Authority for Cash Management and Investment Program

This policy sets forth the investment and strategy guidelines for the investment of funds for the District in order to achieve the District's goals of safety, liquidity, diversification and yield, and to preserve the public trust. This policy serves to satisfy the state statutory requirement to define and adopt a formal investment policy and strategy in accordance with Chapter 2256 of the Government Code. It sets forth policy and procedures to enhance opportunities for prudent investment.

It is the policy of the District that the administration of its funds and the investment of those funds shall be handled as its highest public trust. Investments shall be made in a manner that provides the maximum security of principal through risk management and diversification while meeting the daily cash flow needs of the District and conforming to all applicable state and District statutes.

The receipt of a market rate of return shall be secondary to the requirements for safety and liquidity. The earnings from investment shall be used in a manner that best serves the interests of the District.

Delegation of Authority

In accordance with Chapter 2256 of the Government Code (the "Act"), the responsibility for approving investment policy shall reside with the Board. The chief financial officer, the director of finance, and the controller shall be designated as investment officers of the District by Board resolution and shall be responsible for investment decisions and activities under the direction of the Superintendent. In the absence of the chief financial officer, the director of finance, and the controller, the Superintendent shall be designated as the alternate investment officer of the District.

The investment officers of the District shall:

1. Attend at least one training session relating to the investment officer's responsibilities within 12 months after taking office or assuming duties;
2. Attend an investment training session not less than once in a two fiscal year period and receive not less than eight hours of instruction relating to investment responsibilities from an independent source that has been approved by the Board; and
3. Ensure that the training attended includes training as defined by the act.

Officers and employees involved in the investment process shall refrain from personal or business activities that could conflict with proper execution of the investment program or that could impair their ability to make impartial investment decisions. Investment officers involved shall disclose in writing to the Board and the Texas

Ethics Commission any material financial interest in financial institutions that conduct business with the District or any personal financial or investment positions that could be related to the performance of the District.

Prudence

The standard of prudence to be used in the investment process shall be the "prudent person" standard and shall be applied in the context of managing the overall portfolio, rather than a consideration as to the prudence of a single investment.

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of the capital, as well as the probable income to be derived.

Investment officers acting in accordance with written procedures and this policy and exercising due diligence shall be relieved of personal liability in the management of the portfolio provided that deviations from expectations for a specific security's credit risk or market price change, or a portfolio shift are reported in a timely manner and that appropriate action is taken to control adverse market affects. The District recognizes that in a diversified portfolio, occasional measured losses are inevitable and must be considered within the context of the entire portfolio.

Approved Investment Instruments

From those investments authorized by law and described further in CDA(LEGAL) and the act, the Board shall permit investment of District funds, including bond proceeds and pledged revenue to the extent allowed by law, in only the following investment types, consistent with the strategies and maturities defined in this policy:

1. Obligations of the U.S. government, its agencies, and instrumentalities excluding mortgage-backed securities, or guaranteed by governmental entities not to exceed two years to stated maturity in the operating and debt service funds and not to exceed three years in bond funds (Government Code 2256.009).
2. Depository certificates of deposit from banks doing business in Texas and not to exceed one year to maturity (Government Code 2256.010) insured or collateralized in accordance with this policy.
3. Fully collateralized repurchase agreements not to exceed three months to maturity (Government Code 2256.011). Flex repurchase agreements are permitted when used for bond funds and shall be tied to the expenditure schedule of the bonds.

4. A1/P1 commercial paper with a maturity not to exceed 270 days and dual rated by two nationally recognized rating agencies (Government Code 2256.013).
5. AAA-rated, SEC-registered money market mutual funds (Government Code 2256.014).
6. Public funds investment pools as permitted by Government Code 2256.016.
7. Obligations of any U.S. state or political subdivisions rated A or better by two nationally recognized rating agencies not to exceed two years to stated maturity (Government Code 2256.009(a)(5)).
8. Fully FDIC-insured brokered certificate of deposit securities from banks in any U.S. state, delivery versus payment into the District's safekeeping depository, not to exceed one year to maturity. Before purchase, the investment officer or investment advisor must verify the FDIC status of the bank on www.fdic.gov to ensure that the bank is FDIC insured.
9. Fully insured or collateralized interest bearing accounts in Texas banks.

