



Tomball Independent School District's
ANNUAL INVESTMENT REPORT
Fiscal Year 2013-2014

Huey Kinchen, Superintendent

Jim Ross, Chief Financial Officer

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Attached:

Commercial Paper Definition

References:

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

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 Budget Analyst.

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. Local policies 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) 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's designated investment officers.

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 main goal of the investment program is to ensure its safety and maximize financial returns within current market conditions ... Investments shall be made in a manner that ensures the preservation of capital ... No individual 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.

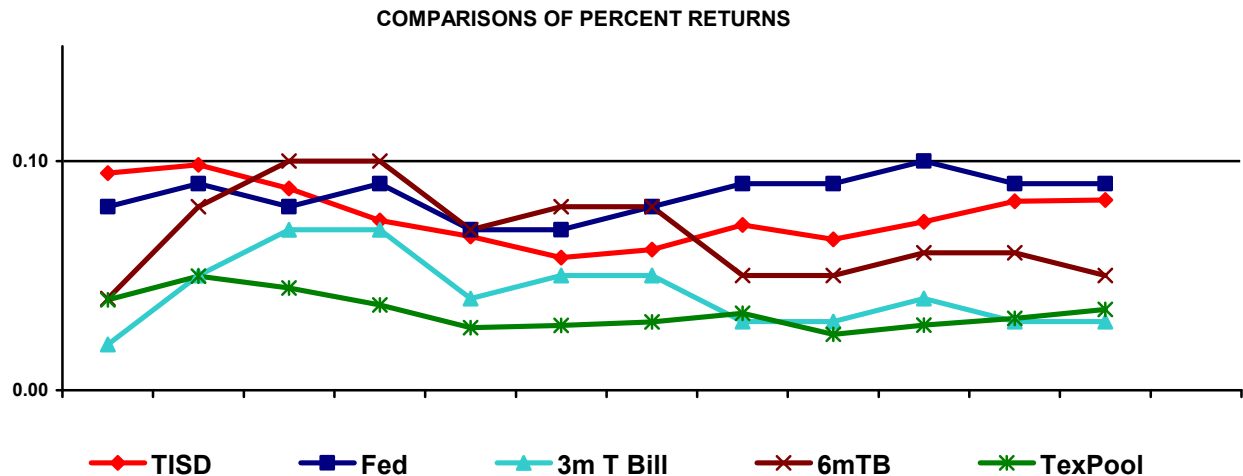
Diversification Risk: The risk that the types of investments do not spread the maturity, liquidity, credit and market risks sufficiently enough to minimize fluctuations in the overall portfolio value and income. There are three major categories of diversification risks: diversification by maturity, diversification 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 2013-2014

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:

2013-2014	TISD	Fed Funds	3-mo T-Bill	6-mo T-Bill	TexPool
SEP	0.0947	0.08	0.02	0.04	0.0394
OCT	0.0983	0.09	0.05	0.08	0.0498
NOV	0.0879	0.08	0.07	0.10	0.0446
DEC	0.0740	0.09	0.07	0.10	0.0372
JAN	0.0670	0.07	0.04	0.07	0.0273
FEB	0.0579	0.07	0.05	0.08	0.0283
MAR	0.0614	0.08	0.05	0.08	0.0299
APR	0.0721	0.09	0.03	0.05	0.0336
MAY	0.0658	0.09	0.03	0.05	0.0244
JUN	0.0734	0.10	0.04	0.06	0.0284
JUL	0.0824	0.09	0.03	0.06	0.0313
AUG	0.0829	0.09	0.03	0.05	0.0353
Average	0.0765	0.0850	0.0425	0.068	0.0341



Review of Investment Portfolio and Strategies for 2013-2014

As we assess in retrospect the investing environment from September 2013 through August 2014, it was again worse than the prior year for interest returns. Thinking that all readers of this report are likely aware of the poor interest return on savings and investments and the reasons for this investing environment, the report will focus on the actions taken to protect the principal of the District's investments.

The targeted benchmark for the year was the TexPool average monthly rate. This benchmark was chosen based on speculation the Federal Reserve Board would not take action on the fed funds effective rate and TexPool could exceed that rate. The Fed did not change the rate and appears deadlocked on increasing. The District had an average annual earnings rate of 0.0765%, which exceeded most benchmark standards. The District had realized and unrealized interest income in all funds totaling \$80,049 from September 1, 2013 through August 31, 2014. Interest income by fund was as follows:

	<u>2013-2014</u>	<u>2012-2013</u>	<u>2011-2012</u>	<u>2010-2011</u>
General Fund	\$ 62,144	\$ 107,077	\$ 114,621	\$ 136,991
Food Service Fund	633	831	692	539
Campus Activity Funds	34	105	109	138
Debt Service Fund	2,419	6,392	7,886	9,324
Capital Projects Fund	13,614	10,686	19,905	16,075
Workers' Comp Fund	1,048	3,195	3,404	4,393
Scholarship Foundation Fund	<u>157</u>	<u>465</u>	<u>474</u>	<u>572</u>
	\$ 80,049	\$128,751	\$ 147,091	\$ 168,032

The District received a higher rate of return than the benchmarks with the purchase of CD's from Prosperity Bank (the District's depository bank). These CDs were set with maturities occurring in April and August. With concern for market value declines in the securities being pledged, the District required a 110% collateral pledge and a monthly 3rd party 'mark to market' on all pledged collateral for CDs.

