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: December Financial and Investment Report

Date: January 23, 2017

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 December 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 December, 2016.

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

Also included with the investment information this month is the First Southwest Asset Management, Inc. Public Investor Update which recaps the Quarter Ending December 31, 2016.

The following investments matured/sold in December:

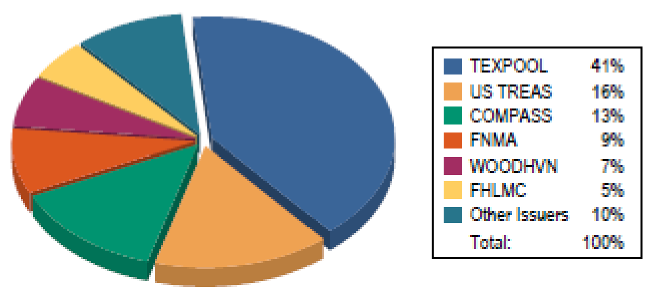
- $ 2,500,000.00 Securities One (Capital Projects)

Investments for the District's General Fund, Debt Service Funds, Capital Projects Funds, and Internal Service Funds total $193,044,086.96 as of December 31, 2016.

Fund	**Yield to Maturity**	**Market Value**
General Fund	0.553%	74,896,380.70
Special Revenue Funds	0.597%	1,164,885.46
Debt Service Funds	0.543%	40,222,137.99
Capital Projects Funds	0.529%	38,101,376.23
Capital Projects Funds - AFB	0.668%	38,659,306.58
Total	0.569%	$193,044,086.96

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."

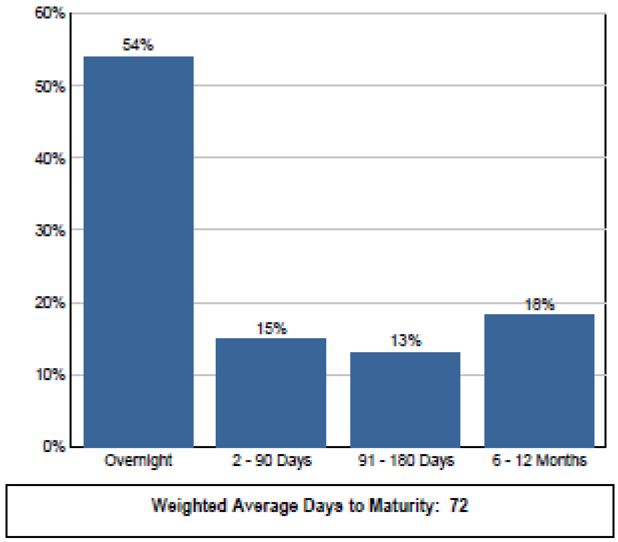
The District portfolio is concentrated in terms of **investment instruments** (Certificates of Deposit). These concerns are addressed by the low risk nature of the certificates of deposit and the maintenance of collateral by the various financial institutions to guarantee the safety of the investments.



Portfolio Composition by Security Type	
Local Government Investment Pool	41%
Certificates of Deposit	14%
Bank Deposit	13%
Agency Bullet	16%
Treasury	16%

Portfolio Composition by Issuer	
Texpool	41%
FHLMC	5%
Compass	13%
FNMA	9%
US Treasury	16%
OtherIssuers	10%
Woodhaven	7%

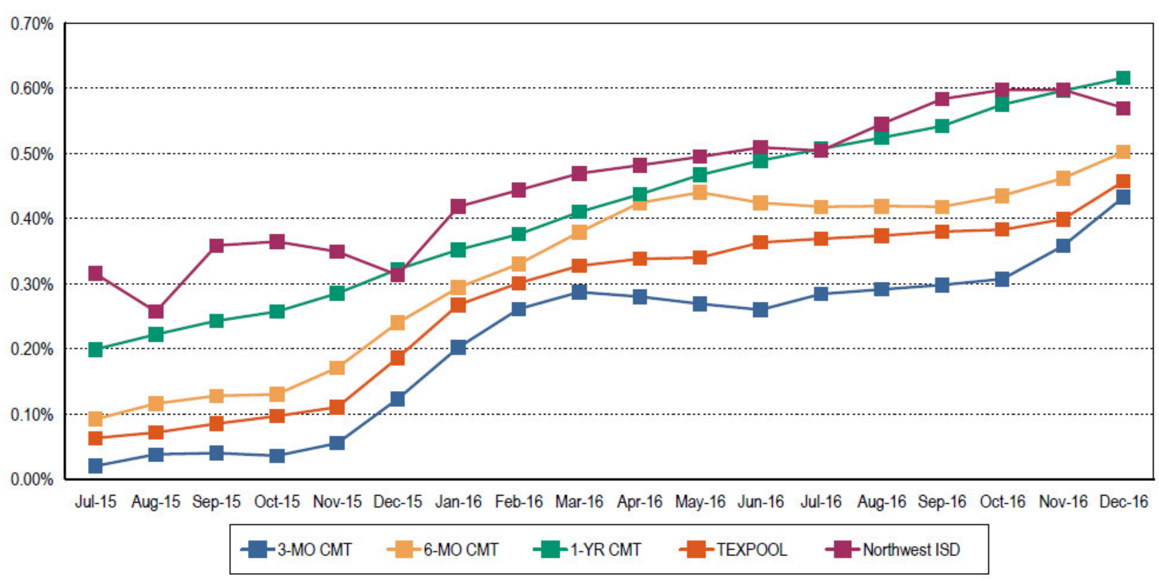
The District portfolio is diversified in terms of **maturity scheduling:**



