CITY OF PHARR
INVESTMENT POLICY
March 18, 2015

1.0 POLICY:

It is the policy of the City of Pharr, Texas and its component units to invest public funds in a manner which will provide the safest and most liquid opportunity with the highest investment return while meeting the daily cash flow demands of the City and conforming to the statutes governing the investment of public funds. This policy serves to satisfy the statutory requirements of defining and adopting a formal investment policy. The policy and strategy shall be reviewed by the City Commission annually. Any modifications will be formally approved by the City Commission. This investment policy, as approved, is in compliance with the provisions of the Public Funds Investment Act of the Texas Government Code Chapter 2256 (Public Funds Investment Act, PFIA). This investment policy addresses the methods, procedures, and practices that must be exercised to ensure effective and judicious fiscal management of City's funds. This policy does not include the investment of Other Post Employment Benefit Trust Funds, a separate investment policy is available for that purpose.

2.0 SCOPE:

This policy applies to all aspects of investing the financial assets of the City and its component units. These funds are accounted for in the City's Comprehensive Annual Financial Report and include: General Fund, Special Revenue Funds, Debt Service Funds**,** Capital Project Funds, Enterprise Funds, Trust and Agency Funds, and any new fund created by legislative body, unless specifically exempted or excluded. All funds will be pooled for investment purposes. The strategy developed for this pooled fund group will address the varying needs, goals, and objectives of each fund.

This policy shall not govern funds which are managed under separate investment programs in accordance with Section 2256.004 of the Public Fund investment act. Such funds currently include Retirement/Pension Fund and Deferred Compensation Fund.

2.1 Bond Proceeds: Funds received from the sale of general obligation bonds or certificates of obligation will be segregated and will be invested under a separate strategy.

3.0 OBJECTIVES:

The following are the primary investment objectives of the City of Pharr, in order of priority:

3.1 Safety: Safety of principal is the foremost objective of the City of Pharr's investment policy. Safety is defined as the undiminished return of the principal of the City's investments and deposits. Investment officers must have an adequate understanding of the suitability of individual investment instruments in light of the City's financial needs. This understanding is gained through experience of the investment officers and through training designed to increase the expertise of the investment officers.

3.2 Liquidity: Liquidity is important to insure sufficient cash to meet all operating requirements. A liquid investment is one that can be easily and quickly converted into cash without a substantial loss of value.

3.3 Yield: For the City of Pharr, the yield objective is secondary to those of safety and liquidity. Yield is defined as the rate of annual income return on an investment, expressed as a percentage. The six-month U.S. Treasury Bill will be used as a prudent yield target.

4.0 STANDARDS OF CARE:

4.1 Prudence: 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 persons' own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.

Persons who act in good faith, exercising due diligence, and in compliance with this policy, shall be relieved of any personal liability arising from the investment activities of the City of Pharr. In determining whether an investment officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration: (1) the investment of all funds under the City's control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment; and (2) whether the investment decision was consistent with this written investment policy of the City of Pharr.

4.2 Ethics: Investment officers shall refrain from any activity that conflicts, or appears to conflict, with the officer's proper execution of the investment program or which could impair the officer's ability to make impartial investment decisions.

4.3 Conflicts of Interest: Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of investment programs, or which could impair their ability to make impartial investment decisions. Employees and investment officers shall disclose to the Texas Ethics Commission and the City Manager, and the City Manager discloses to the City Commission if:

a) The officer has a personal business relationship with a business organization offering to engage in an investment transaction with the City; or
b) The officer is related within the second degree by affinity of consanguinity, as determined under Chapter 573 of the Texas Government Code, to an individual seeking to transact investment business with the City.

4.4 Delegation of Authority: In accordance with the PFIA, the responsibility for conducting investment transactions resides with the City Commission. The daily operation and management of the City of Pharr's investments are delegated to the following persons:

a) **Investment Officers:** The City Manager shall name two investment officers from among the employees with the following job titles: City Manager, Assistant City Manager, and Finance Director. The investment officers are authorized to deposit, withdraw, invest, transfer, or manage in any other manner funds of the City of Pharr.

b) **Other Investment Authorizations:** The City Manager, Assistant City Manager, Finance Director, and Assistant Finance Director, are authorized and responsible for depositing of funds into the bank depository.

