

HOUSTON INDEPENDENT SCHOOL DISTRICT CASH MANAGEMENT AND INVESTMENT POLICY

SCOPE

This Cash Management and Investment Policy covers all financial assets under the direct authority of the Houston Independent School District. These assets include funds of the General Fund, Special Revenue Fund, Food Service Fund, Capital Projects Fund, Debt Service Funds, Trust and Agency Funds, Enterprise Funds, Internal Service Funds and Activity Funds. Deferred Compensation Plans are excluded.

OBJECTIVES

The objectives of the investment policy of the District shall be to ensure the *safety* of the invested funds of the District by:

1. Maintaining sufficient *liquidity* to provide adequate and timely working funds.
2. Matching the maturity of investment instruments to the daily cash flow requirements.
3. *Diversifying* investments as to maturity, instruments, and financial institutions where permitted under state law.
4. Attaining the highest possible *rate of return (yield)* while providing necessary protection of principal consistent with District operating requirements as determined by the School Board.
5. Actively pursuing portfolio management techniques.
6. Avoiding investment for speculation.

MONITORING MARKET PRICES

The investment officer shall monitor the investment portfolio and shall keep the School Board informed of significant changes 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 advisers, and representatives/advisers of investment pools or money market funds. Monitoring shall be done at least quarterly, as required by law, and more often as economic conditions warrant by using appropriate reports, indices, or benchmarks for the type of investment.

RATING CHANGES AND INTEREST RATE RISK

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.

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

INVESTMENT AUTHORITY

The Chief Financial Officer or other persons designated by School Board resolution shall serve as the investment officer(s) of the District and shall invest District funds as directed by the School Board and in accordance with the District's written investment policy and generally accepted accounting procedures.

PRUDENCE

Investments shall be made with judgement and care – under circumstances then prevailing which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. The standard of prudence to be used by Investment officers shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio.

ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

An officer or employee involved in the investment process has a personal business relationship with a business organization if:

- the officer or employee owns 10 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;
- funds received by the officer or employee from the business organization exceed 10 percent of his/her gross income for the previous year; or
- the officer or employee has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for his/her personal account.
- the officer is related within the second degree by affinity or consanguinity, as determined under Chapter 573 of the Texas Government Code, to an individual seeking to transact investment business with the entity.

If the investment officer has a personal business relationship with a business organization, a disclosure statement must be filed with the Texas Ethics Commission.

INVESTMENT MANAGEMENT

In accordance with Government Code 2256.005(b)(3), the quality and capability of investment management for District funds shall be in accordance with the standard of care, investment training, and other requirements set forth in Government Code Chapter 2256.

TRAINING

The Investment Officers and the persons authorized to execute investment transactions shall receive not less than 8 hours of instruction relating to investment responsibilities every two fiscal years that begins on the first day of the District's fiscal year of the two consecutive fiscal years after that date. Newly appointed Investment Officers shall receive not less than 10 hours of instruction within 12 months after taking office or assuming duties. Investment training courses will be received through an independent source, including but not limited to the Government Treasurer's Organization of Texas, University of North Texas Center for Public Management, Region IV Education Service Center, Harris County Department of Education, Texas Association of School Business Officials, Texas Association of School Boards, and any other source meeting the criteria outlined in the Public Funds Investment Act.

AUTHORIZED AND SUITABLE INVESTMENTS

All District investments shall comply with Chapter 2256, of the Government Code for investment of District funds.

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

1. Obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks
2. Direct obligations of this state or its agencies and instrumentalities
3. 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
4. Other obligations, the principal and interest of which are un-conditionally 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, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States
5. 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
6. Interest-bearing banking deposits that are guaranteed or insured by:
(A) the Federal Deposit Insurance Corporation or its successor; or
(B) the National Credit Union Share Insurance Fund or its successor; and
7. Certificates of deposit and share certificates as permitted by Government Code 2256.010
8. Fully collateralized repurchase agreements permitted by Government Code 2256.011
9. A securities lending program as permitted by Government Code 2256.0115
10. Banker's acceptances as permitted by Government Code 2256.012

11. Commercial paper as permitted by Government Code 2256.013
12. No-load mutual funds, except for bond proceeds, and no-load money market mutual funds, as permitted by Government Code 2256.014
13. 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
14. Public funds investment pools as permitted by Government Code 2256.016–2256.019

AUTHORIZED BROKER/DEALERS AND FINANCIAL INSTITUTIONS

Collectively, the Investment Officers shall, at least annually, review, revise, and adopt a list of qualified broker/dealers and financial institutions authorized to engage in investment transactions with the District. In order to be considered those firms that desire to become qualified bidders for investment transactions will be required to provide information regarding creditworthiness, experience and reputation and must have a main office or a branch office in Texas. Authorized firms may include primary dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule).

A written copy of this Investment Strategy shall be presented to any person offering to engage in an investment transaction with the District. Investments shall only be made with those business organizations (including money market mutual funds and local government investment pools) that have provided the District with a written instrument executed by a qualified representative of the firm, acknowledging that the business organization has:

- received and reviewed the District's Investment Strategy; and
- 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 Investment Strategy, 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.

SOLICITING BIDS FOR INVESTMENTS

It is the strategy of the District to require competitive bidding for all individual security purchases and sales except for:

- transactions with money market mutual funds and local government investment pools (which are deemed to be made at prevailing market rates); or,
- automatic overnight "sweep" transactions with the District Depository; or,
- when issued securities are deemed to be made at prevailing market rates

At least three bids or offers must be solicited for all other transactions involving individual securities. In situations where other dealers do not offer the exact security being offered, offers on the closest comparable investment may be used to establish a fair market price for the security.