Delivery Versus Payment

All investment transactions except investment pool funds and mutual funds shall be executed on a delivery versus payment basis.

Portfolio Structure

To meet the investment objectives of the District, the portfolio shall be invested in high credit quality securities to minimize market and volatility risk. Investments shall be scheduled to coincide with the projected cash flow needs. Any internally created pool fund group of the District shall have a maximum dollar weighted maturity of 365 days. Debt service funds shall focus on the funding of succeeding debt service requirements before extensions.

The available funds in any fund may be invested for a period of up to two years provided that all short-term cash flow requirements have been met. Bond proceeds can be invested for a period of up to three years provided that the draw-down schedules permit such maturities.

The asset mix of the District's portfolio, except for investments purchased for investment of bond proceeds below, is expressed in terms of maximum commitment so as to allow sufficient flexibility to take advantage of market considerations within the context of this policy.

The maximum percentage limits are as follows:

Market Sector	Maximum Percent of Portfolio
Money market accounts	100%
Certificates of deposit	40%
Maximum by issuer	15%
Brokered FDIC CDs	15%
U.S. government securities	100%
State and local obligations	40%
Repurchase agreements	100%
Interest bearing bank accounts	100%
Investment pools	100%
Maximum ownership	10%
Money market mutual funds	15%
Maximum ownership	10%
Commercial paper	40%
Maximum by issuer	10%

The District shall not invest all 100 percent of its portfolio in one investment pool. If investment pools are the only investment type being utilized, the money should be subdivided between various pools for diversification and security reasons.

The investment portfolio shall be diversified to eliminate the risk of loss resulting from overconcentration of assets in a specific maturity, a specific issue, or a specific class of securities. In establishing specific diversification strategies, the following general policies and constraints shall apply:

- Within the cash flow requirement constraints, investment maturities shall be staggered in a way that avoids undue concentration of assets in a specific maturity sector. Maturities shall be selected that provide stability of income and reasonable liquidity.
- Liquidity shall be ensured through practices to ensure that the payroll account and the operating account are covered through maturing investments.
- Risks of market price volatility shall be controlled through maturity diversification so that premiums paid on instruments with maturities approaching one year shall not be greater than coupon interest and investment income received from the investment.

Safety and Investment Management

The main goal of the investment program is to ensure its safety and 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.

Monitoring Market Prices

The investment officer shall monitor the investment portfolio and shall keep the Board informed of significant changes in the market value of the District's investment portfolio. Changes in market value (volatility) shall be reported quarterly. Information sources may include financial/investment publications and electronic media, available software for tracking investments, depository banks, commercial or investment banks, investment and financial advisors, and representatives/advisers of investment pools or money market funds. Monitoring shall be done at least quarterly, as required by law, and more often as economic conditions warrant by using appropriate reports, indices, or benchmarks for the type of investment.

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 portfolios containing operating funds) shall have as their primary objectives safety, investment liquidity, and maturity sufficient to meet anticipated cash flow requirements. The maximum weighted average maturity may not exceed 270 days.

Trust and Custodial Funds

Investment strategies for trust and custodial funds shall have as their primary objectives safety, investment liquidity, and maturity sufficient to meet anticipated cash flow requirements. The maximum weighted average maturity may not exceed 180 days.

Debt Service Funds

Investment strategies for debt service funds shall have as their 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. The maximum weighted average maturity may not exceed 180 days.

Capital Projects

Investment strategies for capital project funds shall have as their objective sufficient investment liquidity to timely meet capital project obligations. The investments shall be based on expenditure draw-down estimates.

Cash Flow Projections and Statements

Cash flow projections shall be prepared for a combination of weekly, monthly, and yearly periods. A receipts and disbursements forecast shall be in the format of a sources and uses of fund statement with individual line items for the major components of that fund.

Dramatic variances between the cash flow projection and cash flow statements may provide an early warning of a change in condition.