4.5 Quality and Capability of Investment Management: Recognizing that the investment officers of the City have many other duties and that they may lack formal education in investing, this policy allows the City to use only the more basic and easily understood types of investments available to local governments.

4.6 Training of Investment Officers: All investment officers of the City shall attend an investment training session not less than once in a two-year period (training cycle begins on the first day of the fiscal year) and receive not less than ten hours of instruction from an independent source endorsed by the Governmental Treasurers Organization of Texas, Texas Municipal League, or the University of North Texas Center for Public Management.

5.0 STRATEGIES:

The investment strategy is the logical product of the investment objectives. As such, it emphasizes low credit risk, diversification, and the management of maturities. The strategy also takes into account the expertise and time constraints of the investment officers. The allowable investments listed in Section 7 of this policy reflect the avoidance of credit risk. Diversification refers to dividing investments among a variety of securities offering independent returns. This strategy uses investment pools to achieve diversification. The management of maturities refers to structuring the maturity dates of the direct investments so that, while funds are initially invested for a longer period of time, some investments mature each calendar month.

A basic strategy governs the investment of all funds under this policy. A separate strategy applies to the investment of bond proceeds.

5.1 Depository Bank: Funds at the depository bank are to be managed to a level that minimizes the cost of the relationship to the City. In instances where the depository contract allows for the payment of fees by maintaining balances at the depository, every effort is to be made to minimize the amount of money held at the depository in excess of that needed to compensate the bank for its services. Concerns about safety are to be addressed by the pledging requirements of the depository, in accordance with state law. This strategy specifies that sufficient funds to support daily operations are maintained in the depository bank, but that any funds in excess of that be held to a minimum.

5.2 Investment Pools: An investment pool is an entity created to invest public funds jointly on behalf of the entities that participate in the pool and whose investment objectives in order of priority are safety, liquidity, and yield. Funds are usually available from investment pools on a next day basis, meaning the pools have a high degree of liquidity. Because of the size and expertise of their staffs, investment pools are able to prudently invest in a variety of the investment types allowed by state law. In this manner, investment pools achieve diversification. The strategy of the City of Pharr calls for the use of investment pools as a primary source of diversification and a supplemental source of liquidity. Funds that may be needed on a short-term basis but that are in excess of the amount maintained at the depository bank are available for deposit in investment pools.

5.3 Direct Investments: The City of Pharr purchases securities of the U.S. Treasury and U.S. Agencies in the secondary market. For purposes of this policy, the term "U. S. Agencies" shall refer to obligations of agencies or instrumentalities of the United States. The majority of the direct investments have a remaining maturity of two years or less. The City employs a laddered maturity strategy for these instruments. With that method, some investments reach maturity each month, enhancing liquidity. However, the yields are those of two year investments rather than securities having a single month to maturity, enhancing yield. The investment officers must give consideration to the over-all liquidity of the portfolio before making a direct investment. Additionally, the City occasionally purchases a U. S. Treasury or Agency security with maturities as long as two years. See Section 5.5 below.

5.4 Hold until Maturity: The strategy of the City is to maintain enough liquidity in its portfolio that it never needs to sell a security. This will protect the principal of the investment against market risk. Should it become necessary to sell a security prior to maturity, the prior written consent of the City Manager must be obtained.

5.5 Investment of Reserve Funds: Up to one-third of the funds held in reserve are available for investment in Treasury or Agency securities with remaining maturities up to two years.

5.6 Separate Strategy for Bond Proceeds: Proceeds from the sale of general obligation bonds or certificates of obligation will be segregated from the other investments of the City. The basic intent is to match the availability of funds to the cash requirements of the capital projects. Therefore, the maturity limits of Section 9.0 do not apply. The following investments are available for this strategy: treasury securities, demand deposits, time deposits, and investment pools. Ten percent of anticipated costs of the projects must be kept in demand deposits or pooled investments to cover unanticipated cash demands. The remaining proceeds are to be invested so as to match anticipated demands for cash. Except for the requirement for demand deposits or investment pools above, there is no restriction on the percentage of the bond proceeds that may be invested in any authorized investment vehicle.