COLLATERALIZATION

The District requires that all uninsured collected balances plus accrued interest, if any, in depository accounts be secured in accordance with the requirements of state law. Financial institutions serving as District depositories will be required to sign a Depository Agreement with the District which details eligible collateral, collateralization ratios, standards for collateral custody and control, collateral valuation, rights of substitution and conditions for agreement termination.

The District requires that all securities purchased under the terms of a repurchase agreement be assigned to the District in accordance with state law. Dealers and financial institutions wishing to transact repurchase agreements with the District will be required to sign the District's Master Repurchase Agreement which details eligible collateral, collateralization ratios, standards for collateral custody and control, collateral valuation, rights of substitution, and conditions for agreement termination.

Collateral will always be held by an independent third party with which the District has a current custodial agreement and shall be reviewed at least monthly to ensure that the market value of the pledged securities is adequate. Eligible collateral and collateral ratios are as follows:

ELIGIBLE COLLATERAL	COLLATERAL RATIOS
Direct obligations of the United States of America which includes Treasury bills, bonds and notes.	100%
Agency bonds/notes which include obligations of the Federal Farm Credit Bank, Federal Home Loan Bank, Federal Housing Administration, Federal Home Loan Mortgage Corporation.	100%
Letter of Credit issued by a Federal Home Loan Bank.	100%

SAFEKEEPING AND CUSTODY

To protect against potential fraud and embezzlement, the cash, collateral, and investments of the District shall be held by an independent third party with whom the District has a current custodial agreement. The District shall retain clearly marked receipts providing proof of the District's ownership, or the District may delegate to an investment pool or local depository bank the authority to hold legal title as custodian of investments purchased with District funds.

All trades will be executed by delivery vs. payment (DVP), except local government investment pool and mutual fund transactions to ensure that securities are deposited in an eligible financial institution prior to the release of funds. That is, funds shall not be wired or paid until verification has been made that the Trustee received the collateral.

FUNDS / STRATEGIES

Investments of the following fund categories shall be consistent with this policy and in accordance with the applicable strategy defined below. All strategies described below for the investment of a particular fund should be based on an understanding of the suitability of an investment to the financial requirements of the District and consider preservation and safety of principal, liquidity, marketability of an investment if the need arises to liquidate before maturity, diversification of the investment portfolio, and yield.

1. Investment strategies for operating funds (including any commingled pools containing operating funds) shall have as their primary objectives preservation and safety of principal, investment liquidity, and maturity sufficient to meet anticipated cash flow requirements.
2. Investment strategies for custodial funds shall have as their primary objectives preservation and safety of principal, investment liquidity, and maturity sufficient to meet anticipated cash flow requirements.
3. Investment strategies for debt service funds shall have as their primary 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.
4. Investment strategies for capital project funds shall have as their primary objective sufficient investment liquidity to timely meet capital project obligations. Maturities longer than one year are authorized provided legal limits are not exceeded.
5. The Food Service Fund is a special revenue fund for the purpose of food service sales and operations. The primary investments of this fund will be overnight pools but when fund balances permit longer term investments may be purchased.
6. Workers' Compensation and Unemployment Fund is a reserve used to pay for worker's compensation claims. This fund is intended to maintain longer term reserves and either a ladder or barbell approach may be utilized.
7. The Health Insurance fund is intended to establish a reserve for and pay employee health insurance claims. This fund is intended to maintain longer term reserves and either a ladder or barbell approach may be utilized.
8. The Internal Service Fund is funded through internal transfers. Due to the cash flow characteristics of this fund investment pools will be utilized as the primary investment vehicle.
9. The Medicaid Fund is utilized to account for the accumulation of resources received via inter-local agreements. The primary investment in this fund will be overnight pools due to the volatility of cash flows.
10. The Print Shop Fund is intended for the accounting of printing and media operations. Due to the cash flow characteristics of this fund investment pools will be utilized as the primary investment vehicle.

11. The Special Revenue Fund is utilized to account for the receipt and expenditure of grant funds. Due to the temporary nature of fund balances the primary investments in this fund will be investment pools.
12. Trust & Agency Funds are used to account for various district agency funds and trust accounts. Cash flow patterns and large number of individual accounts result in the primary investment vehicle being investment pools with limited longer term investments dependent upon cash requirements.
13. Activity Funds are used to account for various school activity funds. Due to the relatively small balance and varied cash flow patterns, the primary investment vehicle will be investment pools. Longer term securities may be purchased where cash requirements allow.

INTERNAL CONTROLS

A system of internal controls shall be established and documented in writing and must include specific procedures designating who has authority to withdraw funds. Also, they shall be designed to protect against losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the District. Controls deemed most important shall include:

1. Avoidance of collusion.
2. Separation of transaction authority from accounting and recordkeeping.
3. Custodial safekeeping.
4. Avoidance of bearer-form securities.
5. Clear delegation of authority.
6. Written confirmation of telephone transactions.

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

QUARTERLY REPORTS

In accordance with the requirements of Chapter 2256 of the Government Code (Public Funds Investment Act), the District's investment officers shall prepare and submit to the School Board, within a reasonable time after the end of each quarter, a written report of investment transactions for all funds covered by the Public Funds Investment Act for each quarterly reporting period.

ANNUAL REVIEW

The School Board shall review this investment policy and investment strategies not less than annually and shall document its review in writing, which shall include whether any changes were made to either the investment policy or investment strategies.

ANNUAL AUDIT

In conjunction with the annual financial audit, the District shall perform a compliance audit of management controls on investments and adherence to the District's established investment policies.