

**Spring Branch Independent School District  
Agenda Item Information**

**Date of Board Meeting:** July 28, 2008

**Subject:** Resolution of Annual Review of the Investment Policy of Spring Branch ISD

**Administrator Responsible:**

**Name:** Karen Wilson

**Position:** Associate Superintendent of Finance

**Purpose of Agenda Item:**

Information only       Action needed       Report

**Additional Information and/or Back-Up:**

Attached is the Resolution of Annual Review of the Investment Policy of Spring Branch ISD as required by the Public Funds Investment Act and Policy: CDA (Legal).

# SPRING BRANCH INDEPENDENT SCHOOL DISTRICT

## RESOLUTION OF ANNUAL REVIEW OF THE INVESTMENT POLICY OF Spring Branch Independent School District

WHEREAS, Spring Branch ISD, (*the "district"*) has been legally created and operates pursuant to the general laws of the State of Texas applicable to Independent School Districts; and

WHEREAS, the Board of Trustees has convened on this date at a meeting open to the public and wishes to review the Investment Policy for the District, which encompasses the investment strategies for each fund and procedures for investing and reporting, in the forms attached hereto, pursuant to Chapter 2256, The Texas Government Code, as amended from time to time; Now, therefore,

BE IT RESOLVED BY THE BOARD OF TRUSTEES OF THE (Spring Branch Independent School District) THAT:

Section 1: The Investment Policy, including legal, local and exhibit, in the forms attached hereto is hereby reviewed and approved at its annual review.

Section 2: The provisions of this Resolution shall be effective as of the date reviewed and shall remain in effect until modified by action of the Board of Trustees.

PASSED AND APPROVED this 28<sup>th</sup> day of July 2008.

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Susan Kellner  
President, Board of Trustees

ATTEST:

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Susan Mathews  
Secretary, Board of Trustees

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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; and
5. A requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis.

*Gov't Code 2256.005(b)*

ANNUAL REVIEW

The investment policy and the investment strategy shall be reviewed 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 Board shall perform a compliance audit of management controls on investments and adherence to the Board'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 Board;

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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

The Board 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 investing entity. Authority granted to a person to invest an entity's funds is effective until rescinded by the Board or until termination of the person's employment by 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 treasurer or chief financial officer and the investment officer of the 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)*

WITHIN A TWO-  
YEAR PERIOD

The treasurer or chief financial officer and the investment officer must also attend an investment training session not less than once in a two-year period and receive not less than ten 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 offi-

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cer. If the 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. *Gov't Code 2256.008(a), (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 the 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 District shall file a statement disclosing that relationship 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;

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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, the investment officer shall prepare and submit to the Board a written report of investment transactions for all funds covered by the Public Funds Investment Act. This report shall be presented to the Board and the Superintendent not less than quarterly, within a reasonable time after the end of the period. The report must:

1. Contain a detailed description of the investment position of the 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). The report must be prepared in compliance with generally accepted accounting principles and must state:
  - a. Beginning market value for the reporting period;
  - b. Additions and changes to the market value during the period;
  - c. Ending market value for the period; and
  - d. Fully accrued interest for the reporting period.
4. State the book value and market value of each separately invested asset at the beginning and 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 the District for which each individual investment was acquired.
7. State the compliance of the investment portfolio of the 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 the 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

The 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

The 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 the 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, the 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 the Board by order, ordinance, or resolution. *Gov't Code 2256.003(b)*

The following investments are authorized:

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; 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 depository institution that has its main office or a branch office in this state and that is selected by the District;
- b. The 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;
- d. The depository institution selected by the District acts as custodian for the District with respect to the certificates of deposit issued for the account of the District entity; and
- e. At the same time that the funds are deposited and the certificates of deposit are issued for the account of the District, the depository institution selected by the District receives an amount of deposits from customers of other federally insured depository institutions, wherever located, that is equal to or greater than the amount of the funds invested by the District through the depository institution.

