



**Financial Advisor Services**  
Request for Qualifications  
(RFQ) #01-02-19

**ADDENDUM #2**

**Investment Report for December 2018**

**ACKNOWLEDGEMENT OF ADDENDUM #2:**

\_\_\_\_\_  
Company Name

\_\_\_\_\_  
Date

\_\_\_\_\_  
Authorized Official (Printed Name)

\_\_\_\_\_  
Authorized Official (Signature)

**SIGNED ADDENDUM MUST BE SUBMITTED WITH PROPOSAL**



**BUSINESS & FINANCE OFFICE**

5025 South Willow Drive  
Houston, Texas 77035

**RFQ# 01-02-19**

**FINANCIAL ADVISOR SERVICES**

**Addendum Date of Issue: February 6, 2019**

**ADDENDUM # 2**

**Exhibit A**

**Investment Report for December 2018**

**SUBJECT: CONSIDER APPROVAL OF INVESTMENT REPORT FOR  
DECEMBER 2018**

The investment officer shall prepare and submit to the Board a written monthly report of investment transactions for all funds covered by this policy for the preceding period. The investment report will be submitted to the Board along with the monthly financial statements of the School.

- (1) The report must:
  - (a) describe in detail the investment position of the School on the date of the report;
  - (b) be prepared jointly by all investment officers of the School;
  - (c) be signed by each investment officer of the School;
  - (d) contain a summary statement prepared in compliance with generally accepted accounting principles (GAAP) of each pooled fund group that states the:
    1. beginning market value for the reporting period;
    2. additions and changes to the market value during the period;
    3. ending market value for the period; and
    4. fully accrued interest for the reporting period.
  - (e) 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;
  - (f) state the maturity date of each separately invested asset that has a maturity date;
  - (g) state the account or fund or pooled group fund for which each individual investment was acquired; and
  - (h) state the compliance of the investment portfolio of the School as it relates to:
    1. the investment strategy expressed in this investment policy; and
    2. authorized investment instruments, as provided by this policy.
- (2) The report shall be presented on a monthly basis to the Board within a reasonable time after the end of the period.

The Administration recommends that the Board of Education approves the Investment Report for December 2018.



The Varnett Public School

Monthly Investment Report  
December 31, 2018  
(Unaudited)

**THE VARNETT PUBLIC SCHOOL**  
**Monthly Investment Report at December 31, 2018**  
**(Unaudited)**

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Detail Account Statements available for review:

- Allegiance Bank Account activity
- CDARS Portfolio Summary

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**(Unaudited)**

**Compliance Statement**

In accordance with Texas Government Code, Section 2256, Public Funds Investment Act, The Varnett Public School (Varnett) has adopted written investment policy, Other Revenues: Investments requiring the investment officers to prepare and submit a written report of investment transactions for the preceding reporting period to the Board of Trustees. The report must be prepared at least on a quarterly basis and must:

- Describe in detail the investment position of Varnett on the date of the report.
- Contain a summary statement of each investment type including beginning market value for the reporting period; additions and changes to the market value during the period and ending market value for the period.
- State the book value and market value of each invested asset at the beginning and end of the reporting period by type of asset and fund type invested.
- State the account, fund or pooled fund group for which each asset was acquired.
- State compliance of the investment portfolio with the Varnett investment policy and investment strategies and with state law.

Varnett is in compliance with the Public Funds Investment Act. All investments purchased must meet the three basic tenets included in the investment policy: safety, liquidity, and yield.

The day-to-day cash management and Varnett's investments are the responsibility of the Chief Financial Officer.

As the approved investment officer of The Varnett Public School, I hereby certify that the preceding Investment Report represents the investment position of Varnett as of the date above is in compliance with the Board-approved Investment Policy, the Public Funds Investment Act, and generally accepted accounting principles.