Due to market conditions the District maintained an extremely conservative investment strategy focused solely on the safety of principal. The approach on investing was to:

- Not purchase any agency securities for the fiscal year due to the fact that most agency securities are still heavily leveraged with mortgage-backed paper.
- Closely monitor the collateral pledged by the bank by requiring our 3rd party custodian provide more frequent reports on 'market values' of pledged securities, in particular mortgage-backed agency securities.
- Add an investment source by requiring our depository bank pay interest on all funds held on deposit. This was accomplished with the depository bid in the summers of 2011 and 2013. The rate of return is 0.15% on all funds.
- 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.

Portfolio Composition

The District's portfolio by month was as follows for 2013-2014:

<i>Funds In Thousand</i>							
	Cash		Bank CD'S		TexPool		Total
SEP	6,691	10.44%	9,036	14.10%	48,357	75.46%	64,084
OCT	1,371	2.33%	9,036	15.37%	48,366	82.30%	58,773
NOV	0	0.00%	9,038	14.19%	54,673	85.81%	63,711
DEC	2,638	3.11%	9,045	10.65%	73,245	86.24%	84,928
JAN	4,204	4.86%	9,045	10.46%	73,245	84.68%	86,494
FEB	344	0.34%	9,048	9.07%	90,370	90.59%	99,762
MAR	585	0.62%	9,048	9.60%	84,649	89.78%	94,282
APR	1,959	2.44%	9,050	11.26%	69,341	86.30%	80,350
MAY	753	1.03%	9,050	12.33%	63,602	86.64%	73,405
JUN	953	1.42%	9,050	13.45%	57,273	85.13%	67,276
JUL	2,064	3.37%	9,050	14.79%	50,093	81.84%	61,207
AUG	2,421	3.69%	9,036	13.78%	54,121	82.53%	65,578

As of August 31, 2014 the District's portfolio was comprised of Certificates of Deposit (13.78%) , TexPool investments (82.53%), and cash not invested (3.69%). 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 August 31, 2014 was 76% in U.S. Government Agencies, 11.9% in U.S. Treasuries, and 12.1% in Repurchase Agreements (repos). A repo is economically similar to a secured loan, with the buyer receiving securities as collateral to protect against default. 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.

Although the underlying nature of a repo is that of a loan, the terminology differs from that used when talking of loans because the seller does actually repurchase the legal ownership of the securities from the buyer at the end of the agreement. Although the actual effect of the whole transaction is identical to a cash loan, in using the 'repurchase' terminology, the emphasis is placed upon the current legal ownership of the collateral securities by the respective parties.

Repurchase agreements (repos) have seen slightly higher short-term interest rate yields and in response TexPool has continued to invest in repos. Important is the Federal Reserve Board had been guaranteeing a 5 basis point minimum for overnight repos. This 5 basis point minimum is keeping repo rates elevated while making short-term Treasuries less attractive when compared to repurchase agreements.

Investment Strategies for 2014-2015

The investment strategies for Tomball ISD are conservatively limited in scope and diversity. With federal funds rates held to the unprecedented low range of zero to 0.25% for six consecutive years, it has been very difficult to generate interest income. The best option for improving returns is to add commercial paper to the authorized investments.

The Federal Reserve Board is charged with creating an economic environment that fosters maximum employment and overall price stability. For the most part the concern for the unemployment levels continues to dominate Fed action. Economic indicators that influence Fed policy and in turn affects the returns the District receives are:

- For the 12 month period ending August 2014 the Consumer Price Index for All Urban Consumers (CPI-U) increased 2.1 percent and the Producer Price Index (which measures wholesale prices) rose by 1.7 percent.

- For the 12 month period ending August 2014 the average hourly wage growth was a weak 2.0%, which is below inflation. This is believed to be due to the abundance of available unskilled labor. The Fed would like to see this metric rise to 3% or 4% growth over time, and at least higher than the inflation rate.
- The U.S. homeownership rate dropped to 64.7 percent by the end of June 2014, the lowest since 1995. The decline in homeownership rates has been primarily concentrated among younger households where the homeownership rate for households 35 years and younger has fallen from 43.6 percent to 35.9 percent between 2004 and 2014. Housing market growth is crucial to national economic growth. Concerning to the Fed is that growth in net household formations has been among renters rather than homebuyers. While the appearance in the housing market may be that of growth, the growth is primarily in apartments.