Safekeeping and Custody

The District shall be provided and shall retain clearly marked receipts providing proof of the District's ownership of all securities, as well as the pledge of securities for collateral. The District may delegate, however, to an investment pool the authority to hold legal title as custodian of investments purchased with District funds by the investment pool.

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).

In compliance with state law, a written copy of this investment policy shall be presented to any security broker/dealer including investment pools and banks seeking to sell to the District. The representative of the firm shall execute the Investment Policy Affidavit [see CDA(EXHIBIT)]. The Investment Policy Affidavit must contain provisions that require the security broker/dealer to acknowledge that he or she has:

1. Received and thoroughly reviewed the investment policy of the District; and
2. Acknowledged that his or her firm has implemented reasonable procedures and controls in an effort to preclude investment transactions not authorized by the District's policy.

The investment officers are prohibited from purchasing securities from broker/dealers (including investment pools) who have not delivered to the District an Investment Policy Affidavit. The District investment officers shall annually review and recommend a list of qualified brokers/dealers to the Board for approval.

Competitive Bidding

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

Collateral

Collateralization is required on all bank time and demand deposits over the applicable FDIC insurance coverage. All securities pledged to the District for the deposits shall be held by an independent third-party institution outside the holding company of the pledging bank.

In order to anticipate market changes and provide a level of additional security for all funds, the market value of the collateral shall be maintained at 102 percent of total principal and accrued interest and 110 percent for MBS securities. The depository shall be contractually liable for monitoring and maintaining the collateral and margins at all times. The custodian shall provide monthly reports to the District detailing the collateral and including current market values. Any collateral custodian shall be independent from the pledging bank.

Collateral shall be pledged under the terms of a written tri-party depository agreement executed under the terms of the Financial Institutions Resource and Recovery Enforcement Act (if the custodian is the Federal Reserve, the District shall execute a Circular 7 form). The agreement shall be approved by resolution of the bank's board or loan committee.

Acceptable collateral shall include only:

- Obligations of the U.S. government, its agencies, and instrumentalities, including mortgage-backed securities passing the bank test; or
- State or municipal obligations rated no less than A by two nationally recognized rating agencies.

If a pooled collateral program is offered by any depository, the investment officers shall complete an analysis to determine the cost efficiency and risk presented by the program. The Board must approve a pooled collateral program before it may be used by the District.

Repurchase Agreements Owned Collateral

Collateral under a repurchase agreement is owned by the District. It shall be held by an independent third-party safekeeping agent approved by the District under an executed Bond Market Association Master Repurchase Agreement. Collateral with a market value totaling 102 percent of the principal and accrued interest is required, and the counter-party is responsible for the monitoring and maintaining of collateral and margins at all times.

Reporting

The investment officer shall submit quarterly reports to the Board in accordance with Chapter 2256 of the Government Code and containing sufficient information to permit an informed outside reader to evaluate the performance of the investment program.

The quarterly report, as required by law, shall be prepared and signed by the District's investment officers.

Interest Rate Risk

To reduce exposure to changes in interest rates that could adversely affect the value of investments, the District shall use stated final maturity dates and weighted-average-maturity limits as well as diversification in all portfolio decision making.

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

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.

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

Monitoring FDIC Status

The investment officer or investment adviser shall monitor, on no less than a weekly basis, the status and ownership of all banks issuing brokered CDs owned by the District based on information from the FDIC. If any bank has been acquired and merged with another bank in which brokered CDs are owned, the investment officer or adviser shall immediately liquidate any brokered CD that places the District above the FDIC insurance level.

Monitoring Credit Ratings

The investment officer or investment adviser shall monitor, on no less than a weekly basis, the credit rating on all authorized investments in the portfolio based upon independent information from a nationally recognized rating agency. If any security falls below the minimum rating required by policy, the adviser shall inform the investment officer who shall notify the Superintendent of the loss of rating, conditions affecting the rating, and possible loss of principal with liquidation options available.

Policy Adoption

The policy shall be reviewed and adopted by the Board on no less than an annual basis. Any changes made to the policy shall be reflected in the adopting resolution.