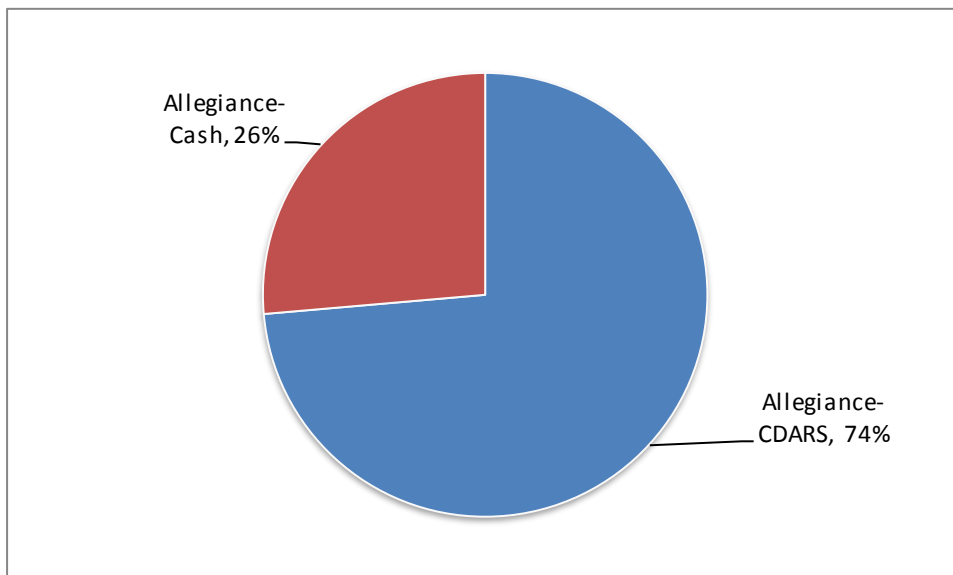
Dr. Margaret Stroud, Superintendent \_\_\_\_\_ /s/ \_\_\_\_\_

Sandra Smith, Chief Financial Officer \_\_\_\_\_ /s/ \_\_\_\_\_

**THE VARNETT PUBLIC SCHOOL**  
**Monthly Investment Report at December 31, 2018**  
**(Unaudited)**

**\$11,112,351**

**Varnett- Portfolio by Investment Type**



	Unrestricted	Restricted (Food Service)	Total Invested	Percent of Total
Allegiance Bank-Cash	\$ 2,704,901	\$ 226,529	\$ 2,931,430	26%
Certificate of Deposit (CDARS)	8,180,921	-	8,180,921	74%
<b>Totals:</b>	<b>\$ 10,885,821</b>	<b>\$ 226,529</b>	<b>\$ 11,112,351</b>	<b>100%</b>

**Footnote:** 3M CD used to collateralize secure loan for construction projects.

**THE VARNETT PUBLIC SCHOOL**  
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**(Unaudited)**

**Summary Schedule of Weighted Average Maturity \* by Investment Type**  
**All funds**

<b>(#1)</b> <b>INVESTMENT TYPE</b>	<b>(#2)</b> <b>BOOK VALUE</b>	<b>(#3)</b> <b>DAYS TO</b> <b>MATURITY</b>	<b>(#4)</b> <b>BOOK VALUE X</b> <b>DAYS</b> <b>(2) x (3)</b>
Allegiance Banks: Overnight & Cash	2,931,430	1	2,931,430
CDARS-Allegiance Bank	8,180,921	30	245,427,617
Totals:	\$11,112,351		\$248,359,047

\* Weighted Average Maturity Calculation:

'Total Column #4-BOOK X DAYS' divided by 'Total Column #2-BOOK VALUE' = # DAYS

**\$248,359,047 / 11,112,351 = 22 days**

\* Weighted Average Maturity (commonly called WAM) is a measure that is useful in determining the degree of market or interest rate risk. In essence, it is the weighted number of number of days that investments are held. The longer the WAM, the more exposure to market risk and the more potential for capital gains or losses.

