FORT BEND INDEPENDENT SCHOOL DISTRICT
INVESTMENT STRATEGY

POLICY

The Fort Bend Independent School District (the District) shall invest funds in a manner that will provide the maximum security and the best commensurate yield while meeting the daily cash flow demands of the District and conforming to all federal, state and local statutes, rules and regulations governing the investment of public funds including the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. This Strategy sets forth the investment program of the District and the guidelines to be followed in achieving its objectives.

Not less than annually, the Fort Bend Independent School District Board of Trustees shall adopt a written instrument by resolution stating that it has reviewed the Investment Strategy and that the written instrument so adopted shall record any changes made.

SCOPE

This strategy governs the investment of all funds of the District except those that are not directly managed by the authority of the Board of Trustees. This Strategy shall be made available to anyone who has management responsibility for any District funds, and in the absence of their specific investment strategy, or not otherwise being governed by state law, this Strategy shall prevail.

Funds covered by this Strategy are as follows:

GENERAL FUNDS — This fund usually includes transactions as a result of revenues from local maintenance taxes, payments in lieu of taxes, foundation entitlements, and other Foundation School Program sources.

SPECIAL REVENUE FUNDS — Special revenue funds are governmental funds used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

DEBT SERVICE FUNDS — A debt service fund is a governmental fund, with budgetary control, that must be used to account for general long-term debt principal and interest for debt issues and other long-term debts for which a tax has been dedicated.

CAPITAL PROJECTS FUNDS — A capital projects fund is a governmental fund that must be used to account, on a project basis, for projects financed by the proceeds from bond issues, or for capital projects otherwise mandated to be accounted for in this fund.

ENTERPRISE FUNDS — This fund is used to accounts for business type activities including the operations of extended day and facility rentals.

INTERNAL SERVICE FUNDS — Internal service funds are a proprietary fund accounted for on the accrual basis.

TRUST AND AGENCY FUNDS — This group of funds is used to account for assets held by a school district in a trustee capacity of the District, or as an agent for individuals, private organizations, other governmental units and/or other funds. This fund type consists of expendable trust funds, nonexpendable trust funds, pension trust funds and agency funds.

Funds not covered by this Strategy are as follows:

TEXAS TEACHER RETIREMENT FUND

All employees of Fort Bend Independent School District employed for one-half or more of the standard work load, and who are not exempted from membership under Texas Government Code, Title I, Subtitle C Section 822.002, are required to participate in the Teacher Retirement System of Texas (the “System”), a multiple-employer public employee retirement system (“PERS”). It is a cost-sharing PERS with one exception - all risks and costs are not shared by the District, but are the liability of the State of Texas, as such, all investments are maintained by the Teacher Retirement System.

PENSION PLAN FOR EMPLOYEES

Fort Bend ISD has established a Deferred Compensation FICA Alternative Plan (the FICA Alternative Plan) for non-TRS Employees, which is a single-employer contribution plan giving retirement benefits to employees who are not eligible to participate in TRS. FBISD has also established an Employee Incentive Plan which is an employer contribution retirement plan established under section 401(a) of the Internal Revenue Code. Such plans are not subject to the rules and regulations surrounding the Public Funds Investment Act. The investments of these plans are managed by the district's third-party administrator in accordance with the plan document.

OBJECTIVE

Investment of the funds covered by this Strategy shall be governed by the following investment objectives, in the order of priority:

SAFETY: Safety of principal is the primary objective of the Investment Strategy. Investment of the District's funds shall be undertaken in a manner that seeks to ensure the preservation of capital for the overall portfolio. To attain this objective, investment in only high-quality securities and diversification are required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

LIQUIDITY: The District's investment portfolio will remain sufficiently liquid to enable the District to meet all operating requirements that might be reasonably anticipated.

YIELD: The District's investment portfolio shall be designed with the objective of attaining the best yield, throughout budgetary and economic cycles, commensurate with the District's investment risk constraints and the cash flow characteristics of the portfolio.

