Northwest Independent School District

P.O. Box 77070 Fort Worth, TX 76177-0070

To: Board of Trustees

From: Karen G. Rue, Ed.D, Superintendent of Schools

Subject: July Financial and Investment Report

Date: August 24, 2015

Background Information and Rationale:
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*

Support of Strategic Goals:
The review of the July Financial and Investment Report supports Strategic Goal V: Northwest ISD will invest resources to ensure that students, parents, and the community receive optimal educational services.

Budget and/or Fund Impact:
The Combined Statement of Revenues, Expenditures and Changes in Fund Equity for the General Fund, Special Revenue Funds, Debt Service Funds, Capital Outlay Funds, and Totals (Memorandum Only) report activity for all funds through July, 2015.

The Investment Report, prepared by the District's investment advisors, First Southwest Asset Management, Inc., encompasses the month ending July, 2015, and is submitted in accordance with the provisions of the Public Funds Investment Act.

The following investments matured in July:
- $ 10,008,009.03 Certificate of Deposit One (General Fund)
- $ 5,010,193.91 Certificate of Deposit One (Capital Projects Funds)
- $ 5,016,013.70 Certificate of Deposit One (Capital Projects AFB)

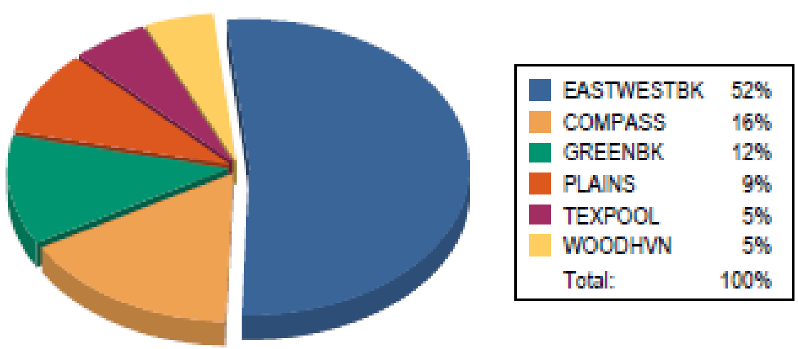
The District purchased the following investment in July:
- $ 5,000,000.00 Certificate of Deposit One (Capital Projects AFB)

Investments for the District's General Fund, Debt Service Funds, Capital Projects Funds, and Internal Service Funds total $212,547,321.73 as of July 31, 2015.

Fund	Yield to Maturity	Market Value
General Fund	0.334%	$ 92,227,257.42
Special Revenue Funds	0.305%	1,167,606.49
Debt Service Funds	0.270%	42,058,128.41
Capital Projects Funds	0.254%	39,570,347.61
Capital Projects Funds - AFB	0.386%	37,523,981.80
Total	0.315%	$212,547,321.73

Board Policy states that, "The investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific issuer."

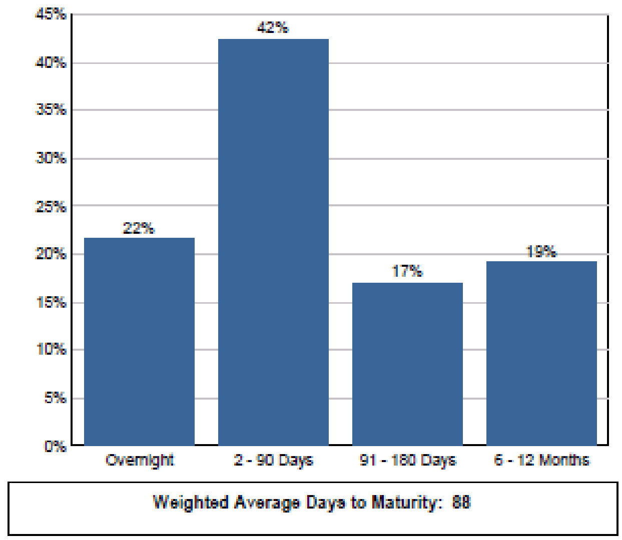
The District portfolio is concentrated in terms of **investment instruments** (Certificates of Deposit). These concerns are addressed by the low risk nature of the certificates of deposit and the maintenance of collateral by the various financial institutions to guarantee the safety of the investments.