Varnett holds investments to maturity, which minimizes this market/interest rate exposure.

Weighted Average Maturity at December 31, 2018 is 22 days.

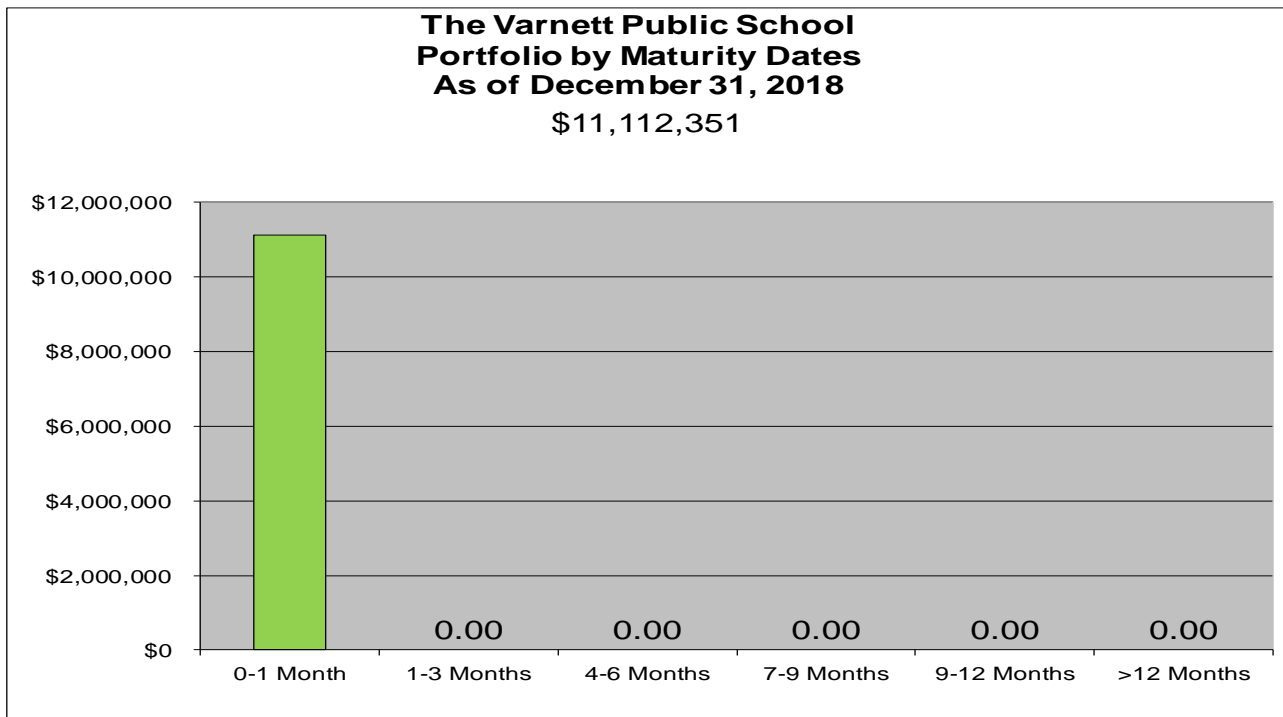


**THE VARNETT PUBLIC SCHOOL**  
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**All funds- Portfolio by Maturity Dates**

Investments are purchased to meet the cash flow needs of Varnett. The bar graph on this page depicts the maturity schedule of Varnett’s investments by monthly intervals. As of the end of this quarter, investments will mature:

- 100 % within one month,
  - 0 % from 1-3 months,
  - 0 % from 4-6 months,
  - 0 % from 7-9 months, and
  - 0 % more than 12 months.
- 100.0 %



**THE VARNETT PUBLIC SCHOOL**  
**Monthly Investment Report at December 31, 2018**  
**(Unaudited)**

**Investment Earnings Reports**

**(A) Interest Earned by Fund by Source-For This Quarter**

	Unrestricted	Restricted	Total
	Fund	Food Service Fund	
Allegiance Cash	\$ 16,864	-	\$ 16,864
<b>Totals:</b>	<b>\$ 16,864</b>	<b>\$ -</b>	<b>\$ 16,864</b>