The District shall monitor the rating of all investments and collateral at least quarterly and shall include the ratings in the regular investment report. The ratings may be obtained from one of the following nationally recognized rating companies: Standard & Poor's, Fitch, Moody, or any other nationally recognized company.

DELEGATION OF AUTHORITY

The Chief Financial Officer, under the direction and authority of the Board of Trustees shall direct the cash management program of the District as defined in CDA Legal and CDA Local. Pursuant to Chapter 2256.005 of the Texas Government Code, the Board of Trustees shall designate the Chief Financial Officer, Executive Director of Finance, Director of Finance, and District Treasurer as investment officers responsible for the investment of its funds, under the direction and authority of the Board of Trustees.

The District's investment officers shall establish written procedures for the operation of the investment program consistent with this Investment Strategy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this Strategy and the written procedures. Authority granted to a person to invest the District's funds is effective until rescinded or until termination of the person's employment by the District. The investment officers shall be responsible for all transactions undertaken and shall establish a system of controls, to be reviewed by the District's Internal Auditor, to regulate the activities of subordinate officials. The investment officers shall possess sufficient working knowledge of economics and securities markets, as well as the supervisory experience and judgment necessary to carry out the responsibilities outlined in this Strategy.

PRUDENCE

The governing body of the investing entity retains ultimate responsibility as fiduciaries of the assets of the entity and shall ensure that investments shall be made with judgment 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 officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the Investment Strategy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

In determining whether an investment official has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the investment of all funds over which the official had responsibility rather than consideration as to the prudence of a single investment and, whether the investment decision was consistent with the District's Investment Strategy and written investment procedures.

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.

Officers and employees involved in the investment process shall sign annual statements agreeing to abide by this section of the Investment Strategy and affirming no known conflicts of interest.

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.

CAPABILITY OF INVESTMENT MANAGEMENT

The District shall provide periodic training in investments for the investment personnel through courses and seminars offered by professional organizations and associations in order to insure the quality and capability of the District's investment personnel making investment decisions in compliance with the PFIA.

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

District funds governed by this Strategy may be invested in the instruments described below, all of which are authorized by Chapter 2256 of the Government Code (Public Funds Investment Act). However, investments in instruments other than government securities shall be made only if the yield is equal to or greater than the bond equivalent yield on U.S. Treasury obligations of comparable maturity.

Investments not listed below, including any of the following are strictly prohibited:

- Mortgage obligations
  (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
  (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
  (3) collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and

(4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index

- Reverse repurchase agreements
- Corporate bonds issued by domestic business entities.

In addition, the purchase of specific issues may at times be restricted or prohibited by the Chief Financial Officer due to current market conditions.

An investment that requires a minimum rating under this section 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 consistent with this Investment Strategy to liquidate an investment that does not have the minimum rating.

- Direct obligations of the United States of America.
- 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 of America.
- Direct obligations of the State of Texas or its agencies, which are unconditionally guaranteed or insured by the full faith and credit of the State of Texas.
- Obligations of other school districts which are unconditionally guaranteed by the Permanent School Fund.
- Obligations of cities, counties, and other political subdivision located in the state of Texas rated with an investment quality not less than A or its equivalent.
- Direct obligations of the following United States agencies and instrumentalities including, but not limited to:
  - Federal Farm Credit System
  - Federal Home Loan Bank System
  - Federal Home Loan Mortgage Corp.
  - Federal National Mortgage Association
  - Federal Agricultural Mortgage Corporation
- Fully collateralized Certificates of Deposit/Share Certificates of a depository institution or a broker (selected from a list adopted by the investing entity) with a main office or branch located in the state of Texas provided that they:
  - are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor; or
  - have a stated maturity of 365 days or fewer from the date of its issuance; and
    - is not rated less than A-1 or P-1 or an equivalent rating by at least two nationally recognized credit rating agencies; or
    - one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issues by a bank organized and existing under the laws of the United States or any state.
  - are secured by obligations of the United States government described above.
- Repurchase Agreement, approved by the District's Board of Trustees, which details eligible collateral, collateralization ratios, standards for collateral custody and control, collateral valuation, and conditions for agreement termination and provided the repurchase agreement:
  - has a defined termination date;
  - is secured by obligations of the U.S. Treasury;
  - requires the securities being purchased by the District to be assigned to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District; and
  - is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state, and which is rated no less than A or its equivalent by two nationally recognized rating services.

