

TOMBALL

INDEPENDENT SCHOOL DISTRICT

2025-2026

ANNUAL INVESTMENT REPORT

Investments & Investment Activities

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TexPool Information Statement
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Texas Gov't. Code Chapter 2256 – Public Funds
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Board Policy CDA (Legal)
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Introduction

The Board of Trustees of Tomball ISD requires that a comprehensive report on the investment program and investment activity be presented annually. The annual report shall include a performance evaluation that may include, but is not limited to, comparisons to the 91-day U.S. Treasury Bills, six-month U.S. Treasury Bills, the Fed Funds Rate, and rates from investment pools. The annual report shall also include a review of the activities and total yield for the preceding 12 months, suggest policies, strategies, and improvements that might enhance the investment program, and propose an investment plan for the ensuing year.



This report has been prepared in compliance with the Tomball ISD annual reporting requirements for investments. The report is also designed to provide an overview of the deliberative process regarding investments by the designated district investment officers; the Superintendent, Chief Financial Officer, and Executive Director of Business Services.

Legal Requirements for Investments

State and federal laws establish rules within which all school districts are expected to operate when investing public funds. The Public Funds Investment Act (PFIA), codified in Chapter 2256 of the Texas Government Code, provides investment guidelines for the majority of political subdivisions in the state, including school districts.

The PFIA was first passed in 1987. It was significantly rewritten in 1995 in response to the Texas State Auditor reports on investment losses at Texas institutions and in review of investment problems in Texas counties and elsewhere. In 1997 amendments further clarified the intent of the 1995 requirements. Additional amendments have since been passed by the Texas Legislature, primarily clarifying and improving public funds investment options.

The PFIA is merely part of the whole, not inclusive of all investment requirements. Public funds investors must understand and comply with all applicable investment requirements, such as for bond proceeds in compliance with Chapter 45 of the Texas Education Code, collateral for public funds as stipulated in Chapter 2257 of the Texas Government Code, and the Governmental Accounting Standards Board (GASB). There may also be additional requirements for investments in local policies and procedures outlined in Board Policy CDA (Local), which district investment officers must incorporate into their overall investment program and strategies.



The full text of Chapter 2256 of the Texas Government Code (commonly referred to as the Public Funds Investment Act) can be found at http://www.statutes.legis.state.tx.us/ , and Board Policy CDA (Legal) and Board Policy CDA (Local) can be accessed from the District website. If local policies are more lenient they are superseded by state and federal laws, but local policies may be more restrictive. The investment policy for Tomball ISD is more restrictive than state or federal law, and the designated investment officers of the district must comply with these more restrictive regulations.

Required Annual Action by the Board of Trustees

Chapter 2256 of the Texas Government Code requires the Board of Trustees take action on three investment related issues annually. Those are:

1. In accordance with Section 2256.005(e) the Board of Trustees shall review the district's investment policy and investment strategies not less than annually. Following the annual review the Board must adopt a *written resolution* stating that it has reviewed the investment policy and strategies, and that the resolution as adopted records any changes made to either the investment policy or strategies.
2. In accordance with Section 2256.008(a)(1) the Board of Trustees must approve of an independent source, or sources, for *investment training* required to be provided to the district's designated investment officers. And,
3. In accordance with Section 2256.025 the Board of Trustees shall annually review, revise and adopt a *list of qualified brokers* authorized to engage in investment transactions with the district.

This report contains the resolutions and recommendations the Board of Trustees must take action on annually. The first is titled *Resolution Stating Review of Investment Policies and Strategies and Designation of Investment Officers for the Tomball Independent School District,* the next is titled *Resolution Approving Investment Training Providers*, and the final action item is to approve the *Recommended Broker/Dealers List*. Each requires separate board action to be recorded in the minutes of the Board meeting.

