

Rockwall Independent School District

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Annual Investment Report

For Year Ending
June 30, 2011



Presented by:

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Introduction





Introduction

Investments in the State of Texas are governed by Section 2256 of the 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.

1. Investments shall be made in accordance with written policies approved by the Board. The policies must include a list of the types of authorized investments, the maximum allowable stated maturity of any individual investment, for pooled fund groups, the maximum dollar-weighted average maturity allowed, the methods to monitor the market price of investments, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a deliver versus payment basis; and procedures to monitor rating changes in investments.
2. The Board of Trustees must act upon an annual review of the District's investment policy and strategies.
3. Ten hours of training is required every two years of the chief financial officer and investment officer(s).
4. A qualified representative of sellers of investments must sign that the District's investment policies have been reviewed.
5. The Board of Trustees must review and adopt a list of the brokers used.
6. Quarterly investment reports must be in accordance with generally accepted accounting principles and must include accrued interest.
7. A formal annual review of the quarterly reports by an independent auditor is necessary except for investments in pools, money market mutual funds or depository bank investments.

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

The District's policy must primarily emphasize safety of principal, liquidity, and diversity. Investments are made in a manner that ensures the preservation of capital in the overall portfolio. The District's investments are sufficiently liquid to meet anticipated cash flow needs. Investments are diversified to reduce the risk of any one investment type. Internal controls exist to protect against losses of public funds arising from fraud, employee error, and misrepresentation by a third party.



Introduction

Investment strategy is applied to each major fund type. Primary objectives for operating funds are safety, investment liquidity and maturity sufficient to meet anticipated cash flow requirements. The Debt Service fund and Capital Projects funds may have longer thresholds for investing due to the nature of the cash flow requirements.

For the 2010-2011 school year, the Rockwall ISD investment policy limited any investment to nine types:

1. Obligations of the United States or Texas or its agencies and instrumentalities and political subdivisions permitted by Government Code 2256.009.
2. Certificates of deposit 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.

Rockwall ISD investments during the 2010-2011 school year were spread primarily among four public funds investment pools: Lone Star Investment Pool, TexasTERM Local Government Investment Pool, Texas Cooperative Liquid Assets Securities System Trust, and TexPool.

Day to day investments are monitored by the Executive Director of Finance. The Chief Financial Officer oversees the investment function of the District and presents monthly reports to the Board of Trustees. The Chief Financial Officer and the Executive Director of Finance have maintained the appropriate training requirements.

Copies of CDA (Legal) and CDA (Local) can be found beginning on page 24. Update 91 dated October, 10, 2011 revised CDA (Legal and Local). Therefore, no changes are recommended to these policies at this time.

Portfolio Composition





Portfolio Composition

As of June 30, 2011, the District's portfolio was comprised of four different investment pools:

Lone Star Investment Pool

The Lone Star Investment Pool is an investment pool available to governmental entities. The pool was established under the guidance of the Texas Public Funds Investment Act. A board of directors made up of members of the pool is responsible for the overall operation of the pool. The Board has employed various third party organizations to assist in the operations. These third parties are as follows — Investment Managers: American Beacon Advisors and BNY Mellon Cash Investment Strategies; Investment Consultant: CAPTRUST Financial Advisors; Custodian: Bank of New York Mellon; Administrator: First Public.

The Lone Star Advisory Board assists the Board of Trustees in ensuring the products and services are responsive, efficient, and expertly run. Vickie Benbow, Executive Director of Finance for Rockwall Independent School District, serves on the 6-member Advisory Board.

Each Lone Star fund has earned Standard and Poor's highest rating—AAA. This rating allows the pool to meet the standards required by the Texas Public Funds Investment Act.

Lone Star Corporate Overnight Plus Fund

The Corporate Overnight Plus Fund has the authority to invest in all securities authorized under the Investment Act. It seeks to maintain a net asset value of fifty cents and its dollar-weighted average maturity of 120 days or fewer. It is the Board's policy to have the following restrictions:

- The Corporate Overnight Plus Fund shall not invest its assets in any one nongovernmental issuer in an amount that exceeds five percent of the total fund assets at cost.

Lone Star Corporate Overnight Fund

The Corporate Overnight Fund has the authority to invest in all securities authorized under the Investment Act. It seeks to maintain a net asset value of one dollar and its dollar-weighted average maturity of 60 days or fewer. It is the Board's policy to have the following restrictions:

- The Corporate Overnight Fund shall not invest its assets in any one nongovernmental issuer in an amount that exceeds five percent of the total fund assets at cost.



