of interest that floats in-verse to conventional market rates, as well as all types of col-lateralized mortgage obligations;
2. Any instrument for which there would not be a ready market for immediate resale; and
3. Any investment pool in which the District would own more than ten percent of the total market value.

Leveraging and borrowed funds, including repurchase and reverse repurchase agreements, shall not be used for the purpose of ob-taining additional funds for investment.

Securities shall be solicited from no less than three bidders. The chief financial officer shall approve any investment decision prior to the time of execution. The use of delivery-versus-payment for in-vestment transactions/purchases shall be used at the District's third-party custodial bank.

Qualified Institutions

The following financial institutions are authorized for use:

1. Banks chartered by the state of Texas;
2. Federally chartered banks;
3. Brokers approved and designated as primary dealers by the Federal Reserve Bank of New York; and
4. Secondary or regional brokers who are members in good standing with the Financial Industry Regulatory Authority (FINRA).

Financial institutions must have a net capital of \$5 million or more. Brokers/dealers must be registered with the FINRA and the Texas State Securities Board. The District shall purchase investments only from a qualified institution that has executed a written instru-ment to the effect that the registered principal has received and thoroughly reviewed District investment policies and has imple-mented reasonable procedures and controls in an effort to preclude imprudent investment activity.

The chief financial officer, the assistant superintendent of finance and operations, and the Superintendent acting as the designated investment committee shall approve institutions that meet these qualifications. The chief financial officer shall maintain a list of those institutions approved.

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**Public Funds
Investment Pools**

With respect to any public funds investment pools in which the District funds are invested, the chief financial officer shall be responsible for obtaining and maintaining written documentation of the information required by Government Code, Section 2256.016(b).

**Security Purchases
and Broker / Dealer
Requirements**

All security purchases and trades shall be settled with the District's third-party custodial bank.

Unless prior approval by the chief financial officer is obtained, no substitutions of securities shall be acceptable on repurchase agreements. The District shall only enter repurchase agreements under the terms of the Securities Industry and Financial Markets Association (SIFMA) Master Repurchase Agreement format. All brokers/dealers shall have trading authorization agreements on file with the District.

**Collateralization
Requirements**

The total market value of securities pledged to collateralize deposits of District funds must be in an amount not less than 102 percent of the amount of the deposits plus accrued interest minus FDIC insurance (110 percent if pledging mortgage-backed securities). Private insurance coverage is not an acceptable collateralization form.

Securities that are acceptable for collateralization purposes are:

1. U.S. Treasury and federal agency issues;
2. Bonds or other indebtedness of the state of Texas; and
3. Bonds or certificates of obligations of local governments within the state of Texas with a rating from one or both nationally known rating agencies of "A" or better, except that the District shall not accept industrial revenue bonds or private activity bonds as pledge securities.

**Safekeeping and
Custody**

Collateral and safekeeping agreements shall be approved by the chief financial officer. Third-party safekeeping agreements shall also be approved by the Board. Safekeeping receipts of securities shall be held by the business office.

Interest Rate Risk

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

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