**(B) Interest Earned by Fund-Comparison of Quarters for FY 2017-18**

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Earned Y-T-D
Unrestricted Funds	\$ 11,936	\$ 4,928		\$ -	\$ 16,864
Restricted (Food Service) Funds	-	-	-	-	-
<b>Totals:</b>	<b>\$ 11,936</b>	<b>\$ 4,928</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 16,864</b>

**First quarter is Sept, Oct and Nov;**  
**Second quarter is Dec, Jan and Feb;**  
**Third quarter is Mar, April and May;**  
**Fourth quarter is June, July and August.**

**(C) Budget v Actual Summary of Interest Earned Year-to-Date**

	Budgeted	Actual	Bal to Rec	% Rec'd
Unrestricted Funds	\$ 35,000	\$ 16,864	\$ 18,136	100.00%
Restricted (Food Service) Funds	-	-	-	0.00%
<b>Totals:</b>	<b>\$ 35,000</b>	<b>\$ 16,864</b>	<b>\$ 18,136</b>	<b>100.00%</b>

**Summary Report**

Beginning Book Value	\$ 11,067,724
Beginning Market Value	\$ 11,067,724
Beginning Weighted	26 Day
Ending Book Value	\$11,112,351
Ending Market Value	\$11,112,351
Earnings for Period	4,927.94
Change in Book Value	\$44,627
Change in Market Value	\$44,627
Ending Weighted Average to Maturity - Days	22
Period Average Yield	0.30%
Period Average Benchmark **	<b>2.415%</b>

\*\* Benchmark = 13 Week Treasury-Bill at Maturity

**THE VARNETT PUBLIC SCHOOL**  
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**(Unaudited)**

**All funds - Inventory Report**

	YIELD	Gain/(Loss) In Market Value	Interest Paid	At 11/30/18		At 12/31/18	
				MARKET	BOOK	MARKET	BOOK
<b><u>Certificate of Deposit-Allegiance Bank</u></b>							
CDARs^	0.40%		%	8,177,547	8,177,547	8,180,921	8,180,921
<b>Total Certificate of Deposit</b>			3,272	<b>\$ 8,177,547</b>	<b>\$ 8,177,547</b>	<b>\$ 8,180,921</b>	<b>\$ 8,180,921</b>
<b><u>Allegiance Bank Funds</u></b>							
Operating Fund^				379,885	379,885	281,651	281,651
Food Service Fund			-	219,748	219,748	226,529	226,529
Payroll Fund^				89,148	89,148	89,148	89,148
Money Market Fund^	0.07%		1,656	2,201,397	2,201,397	2,334,102	2,334,102
<b>Total Allegiance Bank</b>	<b>test</b>		<b>1,656</b>	<b>2,890,177</b>	<b>2,890,177</b>	<b>2,931,430</b>	<b>2,931,430</b>
<b>Totals:</b>	<b>0.24%</b>	<b>-</b>	<b>\$ 4,928</b>	<b>\$ 11,067,724</b>	<b>\$ 11,067,724</b>	<b>\$ 11,112,351</b>	<b>\$ 11,112,351</b>