*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 that have a defined termination date, are secured by obligations of the United States or its agencies and instrumentalities, are pledged to the District, held in the District's name, and deposited with the District or a third party selected and approved by the Board, and 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 the 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:

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- (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 U.S. 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;

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- b. Provide the 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 Section 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, the 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 Section 2256.009(a)(1), excluding those obliga-

tions 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 the 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. The Board must specifically authorize guaranteed investment contracts as eligible investments in the order, ordinance, or resolution authorizing the issuance of bonds.
- b. The District must receive bids from at least three separate providers with no material financial interest in the bonds from which proceeds were received.
- c. The 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 the Board authorizes the investment in the particular pool by resolution.  
*Gov't Code 2256.016, 2256.019*

CHANGE IN LAW

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

SELLERS OF  
INVESTMENTS

A written copy of the investment policy shall be presented to any person offering to engage in an investment transaction with an investing entity or to an investment management firm under contract

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with an investing entity to invest or manage the entity's investment portfolio. For purposes of this policy, a business organization includes investment pools and an investment management firm under contract with an investing entity to invest or manage the entity's investment portfolio. The qualified representative of the business organization offering to engage in an investment transaction with the 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. Has 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 entity'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 the District's investment policy from a person who has not delivered to the District the instrument described above.

*Gov't Code 2256.005*

DONATIONS

A gift, devise, or bequest made to provide college scholarships for District graduates may be invested by the 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 the 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

The District may use electronic means to transfer or invest all funds collected or controlled by the District. *Gov't Code 2256.051*

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INVESTMENT SCOPE

This investment policy covers all financial assets under the direct control of the District. Transactions involving the purchase, sale, and maintenance of all District financial investments are included within the jurisdiction of this policy.

OBJECTIVES AND  
PRIORITIES

The objectives of the investment policy are as follows and in the following order of priority:

1. To comply with the laws of the state of Texas as defined in Government Code 10 (Chapter 2256), known as the Public Funds Investment Act (short title).
2. To provide for the safety of principal of all District funds.
3. To provide sufficient funds to meet the cash needs of the continuing operation of the District.
4. To attain a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs, and consistent with current and future bank depository contracts.
5. To acquire diversification in the types, issues, and maturities of District investments with due consideration to the quality of the investment.
6. To pursue an active versus a passive portfolio management philosophy; securities may be sold or exchanged before they mature if market conditions present an opportunity for the District to benefit from the trade or if necessary to meet the cash needs of the District. Under this investment policy, all investments shall be made with the intent of pursuing, at the time of purchase, the best rate of return on securities held until maturity, and not with the intent of speculative trading.
7. To maintain the highest professional and ethical standards, with capable and high-quality investment management, as custodians of the public trust.

MATURITY  
REQUIREMENTS AND  
RESTRICTIONS

It is the objective of the District to match the maturity of investment instruments to cash flow needs. The following restrictions apply to original maturities for all funds:

1. No investment security shall have an original stated maturity greater than three years.
2. The term of a repurchase agreement shall not be greater than 90 days unless bond proceeds are invested, in which case, the maturity shall not exceed projected cash expenditures.

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3. Commercial paper shall not have a stated maturity greater than 270 days.
4. Money market mutual funds shall have a dollar-weighted average stated maturity no greater than 90 days.

INVESTMENT  
RESPONSIBILITY

DISTRICT  
INVESTMENT  
OFFICER

In accordance with Government Code 10 (Chapter 2256), the associate superintendent for finance, director of accounting operations, and treasury manager shall be the District's investment officers and may invest District funds that are not immediately required to pay the obligations of the District. These investment officers are hereby bestowed all of the obligations and authorities contained in the District investment policy. It is the responsibility of the investment officers to monitor the contents of the portfolio, the available markets, and the relative values of competing instruments, and adjust the portfolio accordingly.

TRAINING  
REQUIREMENTS

Investment officers shall attend at least one formal training session within 12 months after taking office or assuming duties. Training must include education in investment controls, security risks, market risks, and compliance with Chapter 2256.

STANDARD OF  
CARE

Investments shall be made with the judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. In determining whether the investment officers have exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the investment of all funds over which the officer has responsibility rather than a consideration as to the prudence of a single investment, and whether the investment decision was consistent with the District's investment policy.

LIABILITY

District investment officers shall not be responsible for any loss of the District's funds through the failure or negligence of any depository, nor any loss resulting from normal fluctuations in the market value of investments or collateral securities. Nothing in this section shall release the investment officers from responsibility for misappropriation of funds by him or her.