- Commercial Paper provided:
  - has a stated maturity of 365 days or fewer from the date of issuance;
  - is rated not less than A-1 or P-1 or an equivalent rating by at least two nationally recognized rating services or by one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state.
- No-load money market mutual funds that are registered with and regulated by the Securities and Exchange Commission that:
  - have a dollar-weighted average stated maturity of 90 days or fewer;
  - seek to maintain a stable net asset value of $1 per share;
  - are rated not less than Aaa/AAA, Aaam/AAAm or an equivalent rating by at least one nationally recognized rating service; and
  - have provided the District with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940.

  Investments will be made in a money market mutual fund only after a thorough investigation of the fund and collective approval by the District's designated investment officers who shall, at least annually, review, revise and adopt a list of approved funds.
- Local government investment pools, created to function as money market mutual funds, organized in conformity with Chapter 791 (Inter Local Cooperation Contracts Act) and Chapter 2256 (Public Funds Investment Act) of the Government Code that:
  - have a dollar-weighted average stated maturity of 90 days or fewer;
  - seek to maintain a stable net asset value of $1 per share;
  - are rated not less than Aaa/AAA or an equivalent rating by at least one nationally recognized rating service; and
  - have provided the District with an offering circular and other information required by the Public Funds Investment Act.
- Local government investment pools that do not meet the requirements of one that is created to function as a money market mutual fund must:
  - maintain a maximum average dollar weighted maturity that does not exceed 365 days, or 366 days in the case of a leap year,
  - provide a fixed interest rate and fixed maturity term for each pool position,
  - be rated not less than Aaa/AAA, Aaam/AAAm or an equivalent rating by at least one nationally recognized rating service; and
  - have provided the District with an offering circular and other information required by the Public Funds Investment Act.

  To become eligible, investment pools must meet all the requirements of state law as determined under Chapter 2256 of the Government Code, as amended; and be approved by District Board of Trustees action. Investments will be made in a local government investment pool only after a thorough investigation of the pool and approval by the Investment Committee which shall, at least annually, review, revise and adopt a list of approved pools.

AUTHORIZED BROKER/DEALERS AND FINANCIAL INSTITUTIONS

The Board of Trustees, in consultation with the Superintendent and 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.

SELECTION OF DEPOSITORY

The Board of Trustees shall select and designate a depository institution in accordance with Texas Education Code 45.202. The depository shall be selected based upon its solvency and stability of leadership as well as on the services provided. The depository shall be selected through a formalized competitive process in response to the District's request for proposal (RFP) outlining all services required. Such services should provide the greatest flexibility for money management and should include online account management, controlled disbursement, positive pay account with vendor recognition, controlled ACH disbursement, overnight sweeps, and purchasing card capabilities.

The District shall have the discretion to determine the time span for requesting proposals for the depository contract; however, a six-year period will be the maximum length of time between competitive processes.

COMPETITIVE BIDDING

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,
- brokers that are exclusive for the sale

At least three bids or offers must be solicited for all other transactions involving individual securities. The District's investment advisor is also required to solicit at least three bids or offers when transacting trades on the District's behalf. 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
1. Direct obligations of the United States of America which includes Treasury bills, bonds and notes.	100%
2. 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%
3. Letter of Credit issued by a Federal Home Loan Bank	100%

SAFEKEEPING AND CUSTODY

Safekeeping and custody of securities and collateral shall be in accordance with state law. It shall be the District's intent to place securities and collateral in the possession of a third party custodian designated by the District where feasible, and held in the District's name as evidenced by safekeeping receipts of the institution with which the securities are deposited.

