

***College Station Independent School  
District  
Annual Investment Report***



***For the Year Ending August 31, 2017***

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## Introduction

Investments in the State of Texas are governed by Section 2256 of the Texas Government Code. All investments made by the District shall comply with the Public Funds Investment Act and all federal, state, and local statutes and regulations.

The Superintendent or other person 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

In addition to quarterly investment reports required by law and signed by the District's investment officer (s), a comprehensive report on the investment program and investment activity is required to be presented annually to the Board. This report includes a performance evaluation comparison to 91-day U.S. Treasury Bills and rates from investment pools. The report also includes a review of the activities and total yield for the preceding 12 months, suggests policies, strategies, and improvements that might enhance the investment program, and proposes an investment plan for the ensuing year.

## College Station ISD Investment Policy

The District's investment policy is CDA (Local). The policy requires an annual reporting of investment activity.

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 are 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.

The District's investment portfolio is sufficiently liquid to meet anticipated cash flow requirements.

The investment portfolio is diversified to reduce risk of loss resulting from overconcentration of assets in a specific class of investments, specific maturity, or specific issuer.

Investment strategies have been established for each major fund type. Primary objectives for operating and agency funds are safety, investment liquidity, and maturity sufficient to meet anticipated cash flow requirements. The objective for debt service and capital projects funds is sufficient liquidity to meet debt service and capital projects obligations. Maturities longer than one year are authorized provided legal limits are not exceeded.

For the 2016-2017 school year, College Station ISD Investment Policy permitted the following investment types:

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.
4. A securities lending program as permitted by Government Code 2256.0115.
5. Banker's acceptances as permitted by Government Code 2256.012.
6. Commercial paper as permitted by Government Code 2256.013.
7. No-load money market mutual funds and no-load mutual funds as permitted by Government Code 2256.014.
8. 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.
9. Public funds investment pools as permitted by Government Code 2256.016.

College Station ISD investments during 2016-2017 were spread among the bank, and two public fund investment pools – TexPool and Lone Star. Due to the interest rate market this year, the bank continued to be the best investment with rates averaging 47% higher than the pools.

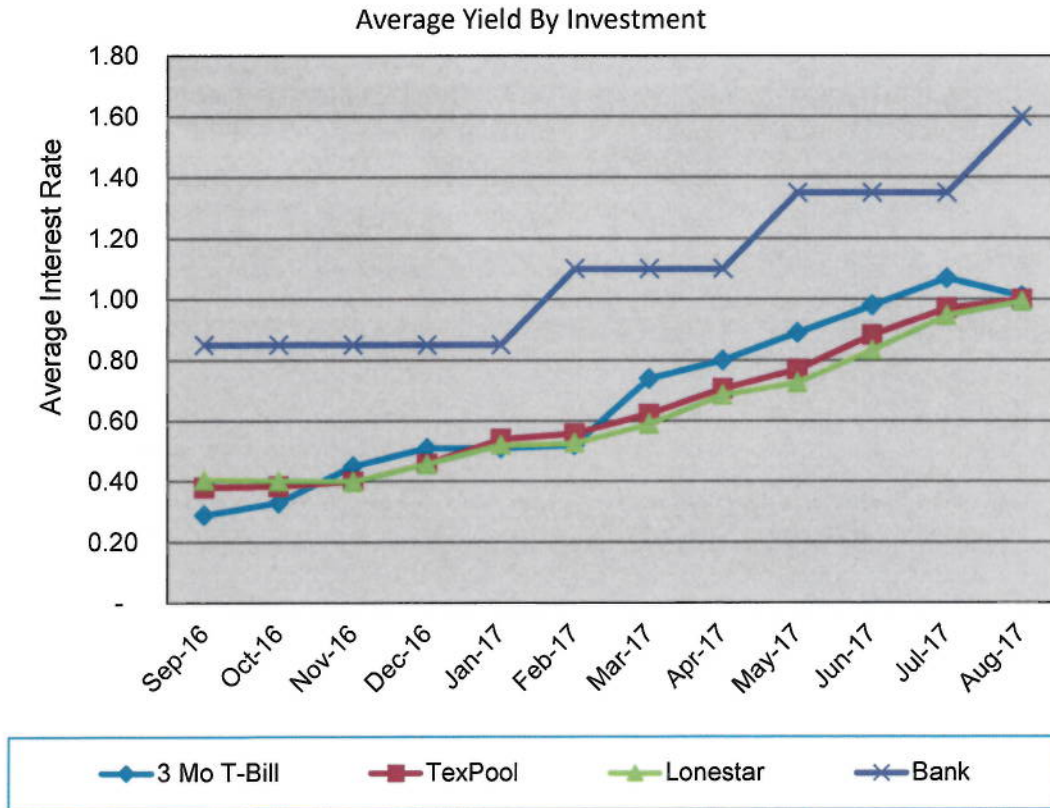
The Accounting Coordinator primarily oversaw the investment function of the District.