Portfolio Composition by Security Type	
Local Government Investment Pool	5%
Certificates of Deposit	78%
Bank Deposit	16%

Portfolio Composition by Issuer	
TexPool	5%
EastWest	52%
Compass	16%
Greenbank	12%
Plains	9%
Woodhaven	5%

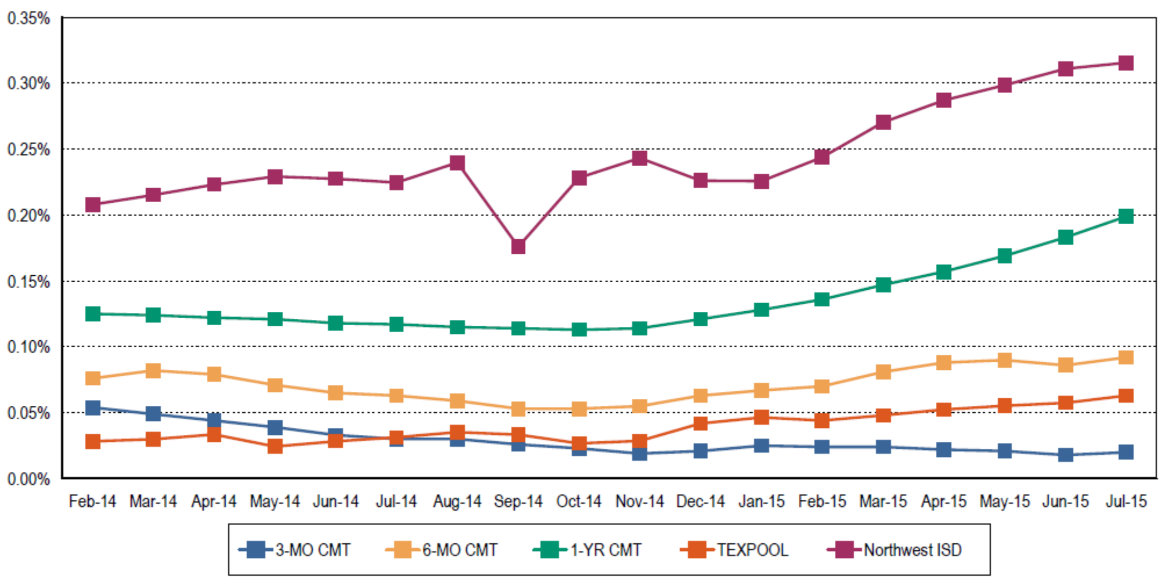
The District portfolio is diversified in terms of **maturity scheduling:**



Maturity Schedule

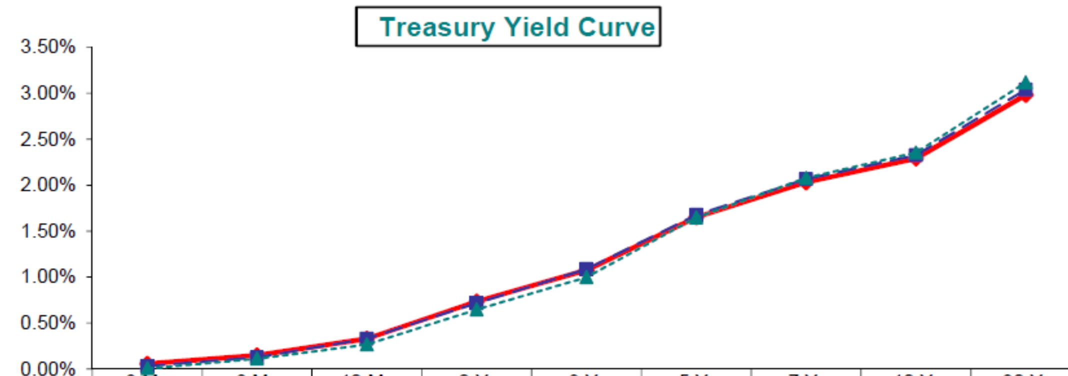
0 – 3 Months	22%	$ 45,804,175.67
3 – 6 Months	42%	90,112,044.52
6 – 9 Months	17%	36,069,615.69
9 – 12 Months	19%	40,561,485.85

The District portfolio currently outperforms all the **benchmark comparisons**.