ETHICS AND  
CONFLICTS OF  
INTEREST

Each investment officer shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair his or her ability to make impartial investment decisions. The investment officers shall disclose to the Board any material financial interests in financial institutions that conduct business with the District and any personal financial/investment positions that could be related to the performance of the District's portfolio. Each investment officer shall subordinate his or her per-

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	<p>sonal investment transactions to those of the District, particularly with regard to the timing of purchases and sales.</p>
SUBJECT TO AUDIT	<p>The District, at a minimum, shall have an annual audit of all District funds by an independent auditing firm. The District's investment officers and the District's investment procedures shall be subject to an annual compliance audit and any special audits as required.</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>
CONTROLS INTERNAL CONTROLS	<p>The investment officers shall establish a system of internal controls which shall be documented in writing and approved by the Board. The internal controls shall be reviewed with the independent auditor on an annual basis. These controls shall be designed to control collusion and to implement a separation of functions including the separation of transaction authority from accounting and record-keeping. The controls shall also establish custodial safekeeping guidelines, procedures for the delegation of authority to subordinate staff, and specific limitations regarding securities losses and remedial action. Furthermore, the controls shall require written confirmation of telephone transactions and documentation of transactions and strategies. Controls shall include the requirement for two separate authorizations to initiate wire transfers.</p>
SAFEKEEPING	<p>All purchased securities shall be held in safekeeping by the District, or a District account in a third-party financial institution, or with a Federal Reserve Bank.</p> <p>All certificates of deposit, insured by the U.S. Government, purchased outside the depository bank shall be held in safekeeping by either the District or a District account in a third-party financial institution.</p> <p>All pledged securities by the depository bank shall be held in safekeeping by the District, or a District account in a third party financial institution, or with a Federal Reserve Bank.</p> <p>All certificates of deposit pledged by the depository bank shall be held in custody of a Federal Reserve Bank for safekeeping; be the subject of a valid pledge agreement designating the District as the beneficiary of the pledge agreement; be insured by the U.S. Government; and be described in detail by a safekeeping receipt issued to the District by the Federal Reserve Bank.</p>



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DELIVERY VS. PAYMENT	All funds involved in the transaction of investment securities shall be transferred using the delivery vs. payment (DVP) method through the Federal Reserve System. By so doing, District funds or securities are not released by a third party until the counterparty presents the agreed-upon transaction.
COMPETITIVE BIDS	It is the policy of the District to require competitive bidding for all securities purchases and sales with the exception of those transactions involving money market mutual funds and public funds investment pools. At least three bids or offers must be solicited from approved broker dealers. In instances in which the exact security being offered cannot be found by competing dealers, offers on like securities may be used to establish a fair market price.
INVESTMENT STRATEGIES BY FUND	The District's investment strategies for each of its funds, including but not limited to operating, agency, debt service, and capital projects, are incorporated into this investment policy as follows.
GENERAL FUND	The General Fund includes the operating and payroll accounts. The investment strategy for this fund has as its primary objective to ensure the preservation and safety of principal. Secondly, the objective shall be that anticipated cash flows are matched with adequate investment liquidity. These objectives shall be accomplished by purchasing quality short- to medium-term securities whose maturities closely match the funds cash flow requirements. The dollar average weighted maturity of general fund investments shall not exceed 365 days.
SPECIAL REVENUE FUND	The Special Revenue Fund includes food service, public activity, and consolidated application funds. The investment strategy for this fund has as its primary objectives safety, investment liquidity, and maturity sufficient to meet anticipated cash flow requirements. These objectives shall be accomplished by purchasing quality short-term securities and by investing in investment pools. The dollar average weighted maturity of special revenue funds investments shall not exceed 365 days.
DEBT SERVICE FUND	The investment strategy for the Debt Service Fund has as its primary objective preservation and safety of principal. Secondly, the objective shall be sufficient liquidity to meet scheduled debt service payment obligations. The maximum maturity of any individual investment shall not exceed three years.
CAPITAL PROJECTS FUND	The investment strategy for the Capital Projects Fund has as its primary objective the preservation and safety of principal. The second objective is to ensure that anticipated cash flows are matched with adequate investment liquidity. These objectives shall be accomplished by purchasing short- to medium-term securities

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or investment pools. The maximum maturity of any individual investment shall not exceed three years.

SELF-SUSTAINING  
FUND

Investment strategy for the Self-Sustaining Fund has as its primary objective preservation and safety of principal. Secondly, the objective is to ensure that anticipated cash flows are matched with adequate investment liquidity. These objectives will be accomplished by purchasing short- to medium-term securities or investment pools. The dollar average weighted maturity of self-sustaining fund investments shall not exceed 365 days.

FIDUCIARY FUNDS

Investment strategies for the Fiduciary Funds shall have as their primary objective preservation and safety of principal. Secondly, the objective is to ensure that anticipated cash flows are matched with adequate investment liquidity. These objectives will be accomplished by purchasing short- to medium-term securities or investment pools. The dollar average weighted maturity of fiduciary fund investments shall not exceed 365 days.