The district investment policy, CDA (Legal) and CDA (Local) are in Appendix A.

No changes are recommended to these policies at this time.

## Investment Pool Performance

The following chart compares the average interest rates of each of the investment pools and the bank for each month of 2016-2017 to the three-month average Treasury bill rate, an industry benchmark.



## Portfolio Composition

During the fiscal year the District's portfolio was comprised of two different investment pools and bank accounts.

### TexPool Investment Pool

Organized in 1989, TexPool is the largest and oldest local government investment pool in the State of Texas. TexPool currently provides investment services to over 2000 communities throughout Texas. The State Comptroller of Public Accounts oversees TexPool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller.

Federated Investors, Inc. is the administrator for the TexPool program providing Participant Services and Marketing functions to TexPool participants. Federated Investors, Inc. is the participant contact point for account maintenance, assistance with transactions, and other administrative information.

Federated Investors, Inc. is the investment manager for TexPool. Federated Investors, Inc. also provides for accounting, custodial and transfer agency services to TexPool.

TexPool and TexPool Prime are managed conservatively to provide a safe, efficient, and liquid investment alternative to Texas governments. The pools seek to maintain a \$1.00 value per share as required by the Texas Public Funds Investment Act. TexPool investments consist exclusively of U. S. Government securities, repurchase agreements collateralized by U. S. Government securities, and AAA-rated no-load money market mutual funds. TexPool Prime invests in the above plus, commercial paper and certificates of deposits. TexPool and TexPool Prime are each rated AAAM by Standard & Poor's, the highest rating a local government investment pool can achieve. The weighted average maturities of the pools cannot exceed 60 days, with the maximum maturity of any investment limited to 13 months. TexPool and TexPool Prime, like its participants, are governed by the Texas Public Funds Investment Act, and are in full compliance with the Act. As of August 31, 2017, weighted average maturity was 32 days, and weighted average life was 96 days.

TexPool meets the required credit rating by the District and the Public Funds Investment act with a rating of AAAM by Standard & Poor's.

### Lone Star Investment Pool

Lone Star Investment Pool launched in 1991. A Board of Trustees monitors the Lone Star Investment Pool. All of the Board's 11 members are Pool participants; quarterly Board members review the Pool's operations, fine-tune the investment policy, analyze results of the audits, and approve contractor agreements. The Board seeks out a range of views and ideas from an advisory board of both Pool members and non-members.

First Public provides administrative and distribution services to the pool and State Street Bank is the custodian for all pool assets.

An independent, third-party investment consultant - Captrust Financial Advisors - reports directly to the Board of Trustees. This firm reviews the Pool's daily operations, makes sure investment transactions fit with the Pool's Investment Policy, monitors the custodian bank, and compares the investment advisor's performance with that of peer funds and other benchmarks.

Lone Star also counts on an independent, third-party bank, State Street Bank, for custody and valuation services. The bank settles all trades for the Pool, and secures and values its assets every day. Two other firms, American Beacon Advisors and Standish, manage the investment and reinvestment of the Lone Star's assets.

