

RIVER ROAD INDEPENDENT SCHOOL DISTRICT  
BOARD OF EDUCATION  
AMARILLO, TEXAS

**Agenda Item No.**

**Date:** Monday, April 12, 2010

**Subject:** Annual review of the District  
[1] Investment Policy and Cash  
Management and Investment Strategy Document

**Related Page(s):** This page + 6

**Presented By:** Mike Hurt,  
Business Mgr.

**ACTION**

**BACKGROUND INFORMATION:**

The Board is required to make an annual review of the District Investment Policy and the District Cash Management and Investment Strategy. This annual review is, among other things, for the purpose of:

- 1 Updating the local policy, if needed, for recent changes in Texas law,  
AND
- 2 Updating the local policy, if needed, for material changes made, or to be made, in the method of operations that affect the area of investments.

A copy of the existing local policy is attached.

We updated the policies for the CDARS program that we now utilize last year.

There are no other changes in state law of which we are aware that require a change to our policy.

In addition, there are no investments allowed by law that we believe should be added to our present policies.

**PRESENTATION / PURPOSE:**

This is a presentation of the existing District Investment Policy and Cash Management and Investment Strategy document with no recommended changes. This presentation is made for the purpose of the required annual review at this time in order to allow the district to go into the new fiscal year beginning July 1st with a recently approved policy.

**ADMINISTRATIVE RECOMMENDATION:**

Approval and Adoption of the District Investment Policy and Cash Management and Investment Strategy document as presented.

**BOARD ACTION REQUIRED:**

Approval, approval as changed by the Board, or disapproval at this time.

OTHER REVENUES  
INVESTMENTS

CDA  
(LOCAL)

INVESTMENT  
AUTHORITY

The business manager is designated the investment officer of the District.

As the investment officer, the business manager is granted by the Board any and all authority necessary to make all arrangements and perform all transactions necessary to pursue and achieve the objectives expressed in this policy.

The investment officer shall perform duties under the review and oversight of the Superintendent. Review and oversight shall extend to the prior approval of the amount of the initial investment in a type of investment approved by this policy but not previously held by the District. The investment officer shall inform the Board at the next regularly scheduled Board meeting of the new investment.

INVESTMENT OFFICER  
BONDED

The District investment officer shall be bonded or covered by a fidelity insurance policy paid for by the District, owned by the District, and drawn for the benefit of the District.

The amount of coverage shall be determined by the Superintendent.

DELIVERY VERSUS  
PAYMENT

District security transactions shall be made using the delivery versus payment (DVP) method through the federal reserve system.

TYPES OF  
INVESTMENTS  
AUTHORIZED

From the investments authorized by law, the Board hereby authorizes the direct purchase of investments of the following types:

1. Obligations of, or guaranteed by the United States, by agencies of the United States, by instrumentalities of the United States; and the direct obligations of the state of Texas, by agencies of the state of Texas, by instrumentalities of the state of Texas; and the direct obligations of other governmental agencies having an investment rating of A or its equivalent as proved by Government Code 2256.009.
2. Certificates of deposit and share certificates as permitted by Government Code 2256.010.
3. SEC registered no-load money market mutual funds having as an investment objective the maintenance of a stable net asset value of \$1 with a dollar-weighted average stated maturity of 90 days, or fewer as provided by Government Code 2256.014(a).

The District may not invest money in any one mutual fund described in the preceding paragraph in an amount that exceeds ten percent of that one mutual fund.

OTHER REVENUES  
INVESTMENTS

CDA  
(LOCAL)

4. Investment pools for governmental units as provided by Government Code 2256.016 are authorized investments since they are approved on a case-by-case basis by the Board.

The Board of the District has previously authorized, and reaffirms the authorization for investments, in the following investment pools;

- a. Texas Local Government Investment Pool [TexPool],
- b. The Lone Star Investment Pool [Lone Star], and
- c. The Texas Short-Term Asset Program [Tex Star].

INVESTMENT  
MANAGEMENT

The Board authorizes the payment of District funds for all of the expenses related to investment training for the investment officer required and provided by Government Code 2256.08.