SUITABILITY

The primary investment objectives of the District are preservation of principal and liquidity; income is secondary. The investments must be appropriate to meet the needs and circumstances of the District's operating budget. The investment officers shall use reasonable judgment to determine whether the investment is applicable to the portfolio needs of the District.

PRESERVATION  
AND SAFETY OF  
PRINCIPAL

The investment officers shall exercise diligence and thoroughness in making an investment transaction. Receipts for confirmations of trades will include information on trade date, par value, maturity, price, settlement date, and description of securities purchased, and they will show the District as the purchaser.

LIQUIDITY

Maturities of investments made shall be scheduled to coincide with projected cash flow needs, taking into account large routine expenditures (payroll, debt service payments, and general expenditures), anticipated payouts of capital project expenditures, sizable blocks of anticipated revenue, and periodic reimbursements from other funds or accounts. Investments will be made with the intent of pursuing, at the time of purchase, the best rate of return on securities held until maturity, and not with the intent of speculative trading. Securities, however, may be sold or exchanged before they mature if market conditions present an opportunity to benefit from the trade or if necessary to meet cash needs. Careful consideration will be given to the effect of the sale on the remaining portfolio.

INVESTMENT  
DIVERSIFICATION

The District shall diversify the investment instruments within the portfolio to avoid incurring reasonable risks inherent in overinvesting in specific instruments, individual financial institutions, or ma-

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turities, so that no single investment or class of investments can have a disproportionate impact on the total portfolio. The asset allocation in the portfolio should, however, be flexible depending upon the outlook for the economy and the securities markets. Diversification to avoid overconcentration in a specific instrument does not apply to U.S. Treasury securities.

The District recognizes that investment risks may result from issuer defaults, market price changes, or various technical complications leading to temporary illiquidity. Portfolio diversification is employed as a way to control risk. The investment officers are expected to display prudence in the selection of securities as a way to minimize default risk. No individual investment transaction shall be undertaken that jeopardizes the total capital position of the overall portfolio. In the event of default by a specific issuer, the investment officers shall review, and, if appropriate, proceed to liquidate securities having comparable credit risks. To control market price risks, volatile investment instruments shall be avoided.

YIELD

Investment officers shall strive to earn a competitive total return on the portfolio consistent with the objectives and priorities stated in this policy. Total return shall mean the interest or dividend payments and appreciation or depreciation of the principal of the investment. Cash flow forecasts are used to make investment decisions. All available funds should be invested to earn interest for the District. Enough of the funds will be invested in nonvolatile, liquid investments to ensure payments when due. Moderate income volatility is permitted. Financial risk is unacceptable, and because the investment time horizon of the funds are relatively short, exposure to interest rate risk and purchasing power risk will be minimal. The annual time-weighted rate of return on the portfolio should meet or exceed the total return on three-month Treasury bills.

AUTHORIZED  
INVESTMENTS

All investments made or sold on behalf of the District must fall within the guidelines provided in Government Code 10 (Chapter 2256), Public Funds Investments Act (short title), and are subject to such other restrictions as may be imposed by the District Board by resolution or order. The following investments are authorized for District funds, with restrictions as noted [see CDA(LEGAL)— AUTHORIZED INVESTMENTS]:

1. Obligations of the United States or its agencies and instrumentalities;
2. Direct obligations of this state or its agencies and instrumentalities;

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3. Other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities.
4. 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; and have a stated maturity no longer than ten years.
5. Certificates of deposit. Must be fully collateralized and guaranteed or insured by the FDIC.
6. Repurchase agreements. Must be fully collateralized (102%), pledged to and held in Spring Branch ISD's name, and deposited at the time the investment is made with Spring Branch ISD or with a third party selected and approved by Spring Branch ISD, with a defined termination date, and placed through a primary government securities dealer, as defined by the Federal Reserve, or a bank domiciled in this state.
7. Commercial paper. Must have a stated maturity of 270 days or fewer and a rating of not less than A-1/P-1 by two nationally recognized credit rating agencies; or a fully secured irrevocable letter of credit (LOC) from a U.S. bank and one A-1/P-1 credit rating.
8. Money Market Funds. Must be approved by Board resolution and invest its funds only in investments approved by this investment policy. Mutual fund must have as a stated policy objective maintaining a \$1 net asset value.
9. Public Funds Investment Pools. Must be approved by Board resolution and invest its funds only in investments approved by this investment policy.