The Federal Reserve Board has stated it plans to keep interest rates lower for a while longer because it believes higher rates would threaten recovery. The concern stated by the Fed Chairman was that, "Tightening monetary policy as soon as inflation moves back toward two percent might prevent labor markets from recovering fully and so would not be consistent with their dual mandate to foster maximum employment and price stability." Minutes of the September 2014 Fed meeting stated, "The unemployment rate is little changed and a range of labor market indicators suggests there remains significant underutilization of labor resources."

The unprecedented magnitude and duration of the Fed's low interest rate has exerted a heavy price on the District's interest income. Despite our desire and need to earn more in interest income, we understand we have little opportunity to do so with the Fed rate at this low level. As investment officers for the District we will not be over-aggressive in pursuing value and our overriding focus will continue to be the safety of principal and meeting cash liquidity needs.

Inflation is expected to remain relatively stable at 2% for the next year. This is very moderate growth, so we will be watching two other indicators that could push the Fed to raise interest rate levels. One is the labor market where the unemployment rate is steadily declining. The Fed believes that most of the unemployment rate decline is due to shrinking labor force participation. Another indicator is increased credit creation. The United States is a credit-based financial economy, as opposed to pure cash, and credit creation is essential. For now credit creation is growing modestly at 4% year over year and the Fed feels that amount would have to be 4.5% to supplement economic growth.

Our investment strategy will be to incorporate the purchase of commercial paper (CP) in our investment portfolio. The Board authorized commercial paper in the District's investment policy in July 2014. Commercial paper is now being purchased if it is rated at the highest level of A1P1. The addition of commercial paper should yield an additional 5 to 10 basis points in returns and is a very safe investment.

**Resolution Stating Review of Investment Policies and Strategies
and Designation of Investment Officers for the Tomball
Independent School District for 2014-2015**

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 Budget Analyst 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 11, 2014.

ATTEST:

President of the Board of Trustees

Secretary of the Board of Trustees

Resolution Approving Investment Training Providers: 2014-2015

WHEREAS, Section 2256.008(a), 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 local government to attend an investment training session not less than once in a two-year period and receive not less than ten 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 local government;

WHEREAS, the Texas Association of School Boards (TASB), the Texas Association of School Administrators (TASA), the Texas Association of School Business Officials (TASBO) or its local affiliates, 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, TASA, TASBO or its local affiliates, TexPool, and Region IV as independent sources of instruction to provide investment training sessions required by Section 2256.008(a);

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

Section 1. TASB, TASA, TASBO or its local affiliates, 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), 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 11, 2014.

ATTEST:

President of the Board of Trustees

Secretary of the Board of Trustees

Recommended Broker/Dealers List for 2014-2015

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. In order 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 the independent. An independent is usually acting only as a broker mediating transactions between the 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 Board 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 District." It is recommended the following investment broker/dealer firms be adopted as the approved list for the district:

Specific Brokerage Firms:

Banc of America Securities LLC.	<i>Primary Dealer</i>
J.P. Morgan Securities Inc.	<i>Primary Dealer</i>
Morgan Stanley & Co. Inc	<i>Primary Dealer</i>
UBS Paine Webber	
A.G. Edwards	
SAMCO Capital Markets	
Duncan Williams	
Vining Sparks	
Coastal Securities	
First Tennessee	
Oppenheimer	
First Public Investments	

Each broker/dealer is asked to provide a certification letter acknowledging their receipt and understanding of the District's investment policies. (A copy of this letter follows.) Each broker/dealer is asked to provide a copy of their registration with the Texas State Securities Board and their membership certificate in the National Association of Securities Dealers. Independent broker/dealers are also asked to provide a list of references that identifies the governmental entities they currently serve, or have served in the past. Having received all the requested documentation from the listed broker/dealers, it is recommended the Board approve the broker/dealer representatives listed below:

Specific Representatives of Brokers/Dealers or Independent Brokers:

Mike Smith	Vining Sparks IBG (national firm)
Anne Jenkins	A.J. Capital Corp. (independent)
Heath Barber	Coastal Securities (regional firm)
Trent Toon	First Public (Lonestar Investment Pool)
Ken Guillory	Wells Fargo Securities (national firm)

TOMBALL INDEPENDENT SCHOOL DISTRICT



BROKER/DEALER CERTIFICATION LETTER
[as required by Texas Government Code 2256.005(k)]

I, as a registered principal or manager for the firm _____
do hereby certify that I, and the broker covering this account, _____
have received and reviewed the investment policy of the Tomball Independent School
District.

We acknowledge this firm has implemented reasonable internal procedures and controls in an effort to preclude investment transactions conducted between this firm and the Tomball Independent School District that are NOT specifically authorized by the District's Investment Policy. The firm cannot be held responsible for the makeup of the District's entire portfolio or an interpretation of said portfolio, which requires an analysis of subjective investment standards.