MAXIMUM  
INVESTMENT  
MATURITIES

Investment securities purchased for the District shall have a maximum maturity date of three years as measured from the date the security was purchased.

CASH FLOW ANALYSIS

The investment officer shall develop an historical analysis of the District's cash flows, and analytical techniques for making cash flow projections that are reasonably accurate and useful for determining maturity dates of investments.

MONITORING OF THE  
INVESTMENT  
PORTFOLIO

The investment officer shall monitor the safety and liquidity of the District's investment portfolio in a manner appropriate to the environment of money markets and ongoing District operations. The investment officer shall communicate significant declines in portfolio values to the Superintendent.

As part of the monitoring process, the investment officer shall periodically, but not less than quarterly, estimate the market value of the District investment portfolio. This estimate may have as its basis:

1. Broker pricing of securities.
2. Estimated pricing of securities based on reference to instruments reported in the Wall Street Journal for securities that are the same as those held by the District, or securities that are similar to those held by the District.
3. Estimated pricing of securities based on reference to prices reported by market reporting services such as Bloombergs and Morningstar that are available on the Internet by subscription to the chosen reporting service.

OTHER REVENUES  
INVESTMENTS

CDA  
(LOCAL)

INVESTMENT  
OBJECTIVES AND  
PRIORITIES

The overall objective of this investment policy, stated in terms of individual investment objectives and investment priorities, is to provide understanding of the suitability of an investment for the financial requirements of the District, with consideration of the following objectives, in priority order:

1. Safety of District funds and the preservation of the District principal.
2. Liquidity of District funds sufficient to meet the cash needs of the continuing operations.
3. Marketability of an investment, if the need arises to liquidate any investment before maturity, to provide both safety and liquidity of funds.
4. Diversification of investment portfolio to reduce the risk of a loss in a single investment, or in multiple investments with a single security issue.
5. Maturity of investments selected to meet the cash requirements projected for the District's various funds, limited to a maximum of three years.
6. Yield on District cash and investments.

STRATEGIES FOR  
DISTRICT  
ACCOUNTING FUNDS

Investments from the various accounting funds of the District shall be consistent with this investment policy, in accordance with the investment strategy objectives enumerated below.

OPERATING FUNDS

The cash management and investment strategies employed for operating funds shall have as their primary objectives safety, liquidity, and investment maturities selected to meet ongoing operational needs.

AGENCY FUNDS

The cash management and investment strategies employed for agency funds shall have as their primary objectives safety, liquidity, and investment maturities that meet ongoing cash needs for these funds.

DEBT SERVICE  
FUNDS

The cash management and investment strategies used for debt service funds shall have as primary objectives safety and investment maturities that meet the scheduled semi-annual debt service payments, and bond paying agent fees.

CAPITAL PROJECT  
FUNDS

The cash management and investment strategies employed for District capital project funds shall have as their primary objectives safety and liquidity to meet capital project expenditures.

OTHER REVENUES  
INVESTMENTS

CDA  
(LOCAL)

SAFEKEEPING OF DISTRICT INVESTMENT SECURITIES	<p>Investment securities purchased by the District shall be held in a District account by a third party financial institution subject to a valid third party safekeeping agreement. The District shall retain receipts on investment securities and pledged securities.</p> <p>The District has delegated to the approved investment pools the authority to hold legal title, as custodian, of investments.</p>
BROKERS AND / OR DEALERS	<p>Prior to administrating investments on behalf of the District, brokers/dealers shall submit required written documents and annual audited financial statements to the District and be in good standing with the Financial Industry Regulatory Authority (FINRA).</p> <p>Representatives of brokers/dealers shall be registered with the Texas State Securities Board and must have membership in the Securities Investor Protection Corporation (SIPC).</p>
SOLICITING BIDS	<p>In order to get the best return on its investments, the District may solicit bids in writing, by telephone, or electronically.</p>
INTEREST RATE RISK	<p>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.</p> <p>The District shall monitor interest rate risk using weighted average maturity and specific identification.</p>
INTERNAL CONTROLS	<p>A system of internal controls shall be established and documented in writing and must include specific procedures designating who has authority to withdraw funds. Also, they shall be designed to protect against losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the District.</p> <p>Controls deemed most important shall include:</p> <ol style="list-style-type: none"><li>1. Separation of transaction authority from accounting and record keeping authority and authority over electronic transfers of cash.</li><li>2. Avoidance of collusion.</li><li>3. Custodial safekeeping.</li><li>4. Clear designation of authority.</li><li>5. Written confirmation of telephone transactions.</li><li>6. Documentation of dealer questionnaires, quotations and bids, evaluations, transactions and rationale.</li><li>7. Avoidance of bearer-form securities.</li></ol>