6.0 Authorized Financial Dealers and Institutions:

6.1 Approved List of Investment Service Providers: All banking services will be governed by the depository contract. In addition, the Finance Director shall maintain a list of security brokers, dealers, and investment pools that are authorized by the City Commission. To be eligible to be approved to do business with the City of Pharr, a seller of securities must be a primary dealer, a regional dealer that qualifies under SEC Rule 15C3-1, or regulated by Federal banking authorities. To be eligible to be approved to do business with the City of Pharr, an investment pool must meet all the requirements of State law. More details on investment pool qualifications are listed in Section 7.5. Annually, the Investment Committee must review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

6.2 Acknowledgment of Investment Policy: A written copy of this investment policy shall be presented to any person or firm seeking to sell to the City any investment. An authorized

representative of the business organization seeking to sell an investment shall execute a written instrument substantially to the effect that the registered principal has: (1) received and thoroughly reviewed the City's investment policy; and (2) acknowledged that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between the City and the organization. The City's investment officers are expressly prohibited from buying any security from a person or firm which has not delivered a document that complies with the requirements of this section of the investment policy to the City.

7.0 Authorized Investments, Including Diversification Limits and Maximum Maturities:

Following is a list of investments that are authorized by this policy for inclusion in the City of Pharr's portfolio of investments. Also shown are the limits on the amount of that type of security that can be held, expressed as a percentage of the entire City portfolio. Also, the maximum maturity that is allowable for each type of security is specified.

7.1 Demand Deposits at Depository Bank: Governed by the depository contract and provisions of State law, collateralized demand deposits at the depository bank have unsurpassed liquidity and safety but do not usually provide the highest yield. By definition their maturity is immediate. One hundred percent (100%) of the City's portfolio may be maintained in properly collateralized demand deposits at the depository bank.

7.2 Time Deposits at Depository Bank: Certificates of Deposit at the depository bank are authorized if they are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor and are collateralized by obligations that are allowable under state law. The maximum authorized length of maturity for certificates of deposit is two years. The target investment level is ten percent (10%), and the portfolio cap is thirty percent (30%). The target investment level is that level of investment, expressed as a percentage of the total portfolio, which the City should strive not to exceed. The portfolio cap is that level of investment, also expressed as a percentage of total portfolio, which the City must not exceed.

7.3 Obligations of the United States Treasury: United States Treasury Bills, Notes and Bonds are authorized investments of the City of Pharr. For purposes of direct investment by the City, the maximum length of remaining maturity is two years. The target investment level is thirty percent (30%), and the portfolio cap is eighty percent (80%). For purposes of collateral against the City's deposits, the maximum length of remaining maturity may be two years, as long as the total market value of the securities pledged against the City's deposits always exceeds those deposits.

7.4 Obligations of Agencies or Instrumentalities of the United States: United States Agency securities are authorized investments of the City provided that they are unconditionally guaranteed or insured by, or backed by the full faith and credit of the United States or its respective agencies and instrumentalities. For purposes of direct investment by the City, the maximum length of remaining maturity is two years. The target investment level is thirty percent (30%) and the portfolio cap is fifty percent (50%). For purposes of collateral against the City's deposits, the maximum length of remaining maturity may be two years, as long as the total market value of the securities pledged against the City's deposits always exceeds those deposits.

7.5 Investment Pools: Public funds investment pools which have been created to function as a money market mutual fund are authorized investments of the City provided that they meet the following criteria: (1) they are continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service; (2) they mark their portfolio to market daily; (3) they maintain a stable net asset value of no less than .995; (4) they limit their investments to those allowable to local governments by state law; and, (5) they meet or exceed the initial and monthly disclosure requirements of applicable state law. The target investment level and portfolio cap are thirty percent (30%), and the portfolio cap is eighty percent (80%). Deposits in investment pools that contain commercial paper are not authorized.

7.6 Repurchase Agreements; Bankers' Acceptances: These investment options are authorized for the City of Pharr only to the extent that they are contained in the portfolios of approved public funds investment pools in which the City invests. The direct investment in repurchase agreements, and bankers' acceptances by the City of Pharr is not authorized. However, indirect investment in repurchase agreements by the City's depository under a sweep arrangement is allowable for purposes of this policy.

8.0 Prohibited Securities:

8.1 Allowed by State Law but Prohibited by This Policy: The following instruments are eligible for investment by local governments according to state law, but have been intentionally prohibited for the City by this policy: collateralized mortgage obligations; commercial paper; and investment pools except those pools which are created to function as money market mutual funds. This prohibition is in view of the time constraints on and the expertise level of the investment officers.