Standards of Care & Investment Strategies

Section 2256.006 of the Texas Government Code and Board Policy state, "Investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. Investment of funds shall be governed by the following investment objectives, in order of priority:

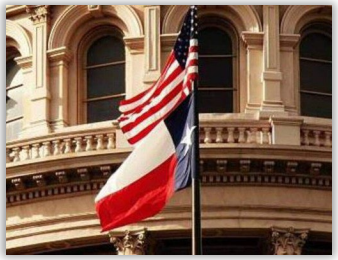
1. preservation and safety of principal;
2. liquidity, and
3. yield."

Board Policy CDA (Local) further states, "The primary goal of the investment program is to ensure safety of principal, to maintain liquidity, and to maximize financial returns within current market conditions … Investments shall be made in a manner that ensures the preservation of capital … No individual investment transaction shall be undertaken that jeopardizes the total capital position of the overall portfolio."



Authorized Investments

Chapter 2256 of the Texas Government Code specifically sets guidelines for the types of investments authorized for purchase by governmental entities in the state. Board Policy CDA (Legal) follows these guidelines for authorized investments for school districts and list eleven types of investments that are acceptable for school districts. For further information on the state authorized investments for school districts refer to this policy.



Board Policy CDA (Local) sets policy for Tomball ISD that places further limits on investments for the district. The Board of Trustees of Tomball ISD limits investments to:

1. Obligations of, or guaranteed by, governmental entities as permitted by Government Code 2256.009.
2. Certificates of deposit and share certificates as permitted by Gov. Code 2256.010.
3. Fully collateralized repurchase agreements as permitted by Gov. Code 2256.011.
4. A securities lending program as permitted by Gov. Code 2256.0115.
5. Banker's acceptances as permitted by Gov. Code 2256.012.
6. Commercial paper as permitted by Gov. Code 2256.013.
7. No-load money market mutual funds and no-load mutual funds as permitted by Gov. Code 2256.014.
8. A guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements of Gov. Code 2256.015.
9. Public funds investment pools as permitted by Government Code 2256.016.

Types of Investment Risks

All investments involve risks. There is a risk of losing money, but there is also a risk of not earning all that could. A balance must be established between the high rate of return with riskier investments and the risk of earning less than possible. This balance is basically seeking to achieve a *market rate of return*, a general term referring to the approximate interest rate that could be earned in a specific maturity range at any given point in time. Districts should work to achieve a targeted market rate of return, and if a higher return than the targeted rate is pursued, then make certain everyone understands the risks involved. The primary investment risks for public entities are:

Credit Risk: The risk that the issuer of a security will not be able to pay interest or principal on a timely basis. Texas Government Code Chapter 2256, CDA (Legal) and CDA(Local) have minimized credit risk with the list of authorized investment types.

Liquidity Risk: The risk that the investment cannot be sold and that cash cannot be obtained when needed.

Collateral Risk: The risk there will be insufficient collateral to fully compensate the district if the institution fails and cannot convert the investment to cash as agreed.

Market Risk: The risk that the price of the security could change and create an unrealized or realized loss.



Volatility Risk: The risk that a security will rise or fall sharply in price within a short-term time period.

Opportunity Cost Risk: Opportunity cost is the difference between a current investment return and an alternative investment offering a higher return.

Diversification Risk: The risk that the types of investments do not spread the maturity, liquidity, credit and market risks sufficiently enough to minimize fluctuations in the overall portfolio value and income. There are three major categories of diversification risks: diversification by maturity, diversification by issuer, and diversification by type.

The designated investment officers for the district should thoroughly understand the risks associated with the different types of authorized investments. Different investment instruments have differing inherent risks in reaction to changing market conditions. Each investment should be carefully considered based on the risk tolerance of the district and the prevailing market conditions. All risk factors must be considered by investment officers each time an investment is made.