Portfolio Composition

Lone Star Investment Pool—Continued

Lone Star Government Overnight Fund

The Government Overnight Fund provides participating government entities with safety of principal, daily liquidity, and the highest possible rate of return. It seeks to maintain a net asset value of one dollar and its dollar-weighted average maturity of 60 days or fewer. This pool has the authority to invest in all securities authorized under the Investment Act. However, only the following securities investments are 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 secured by obligations of the United States or its agencies and instrumentalities.
- No-load money market mutual funds regulated by the SEC provided the fund shall not invest its funds in any one money market mutual fund in an amount that exceeds 10 percent of the total assets of such money market mutual fund.

TexasTERM Local Government Investment Pool

TexasTERM Local Government Investment Pool (TexasTERM) has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code (PFIA). TexasTERM offers a series of professionally managed portfolios that are available to municipalities, counties, school districts, special districts and other governmental entities in the State of Texas.

An Advisory Board is responsible for the overall management of TexasTERM. With respect to TexasTERM, the Advisory Board's responsibilities include formulation and implementation of its investment and operating policies. The Advisory Board selects and oversees the activities of the Investment Advisor/Administrator and the Custodian for TexasTERM and monitors TexasTERM investment performance and the method of valuing its shares.



Portfolio Composition

TexasTERM Local Government Investment Pool—Continued

The Investment Advisor and Administrator for TexasTERM is PFM Asset Management LLC. The Custodian for TexasTERM is U.S. Bank, N.A.

Its portfolios may contain a combination of:

- Obligations of the United States or its agencies and instrumentalities.
- Repurchase agreements with Primary Dealers.
- Certificates of Deposit (CDs) that are FDIC insured and fully collateralized according to Texas law.
- Money Market Mutual Funds rated AAA or equivalent.

The Texas TERM Local Government Investment Pool offers four distinct investment portfolios allowing flexibility to safely maximize yield and liquidity:

TexasDAILY Portfolio

- A money market variable-rate portfolio with daily liquidity rated AAAM by Standard & Poor's Rating Services.

TexasTERM Portfolio

- A fixed rate, fixed-term portfolio rated AAAs by Standard and Poor's, that enables investors to lock in a fixed rate for a term of 60 days to 365 days.

TexasTERM CP Portfolio

- A fixed rate, fixed-term portfolio investing in commercial paper with a minimum rating of A1/P1. Investors whose investment policies permit may lock in a fixed rate for a term of 60 days to 270 days.

TexasTERM Certificate of Deposit Purchase Program Portfolio

- A fixed rate, fixed-term investment option enabling investors to invest in FDIC-insured CDs from banks throughout Texas. Participants may lock in a rate for a term of 90 days to 365 days. Each CD investment is held in the name of the Participant.



Portfolio Composition

Texas Cooperative Liquid Assets Securities System Trust (Texas CLASS)

The Texas Cooperative Liquid Assets Securities System Trust (Texas CLASS), was created in 1996 as an investment pool for its participants pursuant to Section 2256.016 of the Public Funds Investment Act, Texas Government Code. The Texas CLASS Trust Agreement (Trust) is an agreement of indefinite term regarding the investment, reinvestment and withdrawal of local government funds. The parties to the Trust Agreement are Texas local government entities that choose to participate (Participants), Cutwater Investor Services Corp. as Program Administrator (Program Administrator), and Wells Fargo Bank Texas, NA as Custodian (Custodian).

Texas CLASS is supervised by a Board of Trustees who are elected by the Participants. The Board of Trustees supervises the Trust and its affairs and acts as the liaison between the Participants, the Custodian and the Program Administrator. The Board administers the affairs of the Trust. It also selects the consultants for Texas CLASS, including the Program Administrator and the Custodian.

The Board of Trustees has appointed an Advisory Board composed of Participants and other persons who do not have a business relationship with the Trust and are qualified to advise the Trust. The Advisory Board provides advice to the Board of Trustees and the Program Administrator about the Investment Policy and Investment Strategy of the Trust and about other matters as requested by the Board of Trustees and the Program Administrator.

