Northwest Independent School District

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

To: Board of Trustees

From: Ryder Warren, Ed.D., Superintendent of Schools

Subject: August Financial and Investment Report

Date: September 26, 2016

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 August 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 August, 2016.

The Investment Report, prepared by the District's investment advisors, First Southwest Asset Management, Inc., encompasses the month ending August, 2016, and is submitted in accordance with the provisions of the Public Funds Investment Act.

The following investments matured in August:
- $ 5,040,581.70 Certificate of Deposit One (Capital Projects AFB)
- $ 7,527,459.02 Certificate of Deposit One (Capital Project)
- $ 10,000,000.00 Treasury Note One (Operating)
- $ 25,000,000.00 Agency DISCO One (Interest & Sinking)

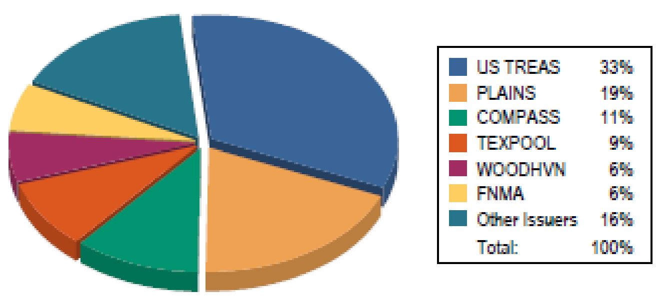
The following investments were purchased in August:
- $ 10,037,448.13 Treasury Note Two (Capital Projects AFB)
- $ 10,005,264.95 Treasury Note One (Interest & Sinking)

Investments for the District's General Fund, Debt Service Funds, Capital Projects Funds, and Internal Service Funds total $197,218,752.90 as of August 31, 2016.

Fund	**Yield to Maturity**	**Market Value**
General Fund	0.617%	71,460,581.61
Special Revenue Funds	0.586%	1,165,463.73
Debt Service Funds	0.606%	22,048,935.09
Capital Projects Funds	0.459%	63,856,135.34
Capital Projects Funds - AFB	0.517%	38,687,637.13
Total	0.545%	$197,218,752.90

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."

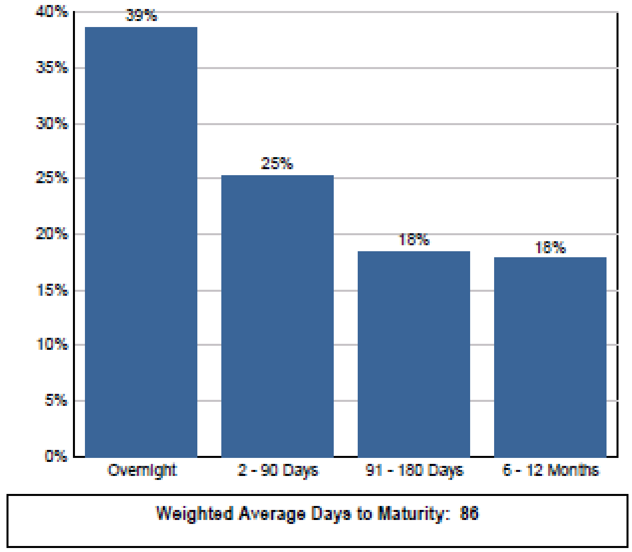
The District portfolio is concentrated in terms of **investment instruments** (Certificates of Deposit). These concerns are addressed by the low risk nature of the certificates of deposit and the maintenance of collateral by the various financial institutions to guarantee the safety of the investments.