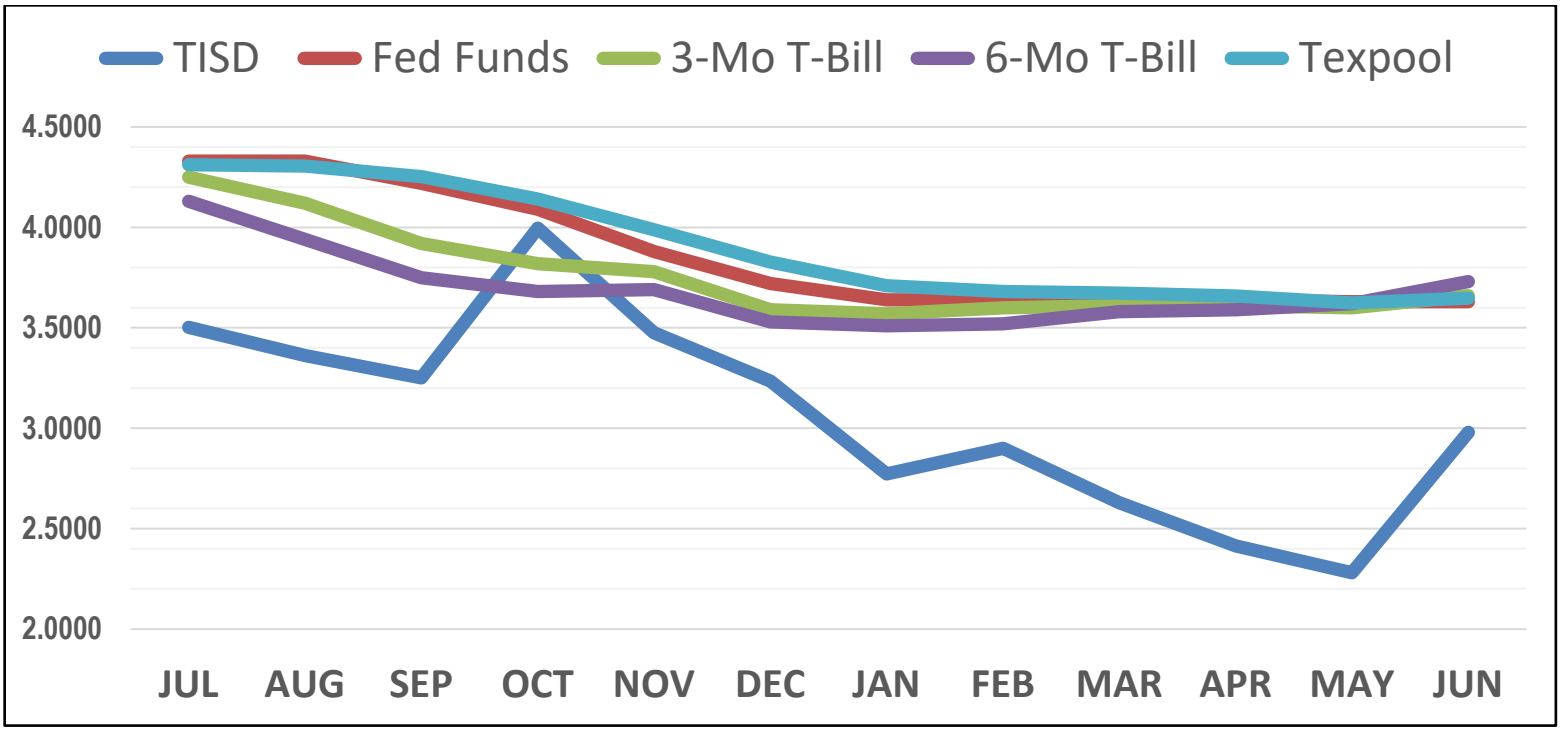
Use of Benchmarks to Assess Strategies for 2025-2026

An investment benchmark is an important part of a well-constructed investment strategy. The annual investment report focuses on certain benchmarks for comparison. The annual report highlights the return on district investments as compared to the 91-day U.S. Treasury Bills, Six-Month U.S. Treasury Bills, the Fed Funds Rate, and rates from investment pools.