Note: ^ Unrestricted Funds

**THE VARNETT PUBLIC SCHOOL**  
**Monthly Investment Report at December 31, 2018**  
**Glossary of Investment Terms**

<b>Accretion</b>	The daily book value earned daily (on a straight line basis) on securities purchased at a discount. At maturity, a discount security will be worth the face value. The types of securities involved are usually treasury bills, discount notes, commercial paper, and bankers' acceptances.
<b>Amortization</b>	The daily book value earned daily (on a straight line basis) on securities purchased at a premium. To correctly account for premium amortization, it must be subtracted from the coupon interest either monthly or at maturity.
<b>Benchmark for Investments</b>	Varnett uses the 13-week (90 day) Treasury-Bill investment rate of the maturity date closest to the end of the month; off ' <a href="http://www.treasurydirect.gov">www.treasurydirect.gov</a> '.
<b>Book Value</b>	The face amount minus any unaccreted discount or plus any unamortized premium. See Accretion and Amortization.
<b>Cash</b>	Cash includes readily available cash, current bank accounts and certificates of deposit. Cash is considered to be the most liquid asset.
<b>CDARS</b>	Certificate of Deposit Account Registry Service (CDARS)-Everything is handled through a CDARS Network member of your choice. Financial institutions that can offer CDARS are members of a unique network. When you place a large deposit with a CDARS Network member, that institution uses the CDARS service to place your funds into CDs issued by other members of the CDARS Network. This occurs in increments below the standard FDIC insurance maximum (\$250,000) so that both principal and interest are eligible for FDIC insurance. By working directly with just one institution, you can receive insurance coverage from many. And, you receive just one regular, consolidated account statement.
<b>Commercial Paper</b>	An unsecured promissory note issued by a corporation with a fixed maturity. The issuer (such as Coca Cola, General Electric, Kimberly Clark) promises to pay the buyer a fixed amount on some future date but pledges no assets, only his liquidity and established earning power, to guarantee that promise. These investment instruments usually yield 10-15 basis points above comparative agency investments. HCDE will not invest in commercial paper with less than A1 or P1 or an equivalent rating.
<b>Credit Risk</b>	The risk of issuer failure; mitigated by selecting high quality investment vehicles.

**THE VARNETT PUBLIC SCHOOL**  
**Monthly Investment Report at December 31, 2018**  
**Glossary of Investment Terms, Continued**

<b>CUSIP #</b>	The <u>C</u> ommittee on <u>U</u> niform <u>S</u> ecurities <u>I</u> dentification <u>P</u> rocedures Number: the identification number on all securities (often nine digits in length).
<b>Diversification</b>	To invest in a variety of different Board-authorized investment types (sector): treasuries, agencies, certificates of deposit, commercial paper, investment pools, and money market funds.
<b>Face Value</b>	Redemption value printed on the face of the certificate; same as par value.
<b>FHLB</b>	<u>F</u> ederal <u>H</u> ome <u>L</u> oan <u>B</u> ank System, established in 1932, includes 12 banks and their member institutions. Federal Home Loan Banks are instrumentalities of the United State government.
<b>FHLMC</b>	<u>F</u> ederal <u>H</u> ome <u>L</u> oan <u>M</u> ortgage <u>C</u> orporation < <b>Freddie Mac</b> > is a stock-holder-owned corporation chartered by Congress in 1970 to keep money flowing to mortgage lenders in support of homeownership and rental housing.
<b>FICO</b>	<u>F</u> inancial <u>C</u> orporation was set up to fund the bailout of Savings and Loans in the 1980's. It was an offshoot of the <u>F</u> ederal <u>S</u> avings and <u>L</u> oan <u>I</u> nsurance <u>C</u> orporation (FSLIC).
<b>Fiduciary Responsibility</b>	The Board retains the ultimate responsibility as fiduciaries of the assets of the District. Also see Standard of Care.
<b>FNMA</b>	<u>F</u> ederal <u>N</u> ational <u>M</u> ortgage <u>A</u> ssociation < <b>Fannie Mae</b> > is a federally chartered and stockholder owned corporation. It is the largest investor in home mortgages in the United States. FNMA provides funds to the mortgage market by purchasing mortgages.
<b>Investment Pool</b>	An entity created under government code to invest public funds jointly on behalf of entities participating in the pool and whose investment objectives, in order of priority, are: preservation and safety of principal; liquidity; and yield.
<b>Interest Rate Risk</b>	The uncertainty that the value of the instrument may fluctuate in value in response to changes in interest rates; mitigated by holding the instrument whenever possible to maturity.
<b>Investments</b>	Securities and other assets acquired primarily for the purpose of obtaining income or profit.
<b>Lone Star Investment Pool</b>	The Lone Star Investment Pool (LSIP) is a public funds investment pool administered by First Public, LLC.