Lone Star aims to preserve the safety of your principal while positioning you for the highest possible rate of return on your investment. We limit investments only to those allowed by the Public Funds Investment Act. Certain funds within the Pool feature other investment restrictions to further help protect your principal. We spread investments among individual issues of securities that mature at different times, reducing your risk even more. To ensure you always have up-to-date investment valuations, each fund is marked-to-market daily.

Authorized Investments: Though the Pool may invest in all securities authorized under the Investment Act, it is the Board's policy that only the following of such authorized investments will be eligible as Government Overnight Fund investments:

- Obligations of the United States or its agencies and instrumentalities
- Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the United States or its agencies and instrumentalities
- Fully collateralized repurchase agreements that meet the following criteria: (1) have a defined termination date; (2) are secured by obligations of the United States or its agencies and instrumentalities; (3) require the securities being purchased by the Government Overnight Fund to be pledged to the Government Overnight Fund, held in the Government Overnight Fund's name, and deposited at the time the investment is made with the Government Overnight Fund or with a third party selected and approved by the Government Overnight Fund; and (4) are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state. The market value of repurchase agreement collateral is required to initially be 102 percent of the principal amount of such repurchase agreement. Thereafter, the market value of such collateral will be determined (marked-to-market) daily and reset to 102 percent of the principal amount if it falls below 100 percent.
- The Government Overnight Fund may lend up to 25 percent of its securities pursuant to a reverse repurchase agreement authorized under the Investment Act. Any funds obtained pursuant to a reverse repurchase agreement must be invested in authorized Government Overnight Fund investments and match the term of the reverse repurchase agreement. The term of any reverse repurchase agreement may not exceed 90 days.
- No-load money market mutual funds regulated by the Securities and Exchange Commission (SEC) that invest exclusively in authorized Government Overnight Fund investments, provided the Government Overnight Fund shall not invest its funds in any one money market mutual fund in an amount that exceeds (i) 25 percent of the Government Overnight Fund's total assets or (ii) 10 percent of the total assets of such money market mutual fund. As of August 31, 2017, weighted average maturity was 22 days, and weighted average life was 96 days.

Lone Star meets the required credit rating by the District and the Public Funds Investment act with a rating of **AAAm by Standard & Poor's**.

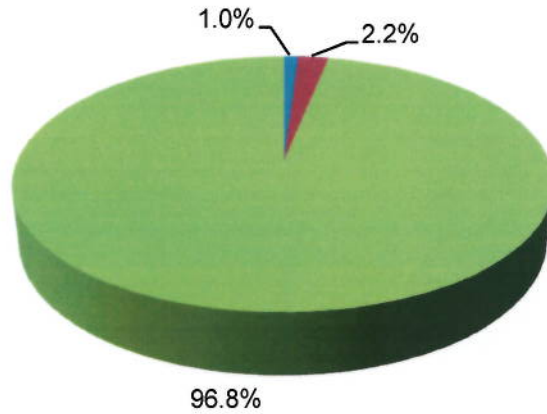


# College Station Independent School District

## Investments by Type

Investment Type	2016 - 2017	
	Average Amount Invested	Percentage
TexPool	\$ 1,675,947.56	1.0%
LoneStar	3,524,821.37	2.2%
Bank	158,067,700.77	96.8%
<b>Total</b>	<b>\$ 163,268,469.70</b>	<b>100%</b>

Percentage of Portfolio by Investment Type



## Investment Earnings by Fund Type

Fund Type	2016-2017 Interest Earnings	2015-2016 Interest Earnings
General Fund	\$ 595,765.12	\$ 350,414.90
Debt Service Fund	339,970.44	112,355.57
Special Revenue Funds	12,932.25	5,771.44
Workers Compensation Fund	18,300.03	9,771.55
Construction Funds	974,510.74	439,638.12
<b>Total</b>	<b>\$ 1,941,478.58</b>	<b>\$ 917,951.58</b>

This chart reflects a 112% increase in investment earnings from 2015-2016. Two major factors contributed to this increase, a .37% higher average interest rate and a higher cash balance in the construction funds due to the sale of the 2017 bonds in February. The bank continues to be the best investment option offering an interest rate of .35% plus the target fed fund rate.