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.

INVESTMENT STRATEGIES

The District maintains separate portfolios for individual funds that are managed according to the terms of this Strategy and the following corresponding investment strategies:

- ensure safety of principal by investing only in high-quality securities for which a strong secondary market exists;
- ensure that anticipated cash flows are matched with adequate investment liquidity;
- limit market and credit risk through diversification.

SALE OF SECURITIES

The District's strategy is to hold securities to maturity. However, securities may be sold:

- in order to minimize the potential loss of principal on a security whose credit quality has declined; or
- in order to swap into another security which would improve the quality, yield, or target duration of the portfolio; or
- in order to meet unanticipated liquidity needs of the portfolio.

EXEMPTION OF EXISTING INVESTMENTS

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy. The District is not required to liquidate investments that were authorized investments at the time of purchase.

ARBITRAGE

The Tax Reform Act of 1986 provided limitations restricting the amount of income that could be generated from the investment of tax-exempt General Obligation Bond proceeds and debt service income. The arbitrage rebate provisions require that the District compute earnings on investment from each issue of bonds on an annual basis to determine if a rebate is required. To determine the District's arbitrage position, the District is required to perform specific calculations relative to the actual yield earned on the investment of the funds and the yield that could have been earned if the funds had been invested at a rate equal to the yield on the bonds sold by the District. The rebate provision states that periodically (not less than once every five years, and not later than sixty days after the maturity of the bonds), the District is required to pay the U.S. Treasury a rebate of excess earnings based on the District being in a positive arbitrage position. The Tax Reform restrictions require precision in the monitoring and recording of investments as a whole, and particularly as relates to yields and computations so as to ensure compliance. Failure to comply can dictate that the bonds become taxable, retroactively from the date of issues.

FORT BEND INDEPENDENT SCHOOL DISTRICT
INVESTMENT STRATEGY

The District's investment position relative to arbitrage is the continued pursuit of maximizing the yield on applicable investments while ensuring the safety of capital and liquidity. It is a fiscally sound position to continue maximization of yield and rebate excess earnings, if necessary.

DIVERSIFICATION AND MAXIMUM MATURITIES

The District's investment portfolios, in aggregate, will be diversified to limit market and credit risk by observing the following limitations at each month-end:

SECURITY	MAXIMUM STATED MATURITY	ISSUER LIMITATIONS	FUNDS AUTHORIZED
U.S. TREASURIES	2 years	100% of the total portfolio may be invested in obligations of the U.S. Treasury.	General Fund Special Revenue Fund Debt Service Fund Capital Projects Fund
U.S. AGENCIES / INSTRUMENTALITIES	2 years	No more than 60% of the total portfolio may be invested in the obligations of any one issuer. The District may not own more than 10% of any single issue.	General Fund Special Revenue Fund Debt Service Fund Capital Projects Fund Internal Service Fund
OBLIGATIONS OF STATES, AGENCIES, COUNTIES, CITIES & OTHER POLITICAL SUBDIVISIONS	2 years	No more than 60% of the total portfolio may be invested in the obligations of any one issuer rated A or higher by a nationally recognized rating firm. The District may not own more than 10% of any single issue.	General Fund Special Revenue Fund Debt Service Fund Capital Projects Fund Internal Service Fund
REPURCHASE AGREEMENTS	30 days	No more than 15% of the portfolio may be invested with one counterpart (Note 1).	General Fund Capital Projects Fund
MONEY MARKET MUTUAL FUNDS	NA	The District may not invest more than 30% of the District's investment portfolio in any one fund.	General Fund Special Revenue Fund Debt Service Fund Capital Projects Fund Enterprise Funds Internal Service Fund Trust and Agency Fund
LOCAL GOVERNMENT INVESTMENT POOLS	NA	The District may not invest more than 35% of the District's local government investment pool total in any one local government investment pool.	General Fund Special Revenue Fund Debt Service Fund Capital Projects Fund Enterprise Funds Internal Service Fund Trust and Agency Fund
COMMERCIAL PAPER	365 days	The District may not invest more than 10% of the District's investment portfolio in any one fund.	General Fund Capital Projects Fund Debt Service Fund
CERTIFICATES OF DEPOSIT	1 year	The District may not invest more than 40% of the District's investment portfolio in collateralized certificates of deposit. Each CD may not exceed $25 million in any one depository at any given time.	General Fund Special Revenue Fund Debt Service Fund Capital Projects Fund Enterprise Funds Internal Service Fund Trust and Agency Fund