The Fund is rated AAAM by Standard & Poor's Ratings Services. This rating is the highest assigned to principal stability government investment pools by Standard & Poor's.

Texas CLASS' portfolio may contain a combination of:

- U.S. Treasury Bills, Notes and Bonds
- Obligations of or guaranteed by United States Government Agencies and Instrumentalities
- State and local government obligations
- Repurchase Agreements with Primary Dealers
- Certificates of Deposit (CDs) of a state or national Bank domiciled in the State of Texas that are guaranteed or FDIC insured
- Mutual Funds
- Highly rated commercial paper
- Guaranteed Investment Contracts (Bond Proceeds Only)
- Bankers' Acceptances



Portfolio Composition

TexPool

The TexPool, was created in 1989 as an investment pool for its participants pursuant to Section 2256.016 of the Public Funds Investment Act, Texas Government Code.

TexPool is overseen by the State Comptroller of Public Accounts. Federated Investors is the full service provider to the pools managing the assets, providing participant services, and arranging for all custody and other functions in support of the pool's operations under a contract with the Comptroller.

TexPool offers two distinct investment portfolios allowing flexibility to safely maximize yield and liquidity. Both portfolios are rated AAAM by Standard & Poor's Rating Services. This rating is the highest assigned to principal stability government investment pools by Standard & Poor's. Both portfolios have a weighted average maturity that cannot exceed 60 days, with the maximum maturity of any investment limited to 13 months.

TexPool Portfolio

- Consists 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 Portfolio

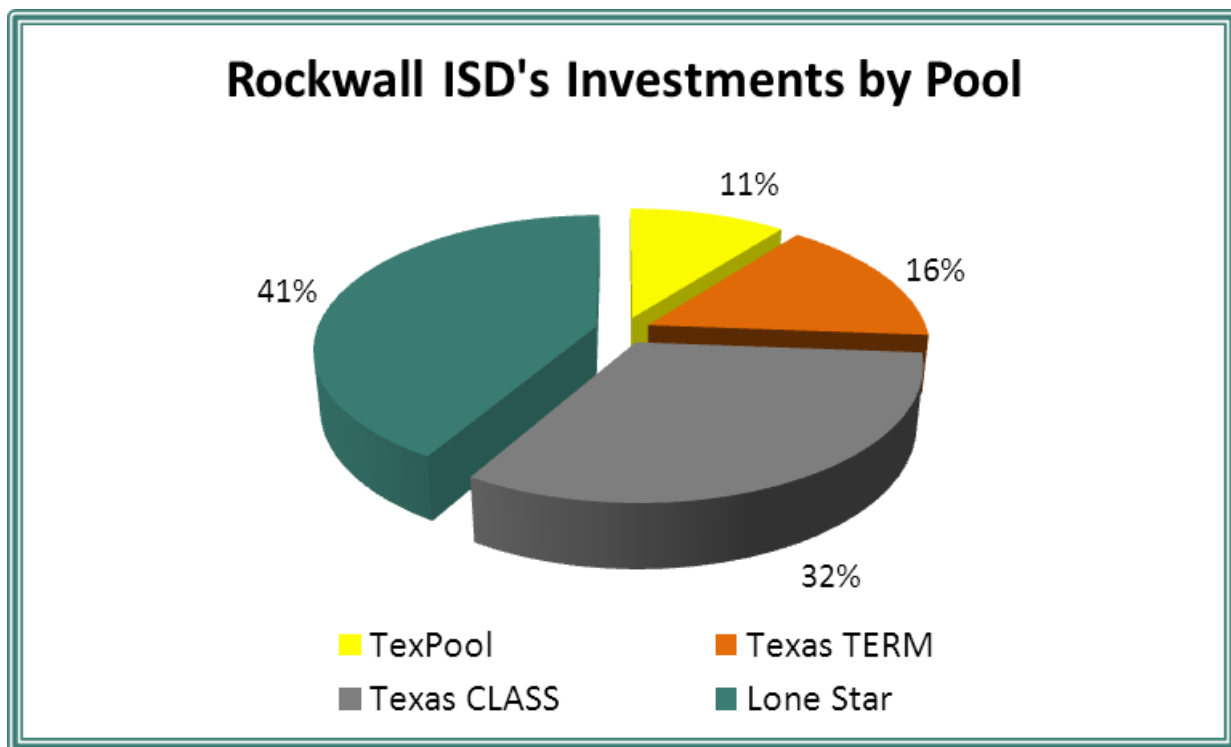
- TexPool Prime invests in U.S. Government securities, repurchase agreements collateralized by U.S. Government securities, and AAA-rated no-load money market mutual funds, commercial paper and certificates of deposits.