The use of these benchmarks is appropriate for the risk tolerance of the district, and for the type of investments the district allows. The table below shows the performance of district investments compared to these benchmarks:

	TISD	Fed Funds	3-Mo T-Bill	6-Mo T-Bill	Texpool	Prime	Lonestar	Class
JUL	3.5016	4.33	4.25	4.13	4.31	4.04	4.42	4.40
AUG	3.3618	4.33	4.12	3.94	4.31	4.04	4.42	4.39
SEP	3.2502	4.22	3.92	3.75	4.25	4.36	4.37	4.35
OCT	3.9964	4.09	3.82	3.68	4.14	4.25	4.26	4.27
NOV	3.4752	3.88	3.78	3.69	3.99	4.11	4.09	4.11
DEC	3.2339	3.72	3.59	3.53	3.83	4.00	3.96	3.96
JAN	2.7731	3.64	3.57	3.51	3.71	3.87	3.85	3.85
FEB	2.8994	3.64	3.60	3.52	3.68	3.82	3.80	3.80
MAR	2.6285	3.64	3.61	3.58	3.67	3.79	3.78	3.78
APR	2.4144	3.64	3.61	3.59	3.66	3.80	3.77	3.77
MAY	2.2804	3.63	3.60	3.62	3.62	3.78	3.76	3.75
JUN	2.9803	3.63	3.66	3.73	3.65	3.80	3.78	3.75
Average	3.0663	3.8658	3.7608	3.6892	3.9016	3.9701	4.0214	4.0155



Review of Investment Portfolio & Strategies for 2025-2026

The District cannot invest in the equity market and investments are solely tied to the fed funds interest rates. The General Fund saw yield decrease of 17.01% from July through June of this fiscal year and investments overall increase of 4.82 % compared to the prior year.

As of June 30, 2026, the Federal Reserve maintained the federal funds target range at 4.25% to 4.50%, following three rate cuts totaling 100 basis points in the second half of 2024. The Federal Reserve continued to ease monetary policy in 2025, reducing the target range by a total of 75 basis points through three 25-basis-point cuts in September, October, and December, bringing the federal funds target range to 3.50% to 3.75% by year-end.

During the first half of 2026, the Federal Reserve maintained the target range at 3.50% to 3.75%.

The benchmark selected for the year was the average of the monthly Federal Funds Effective Rate. This benchmark reflected the prevailing interest rate environment and the Federal Reserve's monetary policy responses to the evolving economic conditions, including inflation trends, economic growth, and adjustments to interest rates aimed at maintaining price stability.



The District had an average annual earnings rate of 3.0663%. The District had realized and unrealized interest income in all funds totaling $18,075,680 from July 1, 2025 through June 30, 2026. Interest income by fund was as follows (see chart below):

	2025-2026	2024-2025	2023-2024	2022-2023
General Fund	**4,522,897.00**	5,449,992	6,067,649	4,557,604
Food Service	**17,937.86**	8,132	4,582	2,708
Campus Activity	**33,280.53**	17,768.86	31,064	9,133
Debt Service	**823,498.61**	1,032,016	941,295	850,284
Capital Projects	**13,164,980.61**	11,066,046	17,638,838	10,179,514
Workers' Comp	**199,481.62**	217,908	223,727	141,590
Scholarship Foundation	**30,136.14**	33,314	34,674	24,050
Stadium	**221.78**	100	236	67
Concessions	**1,334.50**	660	688	892
Property Insurance	**153,236.22**	249,744	226,338	47,660
TOTAL	**$18,947,005**	**$ 18,075,680**	**$ 25,169,091**	**$ 15,813,502**

By policy the District maintains a conservative investment strategy focused solely on the safety of principal. The approach to investing under current conditions has been to:

- Not purchase any agency securities until fed fund rates stabilize at higher levels.
- Closely monitor the collateral pledged for CDs greater than $250,000 by requiring our 3rd party custodian provide frequent reports on 'market values' of pledged securities, in particular agency securities.
- Continue to closely examine TexPool and its current investment portfolio by reviewing how much, and in what, they were investing.
- Stay focused on the fundamentals of governmental investing with the primary concern being the *safety of principal*, followed by the provision of liquidity and not investment speculation for higher interest rate returns.