In addition to the above limitations the District's Investment Portfolio shall be diversified by market sector as follows:

MARKET SECTOR	MAXIMUM PERCENTAGE OF INVESTMENT PORTFOLIO
U.S. TREASURIES	100%
U.S. AGENCIES/INSTRUMENTALITIES FIXED-RATE NOTES	60% (maximum 15% callable)
U.S. AGENCIES/INSTRUMENTALITIES DISCOUNT NOTES	60%
OBLIGATIONS OF THE STATE OF TEXAS OR ITS AGENCIES	20%
OBLIGATIONS OF OTHER LOCAL SCHOOL DISTRICTS BACKED BY THE PERMANENT SCHOOL FUND	25%
REPURCHASE AGREEMENTS	15%
MONEY MARKET MUTUAL FUNDS	60%
LOCAL GOVERNMENT INVESTMENT POOLS	75%
COMMERCIAL PAPER	10%
CERTIFICATES OF DEPOSIT	40%

Note 1: With respect to bond proceeds and other bond funds, the District may specifically authorize investments in repurchase agreements with maturities in excess of 30 days subject to any required approvals from bond insurers and the Board of Trustees.

Note 2: Under adverse market conditions, the District may deviate from the limitations outlined above for periods of 90 days or less, with the Superintendent's approval, in order to sufficiently maintain safety and liquidity.

Note 3: For Long-Term Variable Rate Securities for which the principal amount is scheduled to be paid in more than 397 calendar days, that is subject to a Demand Feature, the maximum "stated maturity date" may not exceed the maximum date allowed by law and for purposes of this policy, the "maturity date" shall be the date the principal amount can be recovered through demand and in no case shall the "maturity date" exceed two years.

REPORTING

Investment performance is regularly monitored by investment staff and reported to the Board of Trustees. Month-end market prices on each security are obtained from the District's investment software database that receives its information from a variety of nationally recognized securities databases (e.g., the Wall Street Journal, Bloomberg, etc.). These prices are recorded in the District's portfolio database and included in all management reports as well as the District's Comprehensive Annual Financial Report.

Not less than quarterly the Investment Officers will submit to the Board of Trustees a written report of the status of the current investment portfolio. The report must meet the requirements of Chapter 2256 of the Government Code (Public Funds Investment Act) and:

- describe in detail the investment and accrued interest receivable position of the District on the date of the report;
- be prepared jointly by all investment officers of the District;
- be signed by each investment officer of the District (Electronic signatures are allowed based on Board Policy CQ (Local));
- state the book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested;
- state the maturity date of each separately invested asset that has a maturity date;
- state the current rating of each investment;
- state the account or fund or pooled fund group for which each individual investment was acquired; and

- state the compliance of the investment portfolio as it relates to the investment strategy and relevant provisions of this Strategy and the Public Funds Investment Act.

An independent auditor shall formally review all quarterly investment reports prepared under this section at least annually, and that auditor shall report the results of the review to District Board of Trustees.

ANNUAL COMPLIANCE AUDIT

In conjunction with the annual financial audit, a compliance audit shall be performed which includes an audit of management controls on investments and adherence to the District's established strategy.

GLOSSARY OF TERMS

ACCRETION OF DISCOUNT: Periodic straight-line increases in the book or carrying value of a security so the amount of the purchase price discount below face value is completely eliminated by the time the bond matures or by the call date, if applicable.