Maturity Schedule

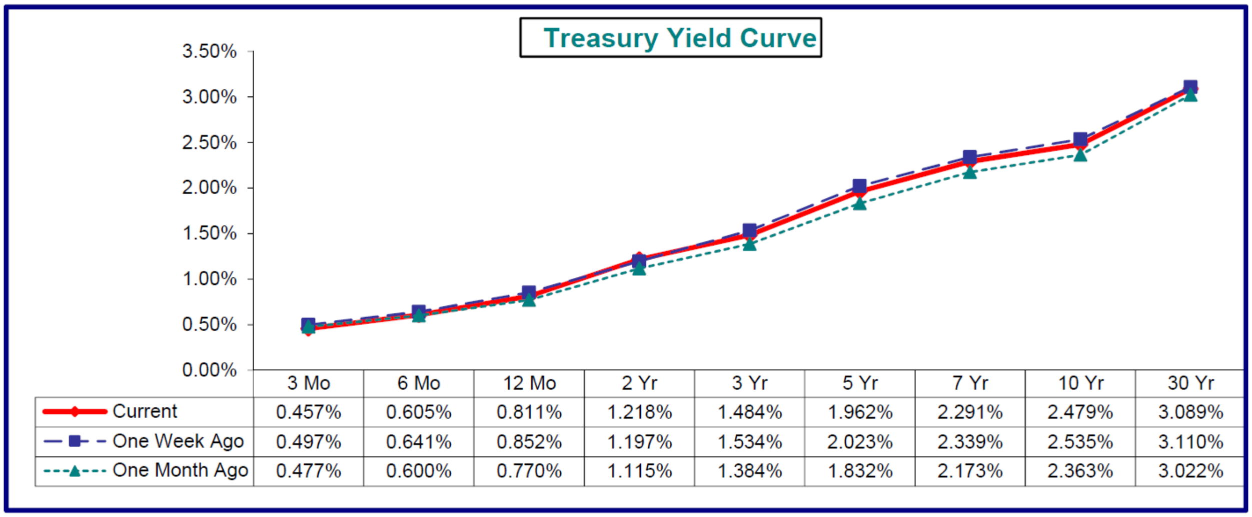
Overnight	54%	104,320,689.95
0 – 3 Months	15%	28,616,923.14
3 –6 Months	13%	25,052,788.40
6 – 12 Months	18%	35,053,685.47

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	0.457%	0.605%	0.811%	1.218%	1.484%	1.962%	2.291%	2.479%	3.089%
One Week Ago	0.497%	0.641%	0.852%	1.197%	1.534%	2.023%	2.339%	2.535%	3.110%
One Month Ago	0.477%	0.600%	0.770%	1.115%	1.384%	1.832%	2.173%	2.363%	3.022%

The **TexPool Economic & Market Commentary for January, 2017**, notes that,

2017 Outlook

The Federal Reserve met expectations—essentially 100% of them—by hiking its target rate in mid-December. That's good news, of course, but don't get used to expectations being met in 2017. It is setting up to be volatile, with expectations a little too positive amid many unknowns. One uncertainty is the tease the Federal Open Market Committee gave with new "dot plot" projections indicating the potential for three hikes in 2017. The market seems to have bought it. We still think two are more likely, although coming in March and September rather than June and December. That shift would leave open the possibility for a third move in December.

The largest variable is the fiscal policy the Trump administration will officially propose. We know less about his plans than those of any incoming administration in recent times. That spells volatility, even though its impact won't be felt immediately. We have been conditioned in recent years to look to monetary policy alone for action on the economy. Now we should finally have real fiscal changes to consider. Expectations again play a role as people have high hopes for the positives Trump could serve up. We hope those will be met and that the Fed will keep its upward momentum, but there is plenty of room for disappointment. Remember, this is a Fed that has been reactive to conditions in the global markets, often allowing them to influence its decisions. In 2016 alone, it didn't tighten due to the volatility TexPool Participant Services Managed and associated with China or the surprise of Brexit. It might not take much to throw the Fed off course again.

But the most significant element in 2017 could relate to regulation—specifically the peeling back of some. This would be a boon to cash managers. While the recent money market reform is likely to remain, other regulations also have impacted us. Over the course of 2016, banking regulators influenced the patterns and predictability of issuers, leading many to cut back issuance lest they not have the required liquidity levels. This uncertainty was detrimental to the industry; money markets need short-term financing to work smoothly. It would help tremendously if banks were able to issue more 1-, 2- and 3-month commercial paper and CDs without worrying about being penalized. Thankfully, the U.S. Treasury stepped in and issued more bills and notes to bridge the gaps in 2016. But if banking regulations get rolled back to some degree, it should make for a more productive world for money market pools.

Don't let the specifics we have mentioned above be the trees that cause you to lose sight of the forest. Overall, we are positive about 2017 and see upward steps for money market pools as yields most likely will increase as we get Fed moves. December ended the year on an upbeat note, and it may very well be a happy new one.

Earnings from Temporary Deposits and Investments are $59,866.64 for December and $781,358.48 year-to-date for all funds.

Fund	Month	Year-To-Date
General Fund	$ 14,248.56	$ 292,782.09
Special Revenue Funds	-43.71	3,431.33
Debt Service Funds	313.95	53,034.28
Capital Projects Funds	23,595.62	303,812.91
Capital Projects Funds – AFB	21,752.22	128,297.87
Total	$ 59,866.64	$ 781,358.48

Recommendation: Review the enclosed Financial and Investment Report.

Respectfully submitted,

Ryder Warren, Ed.D., Superintendent

Jon Graswich, CPA, Associate Superintendent for Business and Operations