> "An investment operation is one which, upon thorough analysis, promises safety of principal and an adequate return. Operations not meeting these requirements are speculative.
>
> BENJAMIN GRAHAM

Portfolio Composition

The District's General Fund portfolio by month was as follows for 2025-2026:

	Cash		Bank CDs		Investment Pools		TOTAL
JUL	16,162	17.23%	1,030	1.10%	76,612	81.67%	93,804
AUG	19,489	21.48%	1,044	1.15%	70,193	77.37%	90,726
SEP	30,638	26.99%	1,044	0.92%	81,838	72.09%	113,520
OCT	6,783	5.90%	1,044	0.91%	107,132	93.19%	114,959
NOV	18,737	16.53%	1,044	0.92%	93,601	82.55%	113,382
DEC	38,726	20.34%	1,058	0.56%	150,615	79.10%	190,399
JAN	68,364	30.68%	1,058	0.47%	153,380	68.84%	222,802
FEB	44,363	26.00%	1,058	0.62%	125,189	73.38%	170,610
MAR	52,715	33.75%	1,058	0.68%	102,410	65.57%	156,183
APR	55,765	40.02%	1,070	0.77%	82,522	59.22%	139,357
MAY	54,062	43.52%	1,070	0.86%	69,090	55.62%	124,222
JUN	25,181	22.48%	1,070	0.96%	85,775	76.57%	112,026

As of June 30, 2026 the District's portfolio was comprised of Certificates of Deposit (.96%), Investment Pools (76.57%), and cash at depository banks (22.48%). The majority of District funds continue to be invested in TexPool. Therefore further discussion of TexPool is warranted and would be appropriate for readers of this report.

TexPool Local Government Investment Pool

TexPool, organized in 1989, is the largest and oldest local government investment pool in the State of Texas. TexPool, like its participants, is governed by and must be compliant with the Texas Public Funds Investment Act. The Texas State Comptroller of Public Accounts oversees TexPool which is rated by Standards & Poor as AAAm.

The portfolio structure of TexPool as of June 30, 2026 with a weighted average maturity of 42 days was 27.3% in U.S. Government Agencies, 27.1% in U.S. Treasury's, 2.8% Money Market Funds and 42.8% in repurchase agreements (repos). A repo is economically similar to a secured loan, with the buyer receiving securities as collateral. There is little that prevents any security from being employed in a repo; but TexPool only accepts U.S. Treasury or Government bills as securities involved in a repo. In this exchange legal title to the securities clearly passes from the seller to TexPool.

TexPool also provides another investment instrument called TexPool Prime. The portfolio structure of TexPool Prime as of June 30, 2026 with a weighted average maturity of 47 days was 77.2% in commercial paper, 22.8% in repurchase agreements (repos).

Investment Strategies for 2025-2026

As investment officers for the District we are not over-aggressive in pursuing value and our overriding focus continues to be the safety of principal and meeting cash liquidity needs. The investment strategies for Tomball ISD will remain conservative in scope and somewhat limited in diversity. In the past eleven years with yields for investment maturity of three years or less being so poor, it has been very difficult to find value in diversification beyond that offered by the investment pools. The best decision for improving interest yield was to add commercial paper to the authorized investments. The approval of commercial paper allowed the District to invest in other investment pool instruments generating much higher yields. This began in 2015-2016 and will continue as our primary investment income strategy for 2026-2027.