Signature _____

Printed Name _____

Title _____

Date _____

TEXPOOL ACCOUNT ANALYSIS AND DETAIL ON SECURITIES AND CERTIFICATES OF DEPOSIT

The district had realized and unrealized interest income totaling **\$80,049** for the 2013-2014 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 August 31, 2014.

Tomball ISD Investment Report
Annual Investment Report for Year Ending August 31, 2014

TexPool Investment Pool

Title:	<i>Tomball Scholarship Foundation</i>	Book Value	Market Value
	Beginning of 1st Quarter	\$ 452,436.57	\$ 452,436.57
	09/30/13 Deposits	748.00	
	09/30/13 Interest	14.67	
	10/31/13 Deposits	852.25	
	10/31/13 Interest	19.21	
	11/30/13 Deposits	889.00	
	11/30/13 Withdrawals	(5.00)	
	11/30/13 Interest	16.62	
	End of 1st Quarter	\$ 454,971.32	\$ 454,971.32
	Beginning of 2nd Quarter	\$ 454,971.32	\$ 454,971.32
	12/31/13 Deposits	977.88	
	12/31/13 Withdrawals	(6,885.00)	
	12/31/13 Interest	14.22	
	01/31/14 Deposits	1,103.00	
	01/31/14 Interest	10.46	
	02/28/14 Deposits	841.63	
	02/28/14 Interest	9.81	
	End of 2nd Quarter	\$ 451,043.32	\$ 451,043.32
	Beginning of 3rd Quarter	\$ 451,043.32	\$ 451,043.32
	03/31/14 Deposits	1,936.00	
	03/31/14 Interest	11.51	
	04/30/14 Deposits	7,090.00	
	04/30/14 Interest	12.64	
	05/31/14 Deposits	5,334.38	
	05/31/14 Interest	9.63	
	End of 3rd Quarter	\$ 465,437.48	\$ 465,437.48
	Beginning of 4th Quarter	\$ 465,437.48	\$ 465,437.48
	06/30/14 Deposits	10,365.00	
	06/30/14 Interest	11.09	
	07/31/14 Deposits	2,466.25	
	07/31/14 Interest	12.68	
	08/31/14 Deposits	1,193.00	
	08/31/14 Withdrawals	(5,313.00)	
	08/31/14 Interest	14.26	
	End of 4th Quarter	\$ 474,186.76	\$ 474,186.76
Title:	<i>Payroll Operating</i>	Book Value	Market Value
	Beginning of 1st Quarter	\$ 18,106,316.85	\$ 18,106,316.85
	09/30/13 Deposits	\$ 20,000,000.00	
	09/30/13 Withdrawals	(5,730,000.00)	
	09/30/13 Interest	651.24	
	10/31/13 Withdrawals	(7,225,000.00)	
	10/31/13 Interest	1,157.39	
	11/30/13 Withdrawals	(4,830,000.00)	
	11/30/13 Interest	813.45	
	End of 1st Quarter	\$ 20,323,938.93	\$ 20,323,938.93
	Beginning of 2nd Quarter	\$ 20,323,938.93	\$ 20,323,938.93
	12/31/13 Withdrawals	(6,632,200.00)	
	12/31/13 Interest	514.01	
	01/31/14 Deposits	40,003,330.38	
	01/31/14 Withdrawals	(6,335,000.00)	
	01/31/14 Interest	928.41	
	02/28/14 Withdrawals	(5,566,213.95)	
	02/28/14 Interest	966.76	
	End of 2nd Quarter	\$ 41,796,264.54	\$ 41,796,264.54
	Beginning of 3rd Quarter	\$ 41,796,264.54	\$ 41,796,264.54
	03/31/14 Withdrawals	(6,386,000.00)	
	03/31/14 Interest	964.37	
	04/30/14 Withdrawals	(6,474,500.00)	
	04/30/14 Interest	888.67	
	05/31/14 Withdrawals	(6,084,154.84)	
	05/31/14 Interest	532.55	
	End of 3rd Quarter	\$ 22,853,995.29	\$ 22,853,995.29

Beginning of 4th Quarter	\$	22,853,995.29	\$	22,853,995.29
06/30/14 Withdrawals		(7,042,600.00)		
06/30/14 Interest		443.72		
07/31/14 Deposits		20,000,000.00		
07/31/14 Withdrawals		(6,543,500.00)		
07/31/14 Interest		355.67		
08/31/14 Withdrawals		(6,593,000.00)		
08/31/14 Interest		769.69		
End of 4th Quarter	\$	22,676,464.37	\$	22,676,464.37

