

6.1 Introduction

District investment policies are governed by the Public Funds Investment Act (Texas Government Code Chapter 2256, Subchapter A), and all federal, state, and local statutes, rules or regulations. Administration of all investment activity of the District resides with the District Vice President of Administrative Services/CFO, the Associate Vice President/Controller, and Associate Vice President/Financial Services. The daily management of investable funds is maintained by the Revenues Accountant. (Exhibit 6.1- Gov. Code, Chapter 2256, Public Funds Investment Act)

6.2 Investment Objectives

Investment objectives as defined by the Board of Trustees and prescribed in both the local and legal Board policies (Exhibit 6.2-CAK Legal, Exhibit 6.3-CAK Local) must primarily emphasize safety of principal and liquidity and address investment diversification, yield, and maturity and the quality and capability of investment management.

6.2.1 Safety

Safety of principal is the foremost objective of the District's investment program. Investments of the District shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

6.2.2 Liquidity

The District's investment portfolio shall re-main sufficiently liquid to enable the District to meet all operating requirements that might be reasonably anticipated.

6.2.3. Return on Investments

The District's investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles commensurate with the District's investment risk constraints and the cash flow characteristics of the portfolio.

6.3 Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the District's investment program, or which could impair their ability to make impartial investment decisions. Investment officials who have a personal business relationship with a business organization shall file a statement disclosing to the Texas Ethics Commission and to the District's Board of Trustees. Any material financial interests in financial institutions that conduct business with the District, as well as any personal financial/investment positions that could be related to, or impact upon, the performance of the District's portfolio shall be disclosed. Additionally, investment officials who are related within the second degree by affinity or consanguinity, as determined under Chapter 573, to an individual seeking to sell an investment to the District shall file a statement disclosing that relationship. A personal business relationship is defined as (1) owning 10 percent or more of the voting stock or shares of the business organization or owning \$5,000 or more of the fair market value of the business organization; (2) receiving funds from the business organization exceeding 10 percent of gross income for the previous year; or (3) acquiring from the business

organization during the previous year investments with a book value of \$2,500 or more for a personal account.

6.4 Investment Strategies

The District's investment strategies have as its primary objective to assure anticipated cash flows are matched with adequate investment liquidity. The District maintains three funds requiring investment strategies including current fund, building fund, and debt funds. (Exhibit 6.4 Board Approved Investment Policy and Strategy 2013)

6.4.1 Operating Fund

Investment strategies for the operating fund have as its primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. Maturities are staggered to meet operating expenditures, based on known and projected cash flows and market conditions. Twenty-four months is the maximum maturity for the majority of securities in the portfolio.

6.4.2 Building Fund

Like the operating fund, the investment strategy for the building fund has as its primary objective to ensure that maturities are matched with anticipated cash flows. Maturities should be staggered such that they coincide with estimated draw down dates based on construction schedules and estimated project completion dates. In any case, investment maturity shall not be greater than 24 months except on bond proceeds investments, which can be invested to the IRS temporary period.

6.4.3 Debt Service

Investment strategies for the debt service fund shall have as the primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date. Securities purchased shall not have a stated final maturity date which exceeds the next unfunded debt service payment date. Investments for this fund shall generally be short term (360 days or less).

6.5 Authorized Investments

The District shall pursue a conservative approach to investment activity and although other investments may be authorized by law, the District may invest only in investments authorized by the Board of Trustees as listed below:

- Treasury bills, treasury notes, and treasury bonds of the United States and other direct obligations of the agencies and instrumentalities of the United States;
- Collateralized deposits issued by a state or national bank domiciled in this state or a savings and loan association domiciled in the state that are:
 - guaranteed or insured by the Federal Deposit Insurance Corporation or its successor;
 - secured by obligations described by the Public Funds Collateral Act, Chapter 2257; or

- secured in any other manner and amount provided by law for deposits of the investing entities.

Bids for collateralized deposit may be solicited orally, in writing, electronically or in any combination thereof.

- Fully collateralized repurchase agreements, as expressly defined in Section 2256.011, Texas Government Code.
- Investments pools approved by the District's Board of Trustees, by Resolution with a continuous rating of no lower than AAA or an equivalent rating by at least one nationally recognized rating service.
- No-load money market mutual funds meeting the following criteria:
 - The fund must be registered with and regulated by the Securities and Exchange Commission;
 - The fund must have a dollar-weighted average stated maturity of not more than 90 days;
 - An established objective of the Fund must be to maintain a stable net asset value of \$1 for each share; and
 - The fund must meet all requirements of the Texas Public Funds Investment Act, as amended.

6.6 Monitoring Rating Changes

The District shall monitor the minimum rating of all authorized investments and liquidate any investment that does not meet the minimum rating.

6.7 Collateralization

Collateralization shall be required on certificates of deposit, and repurchase agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level shall be 102% of market value of principal and accrued interest.

Acceptable collateral includes securities as specified in the Public Funds Collateral Act, Chapter 2257, Texas Government Code. Additional collateral may be pledged or purchased as required, released as it is not needed, and substituted, if necessary, with the written consent of the Investment Officer, or his designee.

6.8 Internal Controls

Duties related to investment activities shall be delegated so that segregation of duties shall be maintained with respect to purchasing, recording, authorizing and reconciling investment accounts. The Vice President of Administrative Services/CFO, Associate Vice President/Controller and the Associate Vice President/Financial Services are designated as Investment Officers and are responsible for investment decisions. Written signature authorization of two of the aforementioned Investment Officers is required to execute all investment purchases.

As part of the annual financial audit, the external auditors shall perform a compliance audit of management controls on investments and adherence to investment policies and procedure.

6.9 Investment Policy Review and Adoption

The District's investment policy shall be adopted by written resolution of the Board of Trustees stating that the Board has reviewed the investment policy and strategy and shall include any changes made to either. The investment policies and strategies shall be reviewed and approved by the Board of Trustees not less than annually. All revisions shall be formally approved by the Board of Trustees. The most recent Board approved investment policy and strategy can be found in Exhibit 6.4. The District shall maintain a list of qualified brokers authorized to engage in investment transactions. The Board of Trustees shall annually review, revise and adopt this list of qualified brokers.

6.10 Investment Reporting

Not less than quarterly, a written report of investment transactions for all funds shall be prepared, signed by the District Vice President of Administrative Services/CFO, the Associate Vice President/Controller and the Associate Vice President/Financial Services, and submitted to the Board of Trustees. Reports shall be prepared in accordance with requirements as specified in Section 2256.023, Texas Government Code. The quarterly written reports shall be reviewed annually during the compliance audit of an independent auditor, the results of which shall be reported to the Board of Trustees.

6.11 Investment Training

District Vice President of Administrative Services/CFO, the Associate Vice President/Controller and the Associate Vice President/Financial Services, being designated by the Board of Trustees as the Investment Officers for the District, must receive instruction in accordance with the Public Funds Investment Act of the State of Texas every two years relating to investment responsibility from an independent source approved by the Board of Trustees. In addition, he/she must attend at least one ten-hour training session under the Public Funds Investment Act of the State of Texas within twelve months of taking office or assuming duties.