Investments by Pool

As of 06/30/2011

Investment Pools	Market Value	Percentage
Lone Star	\$ 32,123,424	41.5 %
Texas CLASS	24,983,464	32.3 %
Texas TERM	12,090,660	15.6 %
TexPool	8,179,783	10.6 %
Totals	\$ 77,377,330	100.0 %



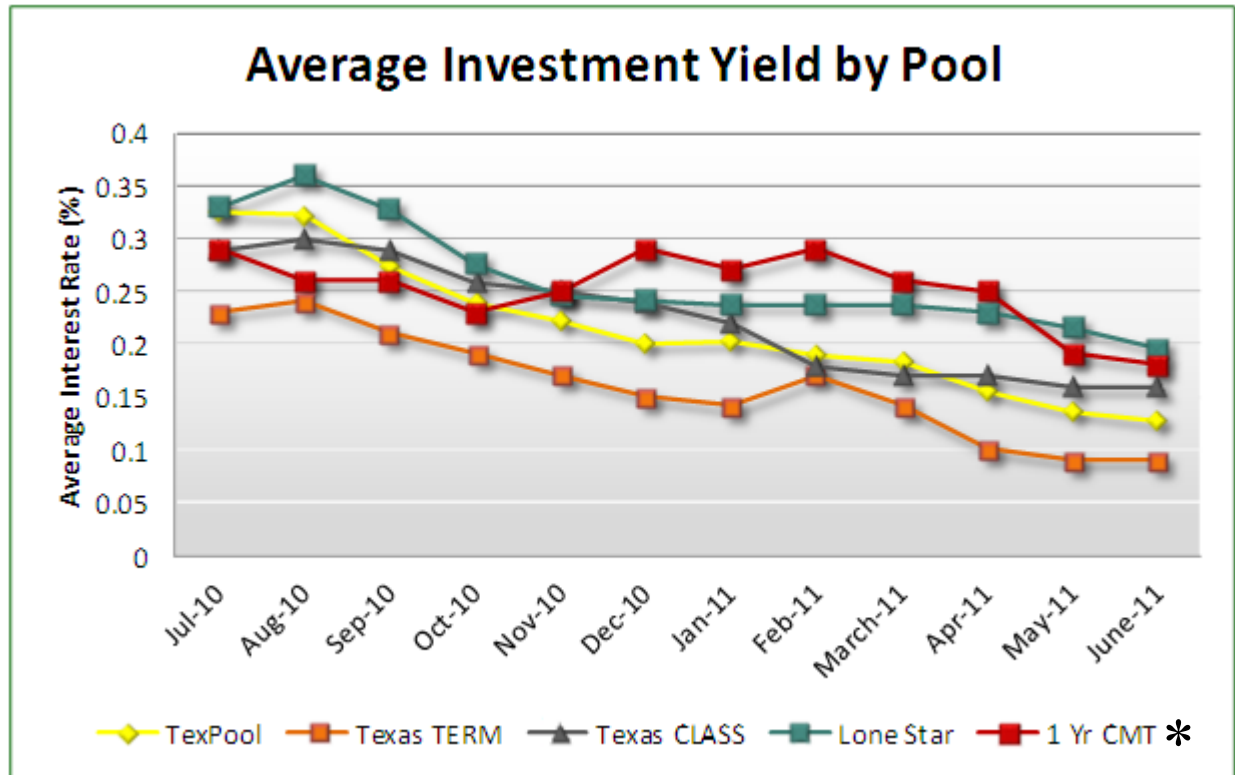
For the 2010-2011 school year, Rockwall ISD invested bond funds primarily with Lone Star. The rates for Lone Star have averaged slightly higher than the other three investments pools. Repurchase agreements, U.S. Treasury securities, U.S. government agencies, certificates of deposit, and money market funds are among Lone Star's portfolio. Therefore, this strategy is consistent with the Board's emphasis on diversity.