Portfolio Composition by Security Type	
Local Government Investment Pool	9%
Certificates of Deposit	36%
Bank Deposit	11%
Agency Bullet	9%
Treasury	33%
AGCY DISCO	3%

Portfolio Composition by Issuer	
Texpool	9%
Plains	19%
Compass	11%
FNMA	6%
US Treasury	33%
Other Issuers	16%
Woodhaven	6%

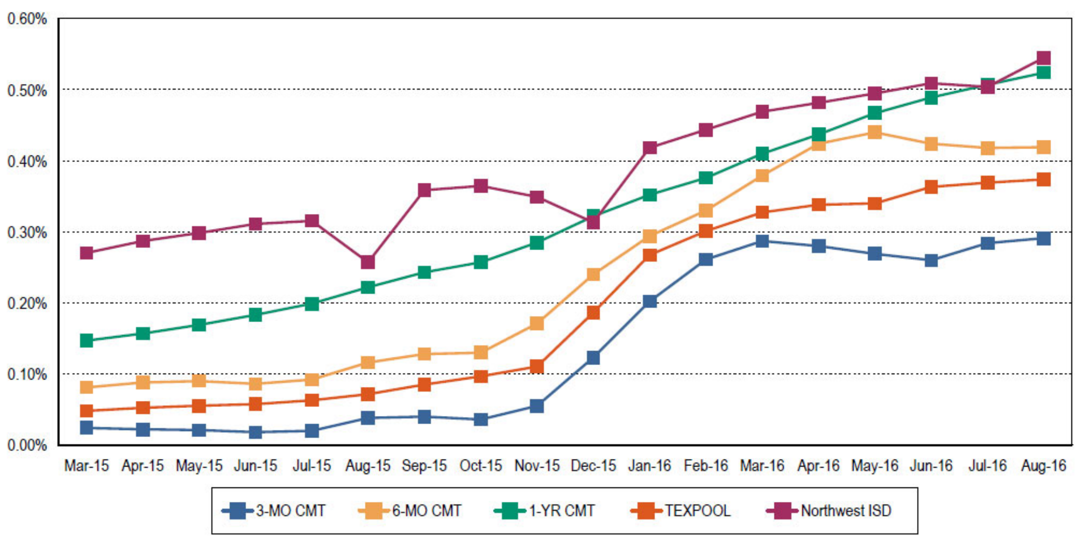
The District portfolio is diversified in terms of **maturity scheduling:**



<u>Maturity Schedule</u>

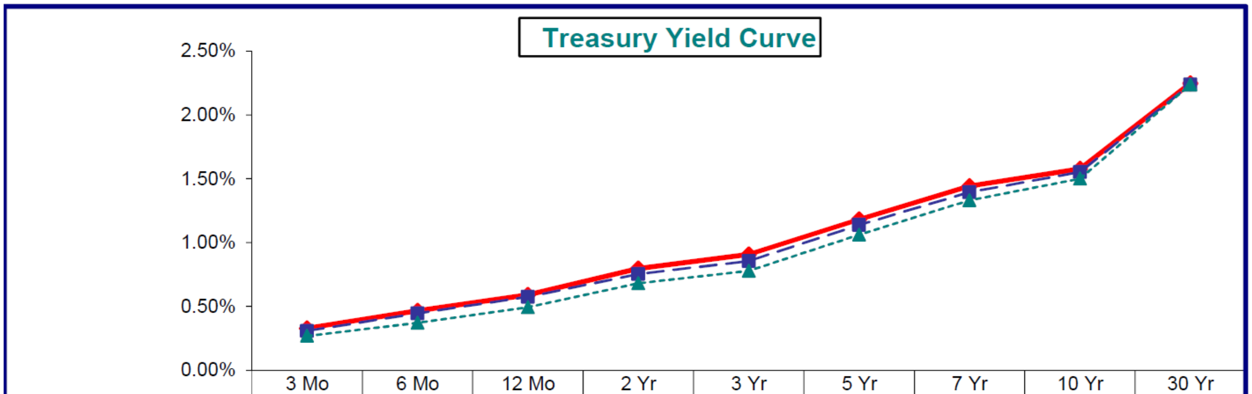
Overnight	39%	$ 76,186,196.28
0 – 3 Months	25%	49,826,520.74
3 –6 Months	18%	36,168,010.94
6 – 12 Months	18%	35,038,024.94

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	0.330%	0.467%	0.591%	0.797%	0.908%	1.182%	1.443%	1.577%	2.248%
One Week Ago	0.309%	0.447%	0.575%	0.754%	0.857%	1.140%	1.395%	1.554%	2.238%
One Month Ago	0.269%	0.371%	0.493%	0.683%	0.780%	1.062%	1.332%	1.501%	2.237%

The **TexPool Economic & Market Commentary for September, 2016**, notes that,

Liquidity, liquidity, liquidity.