On September 16, 2026 the Federal Reserve Board raised the federal rates by 25 points moving the rates to 3.75%-4.00% the decision was based on inflation staying high and targeting the inflation back towards two percent. If inflation continues to increase there is potential for the Federal Reserves to increase again in December. The most recent projections from Fed officials show future predictions for 2026 through 2027 that federal funds rates continue to do one more increase.

Our 2026-2027 strategy will continue to allocate funds into a short-term maturities to maximize higher interest rates. The target benchmark for the 2026-2027 fiscal year will be to achieve the yield to maturity of 6-month Treasury Bills in the 2026-2027 fiscal year.

Resolution Stating Review of Investment Policies and Strategies and Designation of Investment Officers for the Tomball Independent School District for 2026-2027

WHEREAS, Section 2256.005, Texas Government Code, as amended, requires the governing body of an investing entity review its investment policy and investment strategies not less than annually;

WHEREAS, the Board of Trustees of the Tomball Independent School District, "District", has adopted an Investment Policy for the District, in board policy CDA (Local), pursuant to Chapter 2256, Texas Government Code, as amended; AND

WHEREAS, the Board of Trustees wishes to designate one or more employees of the District as investment officer to be responsible for the investment of its funds consistent with the Investment Policy;

NOW BE IT THEREFORE RESOLVED BY THE BOARD OF TRUSTEES OF THE TOMBALL INDEPENDENT SCHOOL DISTRICT THAT:

Section 1. The Investment Policy described in CDA (Local), and investment strategies contained in such policy, has been reviewed and is hereby approved with no changes.

Section 2. The Superintendent, Chief Financial Officer, and Executive Director of Business Services of the District are hereby named as investment officers of the District to be responsible for the investment of its funds consistent with the Investment Policy.

Section 3. The provisions of this Resolution shall be effective as of the date of adoption and shall remain in effect until modified by action of the Board of Trustees.

Section 4. It is hereby found, determined, and declared that sufficient written notice of the date, time, place and subject of the meeting of the Board of Trustees of Tomball Independent School District at which this Resolution was adopted was posted at a place convenient and readily accessible at all times to the general public at the regular meeting place of the governing body for the time required by law preceding this meeting, as required by Chapter 551, Texas Government Code, and that this meeting has been open to the public as required by law at all times during which this Resolution and the subject matter thereof has been discussed, considered and formally acted upon. The Board of Trustees further ratifies, approves and confirms such written notice and the contents and posting thereof.

ADOPTED November 9, 2026. **ATTEST:**

President of the Board of Trustees

Secretary of the Board of Trustees.

Resolution Approving Investment Training Providers for 2026-2027

WHEREAS, Section 2256.008(a-1), Texas Government Code, as amended, requires the Treasurer, Chief Financial Officer if the Treasurer is not the Chief Financial Officer and investment officer of a school district to attend an investment training session not less than once in a two-year period and receive not less than eight hours of instruction relating to investment responsibilities from an independent source approved by the governing body of the local government or a designated investment committee advising the investment officer; as provided in the investment policy of the school district;

WHEREAS, the Texas Association of School Boards (TASB), the Texas Association of School Business Officials (TASBO) or its local affiliates, the Harris County Department of Education (HCDE), the University of North Texas Center for Public Management (UNT), TexPool, and Region IV Education Service Center provide investment training sessions relating to investment responsibilities; AND

WHEREAS, the Board of Trustees of Tomball Independent School District, "District", wishes to approve TASB, TASBO or its local affiliates, HCDE, UNT, TexPool, and Region IV as independent sources of instruction to provide investment training sessions required by Section 2256.008(a-1);

NOW BE IT THEREFORE RESOLVED BY THE BOARD OF TRUSTEES OF THE TOMBALL INDEPENDENT SCHOOL DISTRICT THAT:

Section 1. TASB, TASBO or its local affiliates, HCDE, UNT, TexPool, and Region IV are hereby approved as independent sources of instruction relating to investment responsibilities for the designated investment officers of the District as required by Section 2256.008(a-1), Texas Government Code, as amended.