**THE VARNETT PUBLIC SCHOOL**  
**Monthly Investment Report at December 31, 2018**  
**Glossary of Investment Terms, Continued**

<b>Liquidity</b>	Degree of availability of an asset; ease of converting the asset to cash.
<b>Liquidity Risk</b>	The risk that the investment may not be sold immediately-before it matures- at its market value.
<b>Market Value</b>	Value of an agency security if you were to sell that security on a given date. Market value changes daily, and normally increases as the maturity date of the security instrument approaches.
<b>Market Risk</b>	The risk that market prices will fall and threaten liquidity.
<b>Maturity Date</b>	The date the principal amount of a security becomes due and payable.
<b>Par Value</b>	Redemption value printed on the face of the certificate. Par value = face value; and the par value of a security is different than its market value.
<b>Portfolio Risk</b>	The risk that remains after taking into account the risk-reducing effects of combining securities into a portfolio that efficiently balances its risks with its rate of return.
<b>Purchase Date</b>	The date of the initial purchase of the financial investment.
<b>Risks</b>	[Definitions can be found under individual listings.] Types of risk include: <ul style="list-style-type: none"> <li>• Credit risk</li> <li>• Interest rate risk</li> <li>• Liquidity risk</li> <li>• Market risk</li> <li>• Portfolio risk</li> <li>• Volatility risk</li> </ul>
<b>Safety of Principal</b>	The primary concern and responsibility of the District's Board and investment officers is the preservation of assets. Cash is invested with the objective of the probable income to be derived, but, more importantly, the safety of the original capital.
<b>Sold Date</b>	The date the financial instrument is sold prior to the maturity date.
<b>Standard of Care</b>	In the administration of the duties of an investment officer, the designated investment officer(s) shall exercise the judgment and care, under prevailing circumstances that a person of prudence, discretion, and intelligence would exercise in the management of their own affairs.

**THE VARNETT PUBLIC SCHOOL**  
**Monthly Investment Report at December 31, 2018**  
**Glossary of Investment Terms, Continued**

<b>TexPool</b>	The Texas Local Government Investment Pool is a public fund investment pool overseen by the State Comptroller's office and currently managed by Lehman Brothers and Federated Investors.
<b>Treasury Zero</b>	Treasury bills are short-term obligations issued with a term of one year or less. Treasury Zero bills are sold at a discount from face value and do not pay interest until maturity.
<b>U.S. Agency Securities</b>	The federal government has established approximately 20 different agencies and instrumentalities to channel funds to particular sectors of the economy. U.S. Agency securities are purchased directly by the district from investment brokerage firms registered to do business with the District. These securities are issued in the District's name, cleared through the Federal Reserve Bank system, and held in safekeeping by a third party.
<b>Volatility Risk</b>	The risk that market prices will move significantly and increase market risk.
<b>Weighted Average to Maturity (WAM)</b>	The average time it takes for securities in a portfolio to mature, weighted in proportion to the dollar amount that is invested in the portfolio. Weighted average maturity measures the sensitivity of fixed-income portfolios to interest rate changes. Portfolios with longer WAMs are more sensitive to changes in interest rates because the longer an investment is held, the greater the opportunity for interest rates to move up or down and affect the performance of the investment.
<b>Wells Fargo Money Market Funds</b>	Wells Fargo Money Market Funds are unsecured money market accounts where the Public Facilities Corporation funds are kept unless otherwise invested.
<b>Yield-Current</b>	Rate of return on investment as a % of market price including accrued interest.
<b>Yield to Maturity</b>	The current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.