Note 1: CMT stands for Constant Maturity Treasury. This data is published in Federal Reserve Statistical Release H.15 and represents an average of all actively traded Treasury securities having that time remaining until maturity. This is a standard industry benchmark for Treasury securities. The CMT benchmarks are moving averages. The 3-month CMT is the daily average for the previous 3 months, the 6-month CMT is the daily average for the previous 6 months, and the 1-year and 2-year CMT's are the daily averages for the previous 12-months.

Note 2: Benchmark data for TexPool is the monthly average yield.



	3 Mo	6 Mo	12 Mo	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr	30 Yr
Current	0.056%	0.148%	0.331%	0.735%	1.074%	1.651%	2.030%	2.290%	2.981%
One Week Ago	0.031%	0.127%	0.331%	0.715%	1.086%	1.675%	2.064%	2.325%	3.038%
One Month Ago	0.005%	0.112%	0.265%	0.645%	0.999%	1.648%	2.079%	2.353%	3.117%

The **TexPool Economic & Market Commentary for August, 2015**, notes that,

Month in Cash: How times have changed

The incessant buzz surrounding whether the Federal Reserve will or won't initiate liftoff in September, got us thinking about how much times have changed. We can recall a meeting years ago in the board room on the 27th floor of our Downtown office building. It was with members of the New York Federal Reserve Bank, and the discussion centered on the possibility the target funds rate, 1% at the time, could be lowered another 25 basis points to 0.75% … 0.75%!

We thought that was madness; now, we'd be jumping for joy over such a rate! And, frankly, we believe we will get to 0.75% at some point next year, likely in the first half of 2016. We also think the Fed will initiate its first increase in the funds rate in nine years at its meeting next month, the noise surrounding its late July post-meeting statement notwithstanding. If you strip that statement down, there were less than 10 word changes, with a lot of consternation focused on the addition of the word "some,'' as in policymakers need to see "some" further improvement in the labor markets to justify a rate hike. Honestly, this all sounds like word sniffing to me.

Based on the economic data and events since the Fed met in June and signaled a September move (July's was a non-press conference, non-forecast meeting, which is why there was so much obsession over word changes), it doesn't appear to me that policymakers are wavering. Fed Chair Janet Yellen's biannual comments to Congress last month, as well as those from other Fed governors, were supportive of a September move. And despite a few bumps, most notably in manufacturing, the stream of economic news has been pretty good. The latest GDP report showed consumer spending picking up and housing continuing to improve. Outside of stubbornly modest wage gains, the labor market continues to act as if it's the 1990s.

We do think the Fed will tread very gingerly once it begins to move. Our scenario sees a rate hike of 25 basis points or so every second or third meeting, starting with September as opposed to December, as some are currently suggesting. Given the cash-flow complications and all the funding and window-dressing moves that occur in the money market toward the end of every year, to toss in the beginning of a policy of raising rates when they've effectively been at zero for seven years wouldn't make a lot of sense from our perspective. That said, we wouldn't be surprised if the Fed only makes one move this year; its first meeting in 2016 is in late January, so skipping December wouldn't be such a big deal.

With the cash market starting to price in a move, we've been able to find value in floaters—floating-rate instruments that reset periodically and generally benefit in a rising-rate environment—and further out on the cash yield curve. This has resulted in a unique circumstance in our portfolios—the weighted average life of our holdings has extended by about 10 days over the past month as we moved out on the curve, but the weighted average maturity hasn't budged, reflecting a big increase in holdings of floaters that reset monthly. See you—and the Fed?—in September.

Earnings from Temporary Deposits and Investments are $31,853.40 for July and year-to-date for all funds.

Fund	Month	Year-To-Date
General Fund	$ 11,587.40	$ 11,587.40
Special Revenue Funds	8.88	8.88
Debt Service Funds	104.73	104.73
Capital Projects Funds	4,007.24	4,007.24
Capital Projects Funds – AFB	16,145.15	16,145.15
Total	$ 31,853.40	$ 31,853.40

Recommendation: Review the enclosed Financial and Investment Report.

Respectfully submitted,

Karen G. Rue, Ed.D.

Jon Graswich, CPA