ACCRUED INTEREST: The interest accumulated on a security from its issue date or since the last payment of interest up to but not including the purchase date. The purchaser of the security pays to the seller the market price plus accrued interest.

AMORTIZATION OF PREMIUM: Periodic straight-line decreases in the book or carrying value of a security so the premium paid for a bond above its face value or call price is completely eliminated.

ASK: The price at which sellers offer securities.

BARBELL MATURITY STRATEGY: A maturity pattern within a portfolio in which maturities of the assets in the portfolio are concentrated in both the short and long ends of the maturity spectrum.

BASIS POINT: One one-hundredth (1/100) of one percent; 0.0001 in decimal form.

BENCHMARK: A comparative base for performance evaluation. A benchmark can be a broad-based bond index, a customized bond index, or a specific objective.

BID: The price offered for securities by purchasers. (When selling securities, one asks for a bid.)

BOND EQUIVALENT YIELD: Used to compare yields available from discounted securities that pay interest at maturity with yields available from securities that pay interest semi-annually.

BOOK ENTRY SECURITIES: Stocks, bonds, other securities, and some certificates of deposit that are purchased, sold, and held as electronic computer entries on the records of a central holder. These securities are not available for purchase in physical form; buyers get a receipt or confirmation as evidence of ownership.

BOOK VALUE: The original cost of the security as adjusted for amortization of any premium paid or accretion of discount since the date of purchase.

BROKER: A party who brings buyers and sellers together. Brokers do not take ownership of the property being traded. Commissions compensate them. They are not the same as dealers; however, the same firms that act as brokers in some transactions may act as dealers in other transactions.

CALLABLE BOND: A bond that the issuer has the right to redeem prior to maturity at a specified price. Some callable bonds may be redeemed on one call date while others may have multiple call dates. Some callable bonds may be redeemed at par while others can be redeemed only at a premium.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination (over $100,000) CD's are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property that a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COMMERCIAL PAPER: Short-term unsecured promissory notes issued by corporations for maturity specified by the buyer. It is used primarily by corporations for short-term financing needs at a rate that is generally lower than the prime rate.

CONFIRMATION: The document used to state in writing the terms of the trade that had previously been agreed to verbally.
COUPON RATE: The stated annual rate of interest payable on a coupon bond expressed as a percentage of the bond's face value.

CREDIT RISK: The risk that (1) the issuer is downgraded to a lower quality category and/or (2) the issuer fails to make timely payments of interest or principal.

CUSIP NUMBER: A nine-digit number established by the Committee on Uniform Securities Identification Procedures that is used to identify publicly traded securities. Each publicly traded security receives a unique CUSIP number when the security is issued.

CUSTODY: The service of an organization, usually a financial institution, of holding (and reporting) a customer's securities for safekeeping. The financial institution is known as the custodian.

DEALER: A firm that buys and sells for its own account. Dealers have ownership, even if only for an instant, between a purchase from one party and a sale to another party. They are compensated by the spread between the price they pay and the price they receive. Dealers are not the same as brokers; however, the same firms that act as dealers in some transactions may act as brokers in other transactions.

DELIVERY VERSUS PAYMENT (DVP): The safest method of settling a trade involving a book entry security. In a DVP settlement, the funds are wired from the buyer's account and the security is delivered from the seller's account in simultaneous, interdependent wires.

DEMAND FEATURE: A feature of long-term variable rate securities which permits the district to reasonably expect to sell the security at a price equal to the principal amount of the security plus accrued interest, if any, at the time demand.

DEPOSITORY TRUST COMPANY (DTC): An organization that holds physical certificates for stocks and bonds and issues receipts to owners. Securities held by DTC are immobilized so that they can be traded on a book entry basis.

DERIVATIVE: A security that derives its value from an underlying asset, group of assets, reference rate, or an index value. Some derivatives can be highly volatile and result in a loss of principal in changing interest rate environments.

DISCOUNT: The amount by which the price paid for a security is less than its face value.