Title:	Debt Service Account	Book Value	Market Value
	Beginning of 1st Quarter	\$ 1,645,581.02	\$ 1,645,581.02
	09/30/13 Deposits	22,309.71	
	09/30/13 Interest	53.54	
	10/31/13 Deposits	92,562.15	
	09/30/13 Withdrawals	(79.34)	
	10/31/13 Interest	70.84	
	11/30/13 Deposits	2,049,760.48	
	11/30/13 Interest	93.40	
	End of 1st Quarter	\$ 3,810,351.80	\$ 3,810,351.80
	Beginning of 2nd Quarter	\$ 3,810,351.80	\$ 3,810,351.80
	12/31/13 Deposits	6,957,802.39	
	12/31/13 Interest	205.34	
	01/31/14 Deposits	7,495,193.42	
	01/31/14 Interest	314.79	
	02/28/14 Deposits	4,880,603.26	
	02/28/14 Withdrawals	(15,101,677.51)	
	02/28/14 Interest	181.54	
	End of 2nd Quarter	\$ 8,042,975.03	\$ 8,042,975.03
	Beginning of 3rd Quarter	\$ 8,042,975.03	\$ 8,042,975.03
	03/31/14 Deposits	751,998.36	
	03/31/14 Interest	208.03	
	04/30/14 Deposits	182,401.96	
	04/30/14 Withdrawals	(317,307.99)	
	04/30/14 Interest	240.89	
	05/31/14 Deposits	247,200.67	
	05/31/14 Interest	183.60	
	End of 3rd Quarter	\$ 8,907,900.55	\$ 8,907,900.55
	Beginning of 4th Quarter	\$ 8,907,900.55	\$ 8,907,900.55
	06/30/14 Deposits	83,076.14	
	06/30/14 Interest	209.77	
	07/31/14 Deposits	204,838.67	
	07/31/14 Interest	243.33	
	08/31/14 Deposits	117,671.82	
	08/31/14 Withdrawals	(7,398,955.29)	
	08/31/14 Interest	106.65	
	End of 4th Quarter	\$ 1,915,091.64	\$ 1,915,091.64

Title:	THS Activity Reserves	Book Value	Market Value
	Beginning of 1st Quarter	\$ 100,148.90	\$ 100,148.90
	09/30/13 Interest	3.20	
	10/31/13 Interest	4.21	
	11/30/13 Withdrawals	(106.92)	
	11/30/13 Interest	3.68	
	End of 1st Quarter	\$ 100,053.07	\$ 100,053.07
	Beginning of 2nd Quarter	\$ 100,053.07	\$ 100,053.07
	12/31/13 Interest	3.14	
	01/31/14 Interest	2.36	
	02/28/14 Interest	2.19	
	End of 2nd Quarter	\$ 100,060.76	\$ 100,060.76
	Beginning of 3rd Quarter	\$ 100,060.76	\$ 100,060.76
	03/31/14 Interest	2.55	
	04/30/14 Interest	2.75	
	05/31/14 Interest	2.09	
	End of 3rd Quarter	\$ 100,068.15	\$ 100,068.15
	Beginning of 4th Quarter	\$ 100,068.15	\$ 100,068.15
	06/30/14 Interest	2.32	
	07/31/14 Withdrawals	(68.15)	
	07/31/14 Interest	2.67	
	08/31/14 Interest	3.02	
	End of 4th Quarter	\$ 100,008.01	\$ 100,008.01