Section 2. It is hereby found, determined, and declared that sufficient written notice of the date, time, place and subject of the meeting of the Board of Trustees of Tomball Independent School District at which this resolution was adopted was posted at a place convenient and readily accessible at all times to the general public at the regular meeting place of the governing body for the time required by law preceding this meeting, as required by Chapter 551, Texas Government Code, and that this meeting has been open to the public as required by law at all times during which this Resolution and the subject matter thereof has been discussed, considered and formally acted upon. The Board of Trustees further ratifies, approves and confirms such written notice and the contents and posting thereof.

ADOPTED November 9, 2026. **ATTEST:**

President of the Board of Trustees

Secretary of the Board of Trustees

Recommended Broker/Dealers List for 2026-2027

A broker is an individual, investment bank, investment firm, or commercial bank that finds a willing buyer and a willing seller and then executes transactions with each. A dealer is an individual, investment bank, investment firm, or commercial bank that purchases or sells securities for purchase or sale to other investors. All broker/dealer firms are required to register with the Securities and Exchange Commission (SEC) and join a self-regulatory organization such as the National Association of Securities Dealers (NASD) or the New York Stock Exchange (NYSE).

Primary brokerage firms are banks and securities investment firms that are pre-approved to trade in U.S. Government securities with the Federal Reserve System. To trade with the Federal Reserve these firms are monitored by the Federal Reserve and must meet the highest capital standards. All government securities are initially sold exclusively to these firms, who in turn resale to other investment firms or individual investors.

There is a second tier of brokerage firms. These firms are not monitored by the Federal Reserve and are typically called *national* or *regional* brokerage firms. These firms must be registered with the Securities and Exchange Commission. Many do business world-wide, but primarily nationally by regions within the United States.

The last broker/dealer firm is independent. An independent firm usually acts only as a broker mediating transactions between primary and regional firms and willing buyers. Independent brokers in Texas must be registered with the Texas State Securities Board.

In compliance with Texas *Government Code 2256.025*, Board Policy CDA (Legal) states, "The governing body or a designated investment committee, shall, at least annually, review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the entity." It is recommended the following investment broker/dealer firms be adopted as the approved list for the district:

Specific Brokerage Firms:

Hilltop Securities
Bank of America
RBC Capital Markets
Texas Capital Securities
Wells Fargo Securities
Multi-Bank Securities
FHN Financial Securities Corp.
SAMCO Capital Markets
Piper Sandler

Local Government Investment Pools provide safety, diversification, and immediate liquidity for operating funds, while approved broker/dealers provide access to the fixed-income market for the purchase of U.S. Treasury and Federal Agency securities. Maintaining both approved investment pools and approved broker/dealers allows the District to balance liquidity, safety, and yield while remaining fully compliant with the Texas Public Funds Investment Act. In addition to the broker/dealer firms it is recommended the following local government investment firms be adopted as the approved list for the district:

Local Government Investment Firms

First Public (Lonestar Investment Pool)
Texas Class
TexPool

TOMBALL
INDEPENDENT SCHOOL DISTRICT

APPROVED November 9, 2026. **ATTEST:**

President of the Board of Trustees

Secretary of the Board of Trustees

TEXPOOL
ACCOUNT ANALYSIS
and
DETAIL ON SECURITIES AND CERTIFICATES OF DEPOSIT

*The district had realized and unrealized interest income totaling **$18,947,005** for the **2025-2026** fiscal year. Most of this interest income was received from investments in TexPool. TexPool is a major component of the investment strategy for the district. Because of the importance of TexPool, information on TexPool and its investment policies have been included in the appendices of this report.*

*The following pages detail the investment activity for the entire year with TexPool investments divided by quarter. The list certificates of deposit are those instruments held during the fiscal year ending as of **June 30, 2026**.*