8.2 Expressly Prohibited by State Law and This Policy: The following securities are expressly prohibited by state law and this policy: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjust opposite to the changes in a market index (inverse floaters).

9.0 Limits on Maturity of Entire Portfolio:

The following limits on the maturities of investments apply to the entire City portfolio, except for the bond proceeds. The funds on deposit at the bank depository are included in the calculation of these percentages:

Available within 1 month	At least 25% of the portfolio
Available within 3 months	At least 33% of the portfolio
Available within 6 months	At least 50% of the portfolio
Available within 1 year	At least 70% of the portfolio
Available within 2 years	100% of the portfolio

For the City portfolio, excluding any bond proceeds, the maximum average dollar-weighted maturity shall be 200 days.

10.0 Collateralization:

In accordance with state law and the depository contract, all demand deposits and all time deposits will be collateralized by the pledging of investment securities or irrevocable letters of credits. The City Manager and/or Director of Finance or his designee must approve the security prior to its pledging. Pledged securities shall always be held by a third party and evidenced by a current safekeeping receipt.

11.0 Safekeeping:

All investment transactions, other than those with investment pools, shall be conducted on a delivery-versus-payment basis. Securities shall be held by a third party custodian and evidenced by current safekeeping receipts.

12.0 Internal Control:

The Finance Director shall establish a system of internal controls designed to prevent the loss of public funds due to fraud, error, misrepresentation, unanticipated market changes, or imprudent actions. The system shall contain, but is not limited to, the following items:

12.1 Competitive Bids: To purchase a direct investment, the Finance Director or his designee shall seek at least three bids from firms listed on the approved list of brokers and dealers. Bids shall be in writing and may be delivered to the City in person, email, or via electronic facsimile. The award shall be on the basis of safety, liquidity, and highest U.S. Government Equivalent Yield. Records of the bids and award shall be maintained by the Finance Director's office.

12.2 Delivery-Versus-Payment: The safekeeping agent must receive all investments, other than investment pool funds, before funds are released for their purchase.

12.3 Compliance Audit: In conjunction with its annual financial audit, the City shall require a compliance audit of management controls on investments and adherence to this policy.

12.4 Collateral Comparison: The market value of the collateral pledged against the funds maintained at the bank depository shall be compared to the amount of those deposits. If the total funds in the depository approach the market value of the collateral, the Finance Director shall take appropriate action. Records of this comparison shall be maintained in the Finance Director's office.

12.5 Other Components: Other sections of this policy contain aspects of internal control procedures. These include holding securities until maturity, providing adequate training for all investment officers, requiring vendors to meet minimum qualifications before selling securities to the City, disclosing personal or business relationships between investment officers and vendors, and regular reporting of investments to the City Commission.

13.0 Valuation:

The market value of each investment in the City's portfolio will be calculated quarterly, on the following basis:

13.1 Bank Deposits: Bank deposits are denominated in cash and, therefore, their face value and market value are identical. Deposit levels will be monitored daily via telephone or electronic means and confirmed on the monthly bank statement.

13.2 Investment Pools: Monthly statements are received from the investment pools which show the amount on deposit and the market value of the pool as a percentage of the book value. The market value of the investment pools will be the product of these two figures.

13.3 Treasury Notes: The market value of Treasury Notes will be calculated as the product of the face value of the Note and the bid price for that Note as quoted in the *Wall Street Journal*, or will be obtained from the City's third-party securities custodian.

13.4 Treasury Bills: The market value of Treasury Bills will be the face value of the Bill discounted at the bid yield as quoted in the *Wall Street Journal* for the appropriate number of days, or will be obtained from the City's third-party securities custodian.

13.5 Agencies: For Agency securities listed in the *Wall Street Journal*, the valuation method will be the same as those of the Treasury securities. For those not listed, the market value will be obtained from the City's third-party securities custodian.

14.0 Performance Standards:

For each of the City's investment objectives, following are the performance standards:

14.1 Safety: All investment principal is maintained.

14.2 Liquidity: Sufficient cash is maintained or can be generated to pay all current obligations without selling direct securities or incurring loss of principal.

14.3 Yield: Yield on the portfolio of City funds, except for Bond Proceeds and excluding demand deposits at the bank depository, should be no less than the yield on the six month Treasury Bill. Because of the nature of Bond Proceeds investments, the yield on Bond Proceeds should approximate the Treasury Bill yield having similar weighted-average maturities.