Investment Pool Performance





Investment Pool Performance



* Source: Federal Reserve Board as reported by MoneyCafe.com

NOTE: The One Year Constant Maturity Treasury Rate (CMT) is an average yield on United States Treasury securities adjusted to a constant maturity of 1 year, as made available by the Federal Reserve Board. Yields are interpolated by the United States Treasury from the daily yield curve. This curve, which relates the yield on a security to its time to maturity, is based on the closing market bid yields on actively traded Treasury securities in the over-the-counter market and is updated after the Federal Reserve releases its data on the first Monday of each month.

Investment Earnings by Fund

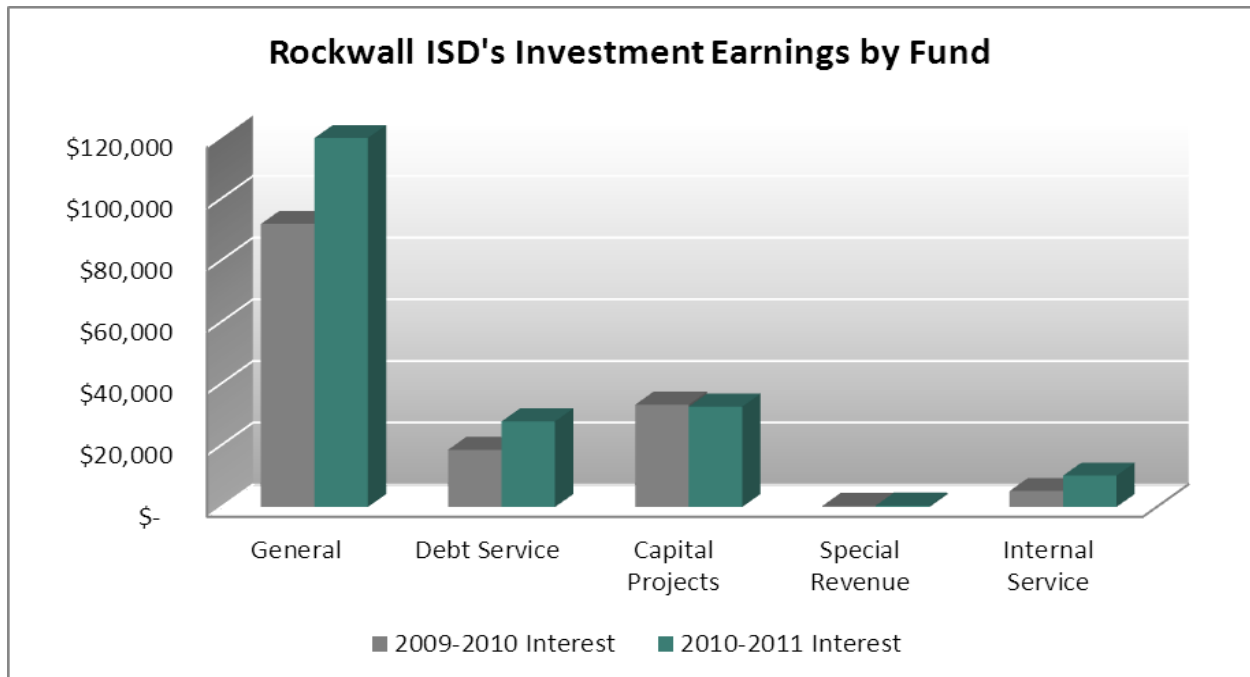




Investment Earnings by Fund

The chart below shows an increase of 28% from 2009-2010 investment earnings. There are three significant reasons for this increase. Investment rates have stabilized somewhat over the prior year's downturn. Pending capital projects were delayed for further review resulting in higher cash balances in the pools. Due to the change in fiscal periods, the previous fiscal year reflected only 10 months of interest earnings.

Fund Name	2009-2010 Interest	2010-2011 Interest
General	\$ 91,808	\$ 119,672
Debt Service	18,555	27,751
Capital Projects	33,201	32,527
Special Revenue	368	481
Internal Service	5,159	10,154
Totals	\$ 149,091	\$ 190,585



Rockwall ISD Investment Policy



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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;
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

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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

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

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ONGOING

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 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 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 officer. 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 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)-(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 re-

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lated 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, 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) 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.