OTHER REVENUES  
INVESTMENTS

CDA  
(LOCAL)

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

CASH MANAGEMENT  
DEFINITION

Cash management may be defined as those activities, procedures, or efforts that have, in order of priority, the following objectives:

1. Providing, to the extent possible, cash in the amounts and at the times required to meet the operating needs of the entity on a continuing basis.
2. Identifying amounts of cash that are reasonably available for investment at higher yields, and the lengths of times such amounts are available.
3. Using funds available for investment in the identified amounts and for the identified lengths of time as investments.

CASH MANAGEMENT  
ACTIVITIES

Activities that may be included in a list of good cash management procedures include, but are not limited to, the following five basic procedures (activities):

1. Periodic (daily, weekly, monthly) monitoring of material cash balances.
2. Transfer from checking accounts amounts available for temporary or long-term investment to liquid investment accounts (i.e., TexPool, Lone Start, etc.) or purchase investment securities having higher yields.
3. Transfer to checking accounts cash needed to pay operational expenses from higher yielding accounts, or from the liquidation of investment securities by maturity or sale.
4. Recording cash receipts, cash disbursements, and transfer transactions in ways that are useful for analysis of past cash flow patterns and preparations of future projections.
5. Preparation of historical-based cash flow projections to identify the approximate period of time, and the approximate amount, that may be held in investment securities.

TIME VS. BENEFIT OF  
MANAGEMENT  
ACTIVITIES

It is understood by the administration and the Board that the benefits from the application of some, or all, of these procedures, the earnings on investments obtained by the use of such procedures must exceed the costs of use of the procedures.

Additionally, the administration and Board agree that an existing staff shortage and resulting staff time constraints limit the degree of utilization of cash management activities that may be employed for the District. The selection of cash management techniques em-

OTHER REVENUES  
INVESTMENTS

CDA  
(LOCAL)

	<p>played shall be based on the judgment of the District's investment officer.</p>
HOLD TO MATURITY	<p>The strategy of "hold to maturity" simply means that a security, once it has been acquired, is held until it matures and returns it's principle and last interest payment.</p> <p>The "hold to maturity" strategy avoids the selling of securities, unless required because of unforeseen liquidity needs. Thus, the inherent risk that principle losses may be sustained in active security trading, as well as higher trading expenses, is avoided.</p> <p>"Hold to maturity" is a classic part of "passive investment management" that provides the "cash-flow matching" from maturing investments as described and adopted by this overall cash management and investment strategy document.</p>
FUNDS TO WHICH THIS DOCUMENT APPLIES	<p>The cash management and investment strategy described in this document applies to all the accounting funds of the District.</p>
TIME PERIOD COVERED BY THIS DOCUMENT	<p>This cash management and investment strategy document is hereby adopted for the first two fiscal years reflected in the document title.</p> <p>It is the intention of the Board to review the District's investment policy document and the District's cash management and investment strategy document annually. However, if exact annual review does not occur, the Board intends to provide by this wording, in this document, the continued application of this document to the investment activities carried in a succeeding fiscal year until the approximate annual review is accomplished by the Board.</p> <p>Thus, continued use and reliance on this document by the Superintendent and the investment officer is authorized by the Board, and is not considered by the Board to be contrary to law, Board policy, knowledge, or expectation.</p>