Title:	General Fund Operating	Book Value	Market Value
	Beginning of 1st Quarter	\$ 36,015,006.16	\$ 36,015,006.16
	09/30/13 Deposits	22,378.24	
	09/30/13 Withdrawals	(20,056,721.14)	
	09/30/13 Interest	1,014.50	
	10/31/13 Deposits	11,526,421.99	
	10/31/13 Withdrawals	(128,134.68)	
	10/31/13 Interest	950.99	
	11/30/13 Deposits	9,052,605.03	
	11/30/13 Withdrawals	(2,085,597.14)	
	11/30/13 Interest	1,069.81	
	End of 1st Quarter	\$ 34,348,993.76	\$ 34,348,993.76
	Beginning of 2nd Quarter	\$ 34,348,993.76	\$ 34,348,993.76
	12/31/13 Deposits	30,296,207.76	
	12/31/13 Withdrawals	(4,194,117.06)	
	12/31/13 Interest	1,319.37	
	01/31/14 Deposits	25,153,034.70	
	01/31/14 Withdrawals	(47,533,310.37)	
	01/31/14 Interest	819.82	
	02/28/14 Deposits	29,267,152.33	
	02/28/14 Withdrawals	(18,766,728.23)	
	02/28/14 Interest	1,095.58	
	End of 2nd Quarter	\$ 48,574,467.66	\$ 48,574,467.66
	Beginning of 3rd Quarter	\$ 48,574,467.66	\$ 48,574,467.66
	03/31/14 Deposits	989,014.16	
	03/31/14 Withdrawals	(343,859.77)	
	03/31/14 Interest	1,240.20	
	04/30/14 Deposits	905,631.08	
	04/30/14 Withdrawals	(9,724,361.07)	
	04/30/14 Interest	1,284.55	
	05/31/14 Deposits	1,115,013.85	
	05/31/14 Withdrawals	(771,079.56)	
	05/31/14 Interest	834.65	
	End of 3rd Quarter	\$ 40,748,185.75	\$ 40,748,185.75
	Beginning of 4th Quarter	\$ 40,748,185.75	\$ 40,748,185.75
	06/30/14 Deposits	823,940.57	
	06/30/14 Withdrawals	(112,522.67)	
	06/30/14 Interest	957.95	
	07/31/14 Deposits	3,119,301.37	
	07/31/14 Withdrawals	(23,755,230.66)	
	07/31/14 Interest	1,055.29	
	08/31/14 Deposits	3,799,306.89	
	08/31/14 Withdrawals	(5,650,269.44)	
	08/31/14 Interest	612.59	
	End of 4th Quarter	\$ 18,975,337.64	\$ 18,975,337.64
Title:	Capital Projects Fund 9.8m	Book Value	Market Value
	Beginning of 1st Quarter	\$ 55,191.05	\$ 55,191.05
	09/30/13 Interest	1.79	
	10/31/13 Interest	2.30	
	11/30/13 Interest	2.06	
	End of 1st Quarter	\$ 55,197.20	\$ 55,197.20
	Beginning of 2nd Quarter	\$ 55,197.20	\$ 55,197.20
	12/31/13 Interest	1.74	
	01/31/14 Interest	1.35	
	02/28/14 Interest	1.24	
	End of 2nd Quarter	\$ 55,201.53	\$ 55,201.53
	Beginning of 3rd Quarter	\$ 55,201.53	\$ 55,201.53
	03/31/14 Withdrawals	(4,815.83)	
	03/31/14 Interest	1.31	
	04/30/14 Deposits	4,815.83	
	04/30/14 Withdrawals	(5,639.10)	
	04/30/14 Interest	1.44	
	05/31/14 Deposits	5,639.10	
	05/31/14 Interest	1.14	
	End of 3rd Quarter	\$ 55,205.42	\$ 55,205.42
	Beginning of 4th Quarter	\$ 55,205.42	\$ 55,205.42
	06/30/14 Interest	1.29	
	07/31/14 Interest	1.49	
	08/31/14 Interest	1.61	
	End of 4th Quarter	\$ 55,209.81	\$ 55,209.81

Title:		Self-Funded Workers Comp Reserves		Book Value	Market Value
Beginning of 1st Quarter		\$	3,096,913.75	\$	3,096,913.75
09/30/13	Deposits		33,663.43		
09/30/13	Withdrawals		(44,560.48)		
09/30/13	Interest		100.06		
10/31/13	Deposits		34,720.28		
10/31/13	Withdrawals		(104,293.68)		
10/31/13	Interest		127.71		
11/30/13	Deposits		34,947.66		
11/30/13	Withdrawals		(34,309.50)		
11/30/13	Interest		110.34		
End of 1st Quarter		\$	3,017,419.57	\$	3,017,419.57
Beginning of 2nd Quarter		\$	3,017,419.57	\$	3,017,419.57
12/31/13	Deposits		35,336.79		
12/31/13	Withdrawals		(8,492.40)		
12/31/13	Interest		95.67		
01/31/14	Deposits		16,417.36		
01/31/14	Interest		70.67		
02/28/14	Deposits		51,669.23		
02/28/14	Withdrawals		(73,330.75)		
02/28/14	Interest		66.26		
End of 2nd Quarter		\$	3,039,252.40	\$	3,039,252.40
Beginning of 3rd Quarter		\$	3,039,252.40	\$	3,039,252.40
03/31/14	Deposits		52,111.07		
03/31/14	Withdrawals		(4,981.84)		
03/31/14	Interest		77.93		
04/30/14	Deposits		34,869.11		
04/30/14	Withdrawals		(11,754.86)		
04/30/14	Interest		85.15		
05/31/14	Deposits		35,351.77		
05/31/14	Withdrawals		(47,273.02)		
05/31/14	Interest		64.56		
End of 3rd Quarter		\$	3,097,802.27	\$	3,097,802.27
Beginning of 4th Quarter		\$	3,097,802.27	\$	3,097,802.27
06/30/14	Deposits		19,081.53		
06/30/14	Interest		72.58		
07/31/14	Deposits		47,925.74		
07/31/14	Withdrawals		(32,055.41)		
07/31/14	Interest		82.83		
08/31/14	Deposits		31,341.97		
08/31/14	Withdrawals		(7,997.05)		
08/31/14	Interest		94.14		
End of 4th Quarter		\$	3,156,348.60	\$	3,156,348.60
Title:		Capital Projects Fund 75m		Book Value	Market Value
Beginning of 1st Quarter		\$	1,107,936.84	\$	1,107,936.84
09/30/13	Interest		35.92		
10/31/13	Interest		46.85		
11/30/13	Interest		40.58		
End of 1st Quarter		\$	1,108,060.19	\$	1,108,060.19
Beginning of 2nd Quarter		\$	1,108,060.19	\$	1,108,060.19
12/31/13	Interest		34.97		
01/31/14	Interest		25.70		
02/28/14	Interest		24.12		
End of 2nd Quarter		\$	1,108,144.98	\$	1,108,144.98
Beginning of 3rd Quarter		\$	1,108,144.98	\$	1,108,144.98
03/31/14	Interest		28.12		
04/30/14	Interest		30.61		
05/31/14	Interest		22.97		
End of 3rd Quarter		\$	1,108,226.68	\$	1,108,226.68
Beginning of 4th Quarter		\$	1,108,226.68	\$	1,108,226.68
06/30/14	Interest		25.88		
07/31/14	Interest		29.43		
08/31/14	Interest		33.25		
End of 4th Quarter		\$	1,108,315.24	\$	1,108,315.24