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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

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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 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 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:
 - (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 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 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 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 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, .019
11. "Corporate bond" means a senior secured debt obligation issued by a domestic business entity and rated not lower than "AA-" or the equivalent by a nationally recognized investment

rating firm. The term does not include a debt obligation that on conversion would result in the holder becoming a stockholder or shareholder in the entity, or any affiliate or subsidiary of the entity, that issued the debt obligation, or is an unsecured debt obligation. *Gov't Code 2256.0204(a)*

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 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 corpo-

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rate 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

The 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. The 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 the District or to an investment management firm under contract with the 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 the 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 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. 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 the District's investment policy

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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 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
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 executed on a delivery versus payment basis.

APPROVED
INVESTMENT
INSTRUMENTS

From those investments authorized by law and described further in CDA(LEGAL), 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 AND
INVESTMENT
MANAGEMENT

The main goal of the investment program is to ensure its safety and maximize financial returns within current market conditions in accordance with this policy. Investments shall be made in a manner that ensures the preservation of capital in the overall portfolio, and offsets during a 12-month period any market price losses resulting from interest-rate fluctuations by income received from the balance of the portfolio. No individual investment transaction shall be undertaken that jeopardizes the total capital position of the overall portfolio.

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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 two years 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 monthly or 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 strategy defined below.

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.

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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	<p>To reduce exposure to changes in interest rates that could adversely affect the value of investments, the District shall use final and weighted-average-maturity limits and diversification.</p> <p>The District shall monitor interest rate risk using weighted average maturity and specific identification.</p>
INTERNAL CONTROLS	<p>A system of internal controls shall be established and documented in writing and must include specific procedures designating who has authority to withdraw funds. Also, they shall be designed to protect against losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the District. Controls deemed most important shall include:</p> <ol style="list-style-type: none">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.

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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.

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Recommendations





Recommendations

1. The District's primary investment strategy for 2010-2011 was to invest in investment pools. Historically, interest rates on the 1-year CMT are lower than the investment pools. However, while this year there were months where the CMT spiked to 0.05% above the pools, the difference is not significant enough to change the investment strategy. For the fiscal year 2011-2012 we would recommend continuing our 2010-2011 investment strategy including concentrating our funds in the investment pools, monitoring market information, interest rates, forecasted and actual cash flows, and managing every fund in the portfolio on an individual, consistent, and frequent basis. Investment Officers must evaluate the market on an ongoing basis to determine where the District's funds are best utilized in the existing market. Monitoring changes in the District's cash flow forecast will also be important in the coming year. The effective and efficient management of the portfolio can ensure a reasonable yield on the portfolio without exposing the District to unacceptable levels of risk. When appropriate, the District will place funds on a delivery vs. paid method in US Government Securities or in top grade commercial paper through an approved broker.
2. The District currently utilizes the expertise of the following major investment brokers. The District staff will make investment decisions for government securities and commercial paper based on competitive pricing. We recommend the Board of Trustees review and adopt this list of qualified brokers that are authorized to engage in investment transactions with the District.
 - Lone Star Investments
 - Texas Cooperative Liquid Assets Securities System Trust
 - TexasTERM Local Government Investment Pool
 - Merrill Lynch
 - Morgan Stanley
 - Citigroup Global Markets, Inc.
 - Wells Fargo Securities
 - First Southwest Company
 - First Public, A Subsidiary of Texas Association of School Boards
 - Coastal Securities
 - TexPool / Federated
 - BOSCO, Inc.



Recommendations

3. Government Code, Chapter 2256 requires investment officers to receive 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, as provided for in the District's investment policy. 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) and its local affiliates
 - Texas Comptroller of Public Accounts
 - Texas State Society of Certified Public Accountants and its approved providers
 - Regional Education Service Centers including Region 10 and Region 7
 - First Southwest Company
 - Linsco Financial Services
 - Texas Cooperative Liquid Assets Securities System Trust
 - First Public, A Subsidiary of Texas Association of School Boards
 - H&R Block Financial Advisors
 - Coastal Securities
 - Deloitte and Touche, LLP
 - Government Finance Officers Association
 - Government Treasurer's Organization of Texas
 - TexPool / Federated
 - BOSCO, Inc.

Compliance Certifications





Compliance Certification

We hereby certify that the annual investment report represents the investment position of the District as of June 30, 2011, and that all investments were purchased in compliance with the Board approved cash management and investment policy.

Mike Singleton, CPA, RTSBA
Chief Financial Officer

Vickie L. Benbow, CPA, MS-MGT, RTSBA
Executive Director of Finance