INVESTMENT  
INSTITUTIONS AND  
REPRESENTATIVES

The District Investment officers shall invest District funds with any or all of the following institutions or groups consistent with federal and state law and the current bank depository contract:

1. Depository bank.
2. Other state or national banks domiciled in Texas that are insured by FDIC;
3. Savings and loan associations domiciled in Texas that are insured by FSLIC (or its successor);
4. Public funds investment pools;

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5. Money market funds;
6. Government securities brokers and dealers.

QUALIFIED  
INSTITUTIONS AND  
FIRMS

A written copy of the investment policy shall be presented to any person seeking to sell the District an authorized investment if the investment officers desire to do business with this person. The registered principal of the business organization seeking to sell an authorized investment to the District shall execute a written instrument substantially to the effect that the registered principal has: (1) received and thoroughly reviewed the investment policy of the District; and (2) acknowledged that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted by the District and the organization.

The investment officers shall maintain a list of business organizations qualified to transact sales and purchases of investment instruments with the District. The list shall be reviewed and updated periodically. All firms must submit annual audited financial statements and be in good standing with the National Association of Securities Dealers. Representatives shall be registered with the Texas State Securities Board.

REPORTING AND  
PERFORMANCE  
MONTHLY REPORT

The investment officers shall generate and submit to the Board a monthly investment report that includes the current portfolio of securities at cost and market value by security type, indicating the appropriate fund.

QUARTERLY  
REPORT

The investment officers shall prepare and submit to the Board a quarterly report of investment transactions for all funds for the preceding reporting period. The report must:

1. Describe in detail the portfolio position of the District on the date of the report.
2. State the book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested;
3. Contain a summary statement of each pooled fund group that states beginning market values, changes in market values, and ending market values for the reporting period;
4. State the maturity date of each separately invested asset that has a maturity date;
5. State the fund for which each individual investment was acquired;

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6. State the compliance of the investment portfolio as it relates to the investment strategy expressed in the District investment policy and relevant provisions of Government Code 10, Chapter 2256; and
7. Be signed by the investment officers.

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ADOPTED:

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**SPRING BRANCH INDEPENDENT SCHOOL DISTRICT  
INVESTMENT PROCEDURES**

The following are the steps for investing cash and investment reporting:

1. The treasury manager produces a **Cashflow** projection to be forwarded to the Management Company. This projection highlights the available funds for investing and the requested time lines.
2. The Management Company requests quotes from at least three different brokers that meet the District's Investment Policy guidelines.
3. The Management Company recommends the best quote that meets the District's investment policy guidelines, based on yield, safety and liquidity.
4. The Management Company faxes a **trade ticket** to the treasury manager, noting the three quotes with the recommended selection circled. All quotes must include the type of security (i.e. FNMA, FrMac, CP, etc.) and the yield percentage. The trade ticket will include the settlement date, the amount of the investment, the CUSIP number, the origination date, maturity date and the yield to maturity.
5. If the recommendation from the Management Company is to invest in commercial paper, the treasury manager must first obtain verbal approvals from the director of accounting operations and the associate superintendent of finance.
6. If the recommendation is a FNMA, FrMac, FHLMC, or other agency note, and meets the requirements of the District's investment policy, the treasury manager will sign the trade ticket, obtain a verbal approval from the director of accounting operations and fax the trade ticket back to the management company and the safekeeping department at the bank depository.
7. Upon receipt of the approval fax, the Management Company will make the trade and set the settlement date for the following business day.
8. The treasury manager will create a journal entry to debit the securities account number and credit the cash account number to record the transaction. The director of accounting operations will approve the journal entry and the treasury manager will scan the trade ticket and corresponding documents into the system to be filed on the finance shared drive.
9. The actual trade ticket will be filed in the pending investment folder in the treasury manager's office until the security matures.
10. Upon maturity, the trade ticket will be attached to a new journal entry created by the treasury manager and approved by the director of accounting operations. The journal entry will debit the cash account number and credit the securities account number. The Bank of America transaction documentation will be attached to the journal entry.
11. At the close of business each month, the treasury manager will submit the monthly bank statements for Bank of America, TexPool, TexSTAR and Bank of America Sweep accounts to the First Southwest Asset Management Company. From these statements the

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(EXHIBIT)

Management Company will prepare a ***monthly detailed securities report*** and ***quarterly investment report***. These reports will be forwarded to the treasury manager electronically.

12. The treasury manager will submit the detailed securities report monthly and the quarterly investment report to the Board for approval.