Title:	Capital Projects Fund 53.4m	Book Value	Market Value
	Beginning of 1st Quarter	\$ 117,642.93	\$ 117,642.93
	09/30/13 Interest	3.84	
	10/31/13 Interest	4.99	
	11/30/13 Interest	4.29	
	End of 1st Quarter	\$ 117,656.05	\$ 117,656.05
	Beginning of 2nd Quarter	\$ 117,656.05	\$ 117,656.05
	12/31/13 Interest	3.69	
	01/31/14 Interest	2.73	
	02/28/14 Interest	2.51	
	End of 2nd Quarter	\$ 117,664.98	\$ 117,664.98
	Beginning of 3rd Quarter	\$ 117,664.98	\$ 117,664.98
	03/31/14 Interest	2.93	
	04/30/14 Interest	3.25	
	05/31/14 Interest	2.45	
	End of 3rd Quarter	\$ 117,673.61	\$ 117,673.61
	Beginning of 4th Quarter	\$ 117,673.61	\$ 117,673.61
	06/30/14 Interest	2.74	
	07/31/14 Interest	3.12	
	08/31/14 Interest	3.53	
	End of 4th Quarter	\$ 117,683.00	\$ 117,683.00

Title:	Capital Projects Fund 28.9m	Book Value	Market Value
	Beginning of 1st Quarter	\$ 13,515.93	\$ 13,515.93
	09/30/13 Interest	0.37	
	10/31/13 Interest	0.58	
	11/30/13 Interest	0.50	
	End of 1st Quarter	\$ 13,517.38	\$ 13,517.38
	Beginning of 2nd Quarter	\$ 13,517.38	\$ 13,517.38
	12/31/13 Interest	0.36	
	01/31/14 Interest	0.31	
	02/28/14 Interest	0.28	
	End of 2nd Quarter	\$ 13,518.33	\$ 13,518.33
	Beginning of 3rd Quarter	\$ 13,518.33	\$ 13,518.33
	03/31/14 Interest	0.31	
	04/30/14 Interest	0.30	
	05/31/14 Interest	0.31	
	End of 3rd Quarter	\$ 13,519.25	\$ 13,519.25
	Beginning of 4th Quarter	\$ 13,519.25	\$ 13,519.25
	06/30/14 Interest	0.30	
	07/31/14 Interest	0.31	
	08/31/14 Interest	0.31	
	End of 4th Quarter	\$ 13,520.17	\$ 13,520.17

Title:	Capital Projects Fund 30.9m	Book Value	Market Value
	Beginning of 1st Quarter	\$ 8,187,527.13	\$ 8,187,527.13
	09/30/13 Withdrawals	\$ (22,378.24)	
	09/30/13 Interest	265.18	
	10/31/13 Withdrawals	(26,342.65)	
	10/31/13 Interest	344.86	
	11/30/13 Withdrawals	(52,493.11)	
	11/30/13 Interest	297.56	
	End of 1st Quarter	\$ 8,087,220.73	\$ 8,087,220.73
	Beginning of 2nd Quarter	\$ 8,087,220.73	\$ 8,087,220.73
	12/31/13 Withdrawals	(1,389,322.76)	
	12/31/13 Interest	236.09	
	01/31/14 Deposits	17,266.21	
	01/31/14 Withdrawals	(1,149,704.32)	
	01/31/14 Interest	147.99	
	02/28/14 Deposits	33,735.23	
	02/28/14 Withdrawals	(200,007.24)	
	02/28/14 Interest	119.24	
	End of 2nd Quarter	\$ 5,399,691.17	\$ 5,399,691.17

Beginning of 3rd Quarter	\$	5,399,691.17	\$	5,399,691.17
03/31/14 Withdrawals		(984,198.33)		
03/31/14 Interest		127.70		
04/30/14 Withdrawals		(887,499.82)		
04/30/14 Interest		104.94		
05/31/14 Deposits		692.74		
05/31/14 Withdrawals		(270,022.01)		
05/31/14 Interest		71.63		
End of 3rd Quarter	\$	3,258,968.02	\$	3,258,968.02
Beginning of 4th Quarter	\$	3,258,968.02	\$	3,258,968.02
06/30/14 Deposits		5,159.13		
06/30/14 Withdrawals		(572,960.28)		
06/30/14 Interest		70.60		
07/31/14 Withdrawals		(1,010,649.88)		
07/31/14 Interest		62.33		
08/31/14 Deposits		2,365,163.16		
08/31/14 Withdrawals		(1,081,381.13)		
08/31/14 Interest		70.10		
End of 4th Quarter	\$	2,964,502.05	\$	2,964,502.05