## Weighted Average Maturity (WAM)

Security Description	2016-2017 Investment Amount	Days to Maturity
Investment Pools - TexPool	\$ 1,681,918.95	1
Investment Pools - Lone Star	3,536,959.77	1
Bank	141,802,843.99	1
<b>Total</b>	<b>\$ 147,021,722.71</b>	

Portfolio WAM

1 Day

## Recommendations

1. The District's primary investment strategy for 2016-2017 was to preserve capital and optimize interest earnings using two investment pools and the bank. A higher cash balance was maintained at the bank, due to the interest rate market this year; the bank offered the best investment option with rates averaging 47% higher than the pools. As the chart on page 6 illustrates, the bank clearly provided the best investment option while other investments, for most of the year, were averaging less than the 3 month T-bill.
2. In accordance with Government Code 2256.005(b), the investment officer monitors changes in investment ratings quarterly using the investment pools and rating agencies websites, in addition to using, as needed, financial/investment publications and electronic media, financial advisors, and representatives/advisors of investment pools or money market funds.
3. Government Code, Chapter 2256.008 (Public Funds Investment Act) requires the chief financial officer and the investment officer(s) to 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 8 hours of instruction relating to investment responsibilities under the Public Funds Investment Act from an independent source approved by the Board or a designated investment committee advising the investment officer. Investment training shall include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with the Government Code, Chapter 2256.
4. We recommend the following providers for investment training:
  - Texas Association of School Administrators (TASA)
  - Texas Association of School Boards (TASB)
  - Texas Association of School Business Officials (TASBO)
  - Region VI TASBO Affiliate
  - Region VI Education Service Center
  - The University of North Texas Center for Public Management (UNT)
5. No changes are recommended to the district's investment policy CDA (Local).

## Compliance Certification

We hereby certify that the annual investment report represents the investment position of the District as of August 31, 2017 and that all investments are in compliance with the Board approved investment policy and Public Funds Investment Act, Gov't Code 2256.



Carmella Shafer  
Accounting Coordinator



Mike Martindale  
Deputy Superintendent/Chief Financial Officer

# Appendix A

## REVIEW OF CDA (Local)

### INVESTMENT AUTHORITY

The Superintendent or other person 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 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.
4. A securities lending program as permitted by Government Code 2256.0115.
5. Banker's acceptances as permitted by Government Code 2256.012.
6. Commercial paper as permitted by Government Code 2256.013.
7. No-load money market mutual funds and no-load mutual funds as permitted by Government Code 2256.014.
8. 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.
9. Public funds investment pools as permitted by Government Code 2256.016.

### 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.

### **LIQUIDITY AND MATURITY**

Any internally created pool fund group of the District shall have a maximum dollar weighted maturity of 180 days. The maximum allowable stated maturity of any other individual investment owned by the District shall not exceed one year from the time of purchase. The Board may specifically authorize a longer maturity for a given investment, within legal limits.

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 overconcentration of assets in a specific class of investments, specific maturity, or specific issuer.

### **MONITORING MARKET PRICES**

The investment officer shall monitor the investment portfolio and shall keep the Board informed of significant declines 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 advisors, and representatives/advisors 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.

### **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.

### **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 safety, investment liquidity, and maturity sufficient to meet anticipated cash flow requirements.

## **AGENCY FUNDS**

Investment strategies for agency funds shall have as their 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 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 PROJECTS**

Investment strategies for capital project funds shall have as their objective sufficient investment liquidity to timely meet capital project obligations. Maturities longer than one year are authorized provided legal limits are not exceeded.

## **SAFEKEEPING AND CUSTODY**

The District shall retain clearly marked receipts providing proof of the District's ownership. 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.

## **BROKERS / DEALERS**

Prior to handling investments on behalf of the District, brokers/dealers 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).

## **SOLICITING BIDS FOR CD'S**

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

## **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.

## **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.
7. Avoidance of bearer-form securities.

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

#### **PORTFOLIO REPORT**

In addition to the quarterly report required by law and signed by the District's investment officer, a comprehensive report on the investment program and activity shall be presented annually to the Board.