DISCOUNT SECURITIES: Securities that do not pay periodic interest. Investors earn the difference between the discount issue price and the full face value paid at maturity.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns, to reduce risk inherent in particular securities.

DURATION: A sophisticated measure of the weighted average maturity of a bond's cash flow stream, where the present values of the cash flows serve as the weights.

ECONOMIC CYCLE (BUSINESS CYCLE): As the economy moves through the business cycle, interest rates tend to follow the levels of production, output, and consumption - rising as the economy expands and moves out of recession and declining after the economy peaks, contracts, and heads once again into recession.

EFFECTIVE MATURITY: The average maturity of a bond, given the potential for early call. For a non-callable bond, the final maturity date serves as the effective maturity. For a callable bond, the effective maturity is bounded by the first call date and the final maturity date; the position within this continuum is a function of the call price, the current market price, and the reinvestment rate assumed.

FACE VALUE: The principal amount due and payable to a bondholder at maturity; par value. Also, the amount on which coupon interest is computed.

FAIL: The event of a securities purchase or sale transaction not settling as intended by the parties.

FAIR VALUE: The amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to $250,000 per depositor per insured bank for each account ownership category.

FEDERAL FARM CREDIT BANKS (FFCB): A government-sponsored corporation that was created in 1916 and is a nationwide system of banks and associations providing mortgage loans, credit, and related services to farmers, rural homeowners, and agricultural and rural cooperatives. Their respective borrowers cooperatively own the banks and associations, directly or indirectly. The Federal Farm Credit System is supervised by the Farm Credit Administration, an independent agency of the U.S. government. (See Government Sponsored Enterprise)

FEDERAL FUNDS: Monies within the Federal Reserve System representing a member bank's surplus reserve funds. Banks with excess funds may sell their surplus to other banks whose funds are below required reserve levels. Normally, Federal funds are employed in settling all government securities transactions. The Federal Funds Rate is the rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): Government-sponsored wholesale banks (currently twelve regional banks) which lend funds and provide correspondent banking services to member commercial bank, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank. (See Government Sponsored Enterprises)

FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC OR "FREDDIE MAC"): A government-sponsored corporation that was created in July 1970, by the enactment of Title III of the Emergency Home Finance Act of 1970. Freddie Mac was established to help maintain the availability of mortgage credit for residential housing, primarily through developing and maintaining an active, nationwide secondary market in conventional residential mortgages. (See Government Sponsored Enterprises)

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA OR FANNIE MAE): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae is a private stockholder-owned corporation. FNMA securities are highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest. (See Government Sponsored Enterprises)

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank presidents. The president of the New York Federal Reserve Bank is a permanent member while the other presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of government securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., twelve regional banks and about 5700 commercial banks that are members of the system.

FIXED-INCOME SECURITY: A financial instrument promising a fixed amount of periodic income over a specified future time span.

GOVERNMENT-SPONSORED ENTERPRISES (GSE's): Payment of principal and interest on securities issued by these corporations is not guaranteed explicitly by the U.S. government; however, most investors consider these securities to carry an implicit U.S. government guarantee. The debt is fully guaranteed by the issuing corporations. GSE's include: Farm Credit System, Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Student Loan Marketing Association, and the Tennessee Valley Authority.

INSTRUMENTALITIES: See Government-Sponsored Enterprises

INTEREST RATE RISK: The risk that the general level of interest rates will change, causing unexpected price appreciation or depreciation.

LADDERED MATURITY STRATEGY: A maturity pattern within a portfolio in which maturities of the assets in the portfolio are equally spaced. Over time, the shortening of the remaining lives of the assets provides a steady source of liquidity or cash flow. Given a normal yield curve with a positive slope this passive strategy provides the benefit of being able to take advantage of the higher, longer-term yields without sacrificing safety or liquidity.

LIQUIDITY: An entity's capability to meet future monetary outflows (whether they are required or optional) from available resources. Liquidity is often obtained from reductions of cash or by converting assets into cash.