Title:	Bonds 2014AB		Book Value	Market Value
	Beginning of 3rd Quarter		\$ -	\$ -
	03/31/14	Deposits	86,335,000.00	
	03/31/14	Interest	368.04	
	04/30/14	Interest	2,383.44	
	05/31/14	Withdrawals	(368,130.94)	
	05/31/14	Interest	1,790.92	
	End of 3rd Quarter		\$ 85,971,411.46	\$ 85,971,411.46
	Beginning of 4th Quarter		\$ 85,971,411.46	\$ 85,971,411.46
	06/30/14	Withdrawals	(256,139.42)	
	06/30/14	Interest	2,006.33	
	07/31/14	Deposits	10,318.26	
	07/31/14	Withdrawals	(2,118,901.60)	
	07/31/14	Interest	2,253.73	
	08/31/14	Deposits	184,924.92	
	08/31/14	Withdrawals	(5,262,638.19)	
	08/31/14	Interest	2,451.67	
	End of 4th Quarter		\$ 78,535,687.16	\$ 78,535,687.16

Tomball ISD Investment Report
Annual Investment Report for Year Ending August 31, 2014

Securities Investments and Certificates of Deposit

<u>Security Description</u>	<u>Coupon Rate</u>	<u>Par Amount</u>	<u>Price</u>	<u>Principal Amount</u>	<u>Accrued Interest</u>	<u>Total Price</u>	<u>Settlement Date</u>	<u>Maturity Date</u>	<u>Days Held to Maturity</u>	<u>Yield to Maturity</u>	<u>Paid to Maturity</u>	<u>Gain to Maturity</u>	<u>Market Value</u>
GENERAL FUND													
* CD Prosperity	0.350%	3,021,052	100.000	3,023,688	0	3,023,688	04/19/14	04/19/15	365	0.350%	3,034,271	10,583	3,027,602
* CD Prosperity	0.350%	3,022,710	100.000	3,036,057	0	3,036,057	05/06/13	03/26/15	230	0.350%	3,042,753	6,696	3,036,756
* CD Prosperity	0.350%	3,000,000	100.000	3,000,000	0	3,000,000	11/03/13	11/03/15	365	0.350%	3,010,500	10,500	3,008,659

* Certificates of Deposit have been secured at 110% of par value with pledged collateral held by a third party banking institution.

This report has been prepared in compliance with Board Policy CDA and Public Funds Investment Act.

Huey Kinchen

SUPERINTENDENT

Jim Ross

CHIEF FINANCIAL OFFICER

Rich Vela

DIRECTOR OF RISK MANAGEMENT

Commercial Paper

Commercial paper refers to unsecured short-term promissory notes issued by financial and nonfinancial corporations. Commercial paper has maturities of up to 270 days (the maximum allowed without SEC registration requirement). Dollar volume for commercial paper exceeds the amount of any money market instrument other than T-bills. It is typically issued by large, credit-worthy corporations with unused lines of bank credit and therefore carries low default risk.

Standard and Poor's and Moody's provide ratings of commercial paper. **A1** is the highest short-term rating category assigned by Standard & Poor's, while **P1** is the highest short-term rating category for Moody's Investor Service. Securities that have been assigned both an **A1** and a **P1** rating are considered to be of the highest credit quality.

	Moody's	S&P	Fitch
superior	P1	A1+ or A1	F1+ or F1
satisfactory	P2	A2	F2
adequate	P3	A3	F3
speculative	NP	B or C	F4
defaulted	NP	D	F5

Unlike some other types of money-market instruments, in which banks act as intermediaries between buyers and sellers, commercial paper is issued directly by well-established companies, as well as by financial institutions. Banks may act as agents in the transaction, but they assume no principal position and are in no way obligated with respect to repayment of the commercial paper. Companies may also sell commercial paper through dealers who charge a fee and arrange for the transfer of the funds from the lender to the borrower.

The Comptroller of Public Accounts (the "Comptroller") is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company (the "Trust Company"), which is authorized to operate the TexPool Portfolios. Pursuant to the TexPool Participation Agreement, administrative and investment services to the TexPool Portfolios are provided by Federated Investors, Inc. ("Federated"), under an agreement with the Comptroller, acting on behalf of the Trust Company. The TexPool Portfolios are comprised of two investment alternatives: TexPool Prime and TexPool. This Information Statement relates only to TexPool Prime. **TexPool Prime may invest in commercial paper** and certificates of deposit, as well as obligations of the United States Government or its agencies and instrumentalities, and repurchase agreements. TexPool Prime has significantly higher returns than TexPool. This diversity is needed for higher yields.