#### **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.

#### **REVIEW OF CDA (Legal)**

All investments made by the 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*

#### **WRITTEN POLICIES**

Investments shall be made in accordance with written policies approved by the Board. 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;



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(b)*

#### **ANNUAL REVIEW**

The Board shall review its investment policy and investment strategies not less than annually. The Board shall adopt a written instrument 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**

The 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 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 under 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 investment needs to be liquidated before maturity;
5. Diversification of the investment portfolio; and
6. Yield.

*Gov't Code 2256.005(d)*

#### **INVESTMENT OFFICER**

A District shall designate one or more officers or employees as investment officer(s) to be responsible for the investment of its funds. 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 the 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 INITIAL**

Within 12 months after taking office or assuming duties, the chief financial officer and the investment officer of a district shall attend at least one training session from an independent source approved either by the board or by 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)*

#### **INVESTMENT TRAINING ONGOING**

The chief financial officer and the investment officer must also 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 a designated investment committee advising the investment officer. If a district has contracted with another investing entity to invest the district's funds, this training requirement may be satisfied by having a board officer attend four hours of appropriate instruction 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. *Gov't Code 2256.008(a-1)-(b)*

Investment training shall include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with the Government Code, Chapter 2256. *Gov't Code 2256.008(c)*

#### **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 his or her own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. Investments 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, rather than the prudence of a single investment, over which the officer had responsibility.
2. Whether the investment decision was consistent with a board'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, 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:

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

1. Contain a detailed description of the investment position of a district on the date of the report.
2. Be prepared jointly and signed by all district investment officers.
3. Contain a summary statement for each pooled fund group (i.e., each internally created fund in which one or more accounts are combined for investing purposes) 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 a district for which each individual investment was acquired.
7. State the compliance of the investment portfolio of a district as it relates to the district's investment strategy expressed in the district's investment policy and relevant provisions of Government Code, Chapter 2256.

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 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**

A board or a 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 the District. *Gov't Code 2256.025*

#### **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. Investments may be made directly by a board or by a nonprofit corporation acting on behalf of the board or an investment pool acting on behalf of two or more local governments, state agencies, or a combination of the two. *Gov't Code 2256.003(a)*

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

The following investments are authorized for districts, although the board may specify in its investment policy that any such investment is not suitable, per Government Code 2256.005(j):

1. Obligations, including letters of credit, of the United States or its agencies and instrumentalities; direct obligations of the state of Texas or its agencies and instrumentalities; 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; other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the state of Texas, 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; 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; and bonds issued, assumed, or guaranteed by the state of Israel. *Gov't Code 2256.009(a)*

The following investments are not authorized:

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

2. Certificates of deposit or share certificates issued by a depository institution that has its main office or a branch office in Texas that is guaranteed or insured by the FDIC or its successor or the National Credit Union Share Insurance Fund or its successor and is secured by obligations described in item 1 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 in Section 2256.009(b)] or secured in any other manner and amount provided by law for the deposits of the investing entity. *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 under Government Code 2256.010:

- a. 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 by Government Code 2256.025, or a depository institution that has its main office or a branch office in this state and that is selected by the district;
- b. 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;
- c. 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
- d. The district appoints the depository institution selected by the district, an entity described by Government Code 2257.041(d), 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 entity.

*Gov't Code 2256.010(b)*

The 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)*

3. Fully collateralized "repurchase agreements" [as defined by Government Code 2256.011(b)] that have a defined termination date; are secured by a combination of cash and obligations of the United States or its agencies and instrumentalities; require 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 with the district or a third party selected and approved by the district, and are placed through a primary government securities dealer, as defined by the Federal Reserve or a financial institution doing business in Texas. 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. *Gov't Code 2256.011*
4. A securities lending program if:
  - a. The value of securities loaned is not less than 100 percent collateralized, including accrued income, and the loan allows for termination at any time;
  - b. The loan is secured by:
    - (1) Pledged securities described by Government Code 2256.009;
    - (2) 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
    - (3) Cash invested in accordance with Government Code 2256.009, 2256.013, 2256.014, or 2256.016;
  - c. The terms of the loan require that the securities being held as collateral be pledged to the investing entity, held in the investing entity's name, and deposited at the time the investment is made with the entity or with a third party selected by or approved by the investing entity; and
  - d. The loan is placed through a primary government securities dealer 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*