Not quite "location, location, location," but as the implementation date for the new SEC money market fund reforms draws near, cash managers have a mantra that is as all encompassing as that famous Realtor one.

The long-term impact of the money fund reforms that take effect on Oct. 14 has dominated the dialogue to this point, and for good reason. As is well known by now, investors and institutions have been forced to decide if they want to stay in the two categories of money funds—institutional prime and tax-free (municipal) funds—that will have to float the net asset value (NAV) of their shares, or move into government money market portfolios. The latter will retain the ability to use amortized cost for daily pricing and as such, retain their stable NAV of $1.00. It is not just a case of some investors preferring a stable NAV, many must go that route because of their policies regarding risk.

But managers of floating NAV portfolios have plenty to figure out themselves due to the new rules. First and foremost, cash managers and their firms have been working hard to strategize about the future cash flows and to offer their clients new options and products, as we have. Most managers are in a holding pattern as prime and muni clients Security selection and yield are always prominent, but the responsible approach is to be able to service clients in whatever decision they make.

Actually, most money market firms have a good idea what their clients will do, if they haven't already done it. But we respect their right to change their minds, so redemptions need to be more of a focus than decision-making based on expectations of the Fed's next rate hike or even on value. With the prime money market yield curve, i.e., the London interbank offered rate (Libor), currently so high above that of the Treasury yield curve, many clients are going to wait until the last minute to switch to grab as much yield as possible. So, although our prime portfolios' weighted average maturity (WAM) targets remain at 35-45 days, they are presently in the lowteens and we are buying short-dated instruments. That just shows how much we must prepare for any scenario.

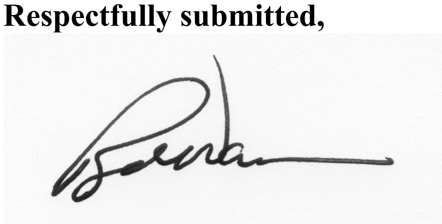
Having said that, the Fed is still on our minds. The minutes of the most recent Federal Open Market Committee (FOMC) meeting in July, as well as Fed Chair Janet Yellen's speech at the Jackson Hole, Wyo., meeting of central bankers, suggest policymaker confidence in the U.S. economy. She even went so far as to say: "the case for an increase in the federal funds rate has strengthened in recent months" and that the U.S. economy is "now nearing the Federal Reserve's statutory goals of maximum employment and price stability." The data has to stay on its present upward trajectory, but our outlook, therefore, is still that there will be a move in 2016, possibly this month, but more logically in December after the election. It's gearing up to be a momentous autumn.

Earnings from Temporary Deposits and Investments are $180,949.22 for August and $250,850.82 year-to-date for all funds.

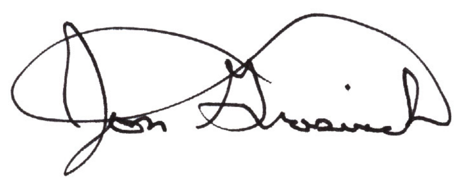
Fund	**Month**	**Year-To-Date**
General Fund	$ 51,347.78	$ 93,222.66
Special Revenue Funds	3,694.75	3,638.99
Debt Service Funds	55,110.47	62,165.68
Capital Projects Funds	34,396.27	64,668.78
Capital Projects Funds – AFB	36,399.95	27,154.71
Total	$ 180,949.22	$ 250,850.82

Recommendation: Review the enclosed Financial and Investment Report.

Respectfully submitted,



Ryder Warren, Ed.D., Superintendent



Jon Graswich, CPA, Associate Superintendent
for Business and Operations