LIQUIDITY RISK: The risk that an investment will be difficult to sell at a fair market price in a timely fashion.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MARKING-TO-MARKET: The practice of valuing a security or portfolio according to its market value, rather than its cost or book value.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase an agreement that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer to liquidate the underlying securities in the event of default by the seller.

MATURITY DATE: The date on which the principal or face value of an investment becomes due and payable.

MONEY MARKET INSTRUMENT: Generally, a short-term debt instrument that is purchased from a broker, dealer, or bank. Sometimes the term "money market" with "short-term", defines an instrument with no more than 12 months remaining from the purchase date until the maturity date. Sometimes the term "money market" is used more restrictively to mean only those instruments that have active secondary markets.

MORTGAGE-BACKED SECURITIES (MBS): Securities composed of, or collateralized by, loans that are themselves collateralized by liens on real property.

OFFER: The price asked by a seller of securities. (When purchasing securities, one asks for an offer.)

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary strategy tool.

OPPORTUNITY COST: The cost of pursuing one course of action measured in terms of the foregone return that could have been earned on an alternative course of action that was not undertaken.
PAR: See Face Value

POOLED FUND GROUP: An internally created fund of an investing entity in which one or more institutional accounts of the investing entity are invested (as defined by the Public Funds Investment Act).

PREMIUM: The amount by which the price paid for a security exceeds its face value.

PRIMARY DEALER: A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

PRINCIPAL: The face or par value of an instrument, exclusive of accrued interest.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the state. In other states the trustee may invest in a security if it is one that would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

QUALIFIED REPRESENTATIVE: A person who holds a position with - and is authorized to act on behalf of - a business organization (as defined by the Public Funds Investment Act).

RATE OF RETURN: The amount of income received from an investment, expressed as a percentage. A market rate of return is the yield that an investor can expect to receive in the current interest-rate environment utilizing a buy-and-hold to maturity investment strategy.

REINVESTMENT RATE: The interest rate earned on the reinvestment of coupon payments.

REINVESTMENT RATE RISK: The risk that the actual reinvestment rate falls short of the expected or assumed reinvestment rate.

REPURCHASE AGREEMENT (RP OR REPO): An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price on demand or at a specified later date. The difference between the selling price and the repurchase price provides the interest income to the party that provided the funds. Every transaction where a security is sold under an agreement to be repurchased is a repo from the seller/borrower's point of view and a reverse repo from the buyer/lender's point of view.

SAFEKEEPING: A procedure where a third party acting as custodian for a fee holds securities.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES AND EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15 C3-1: See Uniform Net Capital Rule

STRUCTURED NOTES: Debt obligations whose principal or interest payments are determined by an index or formula.

SEPARATELY INVESTED ASSET: An account or fund of a state agency or local government that is not invested in a pooled fund group (as defined by the Public Funds Investment Act).

SPREAD: Most commonly used when referring to the difference between the bid and asked prices in a quote.

STRIPS: Separation of the principal and interest cash flows due from any interest-bearing securities into different financial instruments. Each coupon payment is separated from the underlying investment to create a separate security. Each individual cash flow is sold at a discount. The amount of the discount and the time until the cash flow is paid determine the investor's return.

SWAP: The trading of one asset for another. Sometimes used in active portfolio management to increase investment returns by "swapping" one type of security for another.

TOTAL RETURN: Interest income plus capital gains (or minus losses) on an investment.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury, generally having initial maturities of 3 months, 6 months, or 1 year.

TREASURY BONDS: Long-term, coupon bearing U.S. Treasury securities having initial maturities of more than 10 years.

TREASURY NOTES: Intermediate-term, coupon bearing U.S. Treasury securities having initial maturities of 2 - 10 years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called *net capital rule* and *net capital ratio*. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD TO MATURITY (YTM): The promised return assuming all interest and principal payments are made and reinvested at the same rate taking into account price appreciation (if priced below par) or depreciation (if priced above par).