5. Banker's acceptance, with a stated maturity of 270 days or fewer from the date of issuance that will be liquidated in full at maturity, which is eligible for collateral for borrowing from a Federal Reserve Bank, and is accepted by a bank meeting the requirements of Government Code 2256.012(4). *Gov't Code 2256.012*
6. Commercial paper that has a stated maturity of 270 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 two nationally recognized credit rating agencies or by one nationally recognized credit rating agency provided the commercial paper is fully secured by an irrevocable letter of credit issued by a bank organized and existing under United States law or the law of any state. *Gov't Code 2256.013*
7. No-load money market mutual funds that:
  - a. Are registered with and regulated by the Securities and Exchange Commission;
  - b. Provide a 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.);
  - c. Have a dollar-weighted average stated maturity of 90 days or fewer; and
  - d. Include in their investment objectives the maintenance of a stable net asset value of \$1 for each share.

However, investments in no-load money market mutual funds shall be limited to the percentages authorized by Government Code 2256.014(c).

8. No-load mutual funds that:
  - a. Are registered with the Securities and Exchange Commission;
  - b. Have an average weighted maturity of less than two years;
  - c. Are invested exclusively in obligations approved by Government Code Chapter 2256, Subchapter A, regarding authorized investments (Public Funds Investment Act);
  - d. Are continuously rated by at least one nationally recognized investment rating firm of not less than AAA or its equivalent; and
  - e. Conform to the requirements in Government Code 2256.016(b) and (c) relating to the eligibility of investment pools to receive and invest funds of investing entities.

Investments in no-load mutual funds shall be limited to the percentages authorized by Government Code 2256.014(c). In addition, a district may not invest any portion of bond proceeds, reserves, and funds held for debt service, in no-load mutual funds described in this item.

*Gov't Code 2256.014*

9. A guaranteed investment contract, as an investment vehicle for bond proceeds, if the guaranteed investment contract:

- a. Has a defined termination date.
- b. Is secured by obligations described by Government Code 2256.009(a)(1), excluding those obligations described by Section 2256.009(b), in an amount at least equal to the amount of bond proceeds invested under the contract.
- c. Is pledged to a district and deposited with the district or with a third party selected and approved by the district.

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:

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

*Gov't Code 2256.015*

- 10. A public funds investment pool meeting the requirements of Government Code 2256.016 and 2256.019, if a board authorizes the investment in the particular pool by resolution. *Gov't Code 2256.016, .019*
- 11. 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 in Government Code 2256.0204(a)) 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. *Gov't Code 2256.0204(b)-(c)*

The district is not authorized to:

- a. 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
- b. 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.



*Gov't Code 2256.0204(d)*

The district may purchase, sell, and invest its funds and funds under its control in corporate bonds if the board:

- a. Amends its investment policy to authorize corporate bonds as an eligible investment;
- b. Adopts procedures to provide for monitoring rating changes in corporate bonds acquired with public funds, and liquidating the investment in corporate bonds; and
- c. Identifies the funds eligible to be invested in corporate bonds.

*Gov't Code 2256.0204(e)*

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:

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

*Gov't Code 2256.0204(f)*

Corporate bonds are not an eligible investment for a public funds investment pool.

*Gov't Code 2256.0204(g)*

**CHANGE IN LAW**

A District is not required to liquidate investments that were authorized investments at the time of purchase. *Gov't Code 2256.017*

**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*

**SELLERS OF INVESTMENTS**

A written copy of the investment policy shall be presented to any person offering to engage in an investment transaction with a district or to an investment management firm under contract with a district to invest or manage the district's investment portfolio. For purposes of this section, a business organization includes investment pools and an investment management firm under contract with a district to invest or manage the district's investment portfolio. 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 thoroughly 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 policy, except to the extent that this authorization is dependent on an analysis of the makeup of the district's entire portfolio or requires an interpretation of subjective investment standards.