15.0 Reporting:

Not less than quarterly, the investment officers shall prepare, sign, and present to the City Commission a report of the City's investments. The report must contain all the disclosures mandated by state law. An example of the report is included in Appendix C.

16.0 Investment Policy Adoption and Revision:

The City Commission shall adopt the written investment policy by resolution. Annually the City Commission shall review the investment policy and strategy. Revisions to the policy shall be made by City Commission resolution.

APPENDIX A

GLOSSARY OF COMMON TREASURY TERMINOLOGY

Agencies: Federal agency securities.

Amortized cost: Cost of investments adjusted for amortized premiums and discounts.

Asked: The price offered for securities.

Bid: The price offered by a buyer of securities.

Book value: A term synonymous with amortized cost.

Broker: A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; he does not position. In the money market, brokers are active in markets in which banks buy and sell money and in interdealer markets.

Certificate of Deposit (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

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

Commercial Paper (CP): An unsecured short-term promissory note issued by corporations, with maturities ranging from 2-270 days.

Coupon: (a) the annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

Credit Risk: The risk of loss of principal and interest due to a failure of the security or broker.

Dealer: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

Debenture: A bond secured only by the general credit of the issuer.

Delivery versus Payment: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt (also called free). Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

Discount: The difference between the cost price of a security and its value at maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

Discount Securities: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g., U.S. Treasury bills.

Diversification: Dividing investment funds among a variety of securities offering independent returns.

Federal Credit Agencies: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

Federal Deposit Insurance Corporation (FDIC): A federal agency that insures bank deposits, currently up to $100,00 per deposit.

Federal Funds Rate: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

Federal Home Loan Banks (FHLB): The institutions that regulate and lend

savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-a-vis member commercial banks.

Federal National Mortgage Association (FNMA): FNMA, like GNMA, was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development, H.U.D. It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

Federal Open Market Committee (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal reserve guidelines regarding purchases and sales of Government Securities in the open-market as a means of influencing the volume of bank credit and money.

Federal Reserve System: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C. 12 regional banks and about 5,700 commercial banks that are members of the system.

Government National Mortgage Association (GNMA or Ginnie Mae): Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government, Ginnie Mae securities are backed by FHA, VA or FMHM mortgages. The term pass-through is often used to describe Ginnie Maes.

Laddered Portfolio: Investment portfolio with securities in each maturity range (e.g. monthly) over a specified period of time.

Liquidity: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

Local Government Investment Pool (LGIP): The aggregate of all funds from political subdivisions that are placed in custody for investment and reinvestment.

Market Risk: The risk that the market value and interest earnings of an investment or a portfolio will fall due to changes in general interest rates.

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

Master Repurchase Agreement: To protect investors, many public investors will request that repurchase agreements be preceded by a master repurchase agreement between the investor and the financial institution or dealer. The master agreement should define the nature of the transaction, identify the relationship between the parties, establish normal practices regarding ownership and custody of the collateral securities during the term of the investment, provide remedies in the case of default by either party and clarify issues of ownership. The master repurchase agreement protects the investor by eliminating the uncertainty of ownership and hence, allowing investors to liquidate collateral if a bank

or dealer defaults during the term of the agreement.

Maturity: The date upon which the principal or stated value of an investment becomes due and payable.

Money Market: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

Offer: The price asked by a seller of securities.

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

Portfolio: Collection of securities held by an investor.

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

Prudent Person Rule: An investment standard. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

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

Rate of Return: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

Repurchase Agreement (RP or REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money, that is, increasing bank reserves.

Safekeeping: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

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

Securities & Exchange Commission: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

Treasury Bills: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months or one year.

Treasury Bonds: Long-term U.S. Treasury securities having initial maturities of more than ten years.

Treasury Notes: Intermediate term coupon bearing U.S. Treasury securities having initial maturities from one to ten years.

Unrealized Gains (Losses): Increases (decreases) in the value of investments representing the difference between the amortized cost of the investments and their current market value. Increases (decreases) in value are caused primarily by changes in market interest rates subsequent to purchasing investments.

Weighted Average Rate of Return: Rate of return calculated based on interest earnings and the length of actual holding for each individual security.