The investment officer may not acquire or otherwise obtain any authorized investment described in a district's investment policy from a person who has not delivered to the district the instrument described above.

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

#### **DONATIONS**

A gift, devise, or bequest made to provide college scholarships for district graduates may be invested by a board as provided in Property Code 117.004, 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 Government Code Chapter 2256, Subchapter A. *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*

## REVIEW OF CDA (Exhibit)

Exhibit A: Investment Fund Strategies — 1 page

Exhibit B: Broker/Dealer Certification Form — 1 page

### EXHIBIT A

#### INVESTMENT STRATEGIES FOR ALL FUNDS

As Required by Texas Government Code 2256.005(e)\*

OPERATING FUNDS (GENERAL)	Investment strategies for operating funds (including any commingled pools containing operating funds) shall have as their primary objective, safety, investment liquidity, and maturity sufficient to meet anticipated cash flow requirements. Idle or reserve funds shall be invested to obtain a market rate of return.
SPECIAL REVENUE FUNDS	Investment strategies for special revenue funds shall have as their primary objective, safety, investment liquidity, and maturity sufficient to meet anticipated cash flow requirements. Idle or reserve funds shall be invested to obtain a market rate of return.
DEBT SERVICE	Investment strategies for debt service funds shall have as their primary objective, safety and sufficient investment liquidity to timely meet debt service payment obligations in accordance with provisions in bond documents. Idle or reserve funds shall be invested to obtain a market rate of return.
CAPITAL PROJECTS	Investment strategies for capital projects funds shall have as their primary objective, safety and sufficient investment liquidity to timely meet capital project obligations. If the District has funds from bond proceeds, they shall be invested in accordance with provisions in bond documents. Idle or reserve funds shall be invested to obtain a market rate of return.
ENTERPRISE FUNDS	Investment strategies for enterprise funds shall have as their objectives, safety and sufficient investment liquidity to meet program obligations. Idle or reserve funds shall be invested to obtain a market rate of return.
INTERNAL SERVICE FUNDS	Investment strategies for internal service funds shall have as their objectives, safety and sufficient investment liquidity to meet program obligations. Idle or reserve funds shall be invested to obtain a market rate of return.
TRUST AND AGENCY FUNDS	Investment strategies for trust and agency funds shall have as their primary objective, safety and sufficient investment liquidity. All funds shall be deposited in interest bearing (NOW) accounts and earn rates per the current depository contract.

\* Investment Strategies shall be reviewed and adopted by resolution at least annually as required by Texas Government Code 2256.005(f).

EXHIBIT B

BROKER/DEALER CERTIFICATION FORM  
As Required by Texas Government Code 2256.005(k)

COLLEGE STATION INDEPENDENT SCHOOL DISTRICT ("DISTRICT")

The District acknowledges that the only means the firm has to preclude imprudent investment activities arising out of transactions between the firm and the District is to confirm that all provisions of the District's investment policy are followed in investment transactions conducted between the firm and the District, and the second paragraph below should be read accordingly.

I, as a registered principal for the firm \_\_\_\_\_ do hereby certify that I, and the broker covering this account, \_\_\_\_\_, have received and both have thoroughly reviewed the investment policy of the District.

We acknowledge that this firm has implemented reasonable internal procedures and controls in an effort to preclude imprudent investments between this firm and the District arising from transactions between the District and the firm.

Further, in compliance with the investment policy of the District, I hereby certify that the following is enclosed (please check):

- \_\_\_\_\_ audited financial statement for the most recent period
- \_\_\_\_\_ proof of certification by the Financial Industry Regulatory Authority (FINRA)
- \_\_\_\_\_ proof of current registration with the Texas State Securities Board
- \_\_\_\_\_ proof of membership in the Securities Investor Protection Corporation (SIPC)

Signature \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_