Yield: The rate of annual income return on an investment, expressed as a percentage. (a) **Income Yield** is obtained by dividing the current dollar income by the current market price of the security. (b) **Net Yield** or **Yield to Maturity** is 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.

Yield: The rate of annual income return on investment, expressed as a percentage.

APPENDIX B

APPROVED LIST OF BROKER/DEALERS

First Southwest Company
Dallas, TX

First Tennessee Financial Bank
Dallas, TX

JPMorgan Securities, Inc.
Dallas, TX

Merrill Lynch Pierce Fenner & Smith, Inc.
Dallas, TX

SAMCO Capital Markets
Dallas, TX

Southwest Securities
Dallas, TX

GFOA Yield Advantage – Web Based Marketplace
Chicago, IL

TexStar Participant Services
Dallas, TX

Lone Star National Bank
Pharr, TX

APPENDIX C

QUARTERLY INVESTMENT REPORT SAMPLE

CITY OF PHARR, TX
Detailed Investment Report
As of December 31, 2007

				Book Increase/(Decrease)		Market Increase/(Decrease)			
		VALUES - Sept. 30, 2007		Purchases/	Accruals/	Purchases &	Change In	VALUES - Dec. 31, 2007	
Investment	Par	Book	Market	Withdrawals	Amortizations	Withdrawals	Market Price	Book	Market
DEMAND DEPOSITS									
Depository Bank	$1,000	$1,000	$1,000	1,000		1,000		$2,000	$2,000
Repurchase Agreement	10	10	10	0		0		10	10
Savings Account	10	10	10	0	0	0	0	10	10
	1,020	1,020	1,020	1,000	-	1,000	-	2,020	2,020
INVESTMENT POOLS									
Tex-Pool	100	100	100	10		10		110	110
TexStar	10	10	9	1	-	1	-	11	10
	110	110	109	11	-	11	-	121	120
SECURITY INVESTMENTS									
Treasury Note 2 5/8% 11-15-06	1,000,000	996,852	983,500	-	672	-	1,100	997,524	984,600
FMNT 3.25% 5/18/07	1,000,000	1,009,545	979,100	-	(1,434)	-	(1,400)	1,008,111	977,700
	$2,000,000	$2,006,397	$1,962,600	$0	($762)	$0	($300)	$2,005,635	$1,962,300
	$2,001,130	**$2,007,527**	**$1,963,729**	**$1,011**	**($762)**	**$1,011**	**($300)**	**$2,007,776**	**$1,964,440**

QUARTERLY INVESTMENT REPORT SAMPLE - Continued

CITY OF PHARR, TX

Comparison of Portfolio to Policy Limits

As of December 31, 2007

LIMITS ON TYPES OF SECURITIES	Target Investment Level	Portfolio Cap	Actual Percentage of Portfolio	Positive/(Negative) % Variance Policy Limits
Demand Deposits	100%	100%	0.10%	**99.90%**
Bank Time Deposits	25%	30%	0.00%	**30.00%**
U. S. Treasury Securities	80%	85%	49.68%	**35.32%**
U. S. Agency Securities	45%	50%	50.21%	**-0.21%**
Investment Pools	45%	50%	0.01%	**49.99%**

LIMITS ON MATURITIES	Minimum Allowable Percentage of Portfolio	Actual Percentage of Portfolio	Positive/(Negative) % Variance Policy Limits
Available within 1 month	25%	78.00%	**53.00%**
Available within 3 months	33%	80.00%	**47.00%**
Available within 6 months	45%	90.00%	**45.00%**
Available within 1 year	60%	100.00%	**40.00%**
Available within 2 years	70%	100.00%	**30.00%**
Available within 3 years	80%	100.00%	**20.00%**
Available within 4 years	90%	100.00%	**10.00%**
Available within 5 years	100%	100.00%	**0.00%**

	Maximum Allowable	Actual Average Maturity	Policy Limit Days Available
Weighted Average Days to Maturity	200	2.90	**197.10**

QUARTERLY INVESTMENT REPORT SAMPLE - Continued

CITY OF PHARR, TX
Market Value Analysis
As of December 31, 2007

CHANGES IN MARKET VALUE:

BEGINNING MARKET VALUE - September 30, 2007		$1,963,729
INVESTMENT ACTIVITY:		
Purchases	$0	
Maturities	$0	
Net Changes in Market Price	($300)	
		($300)
Bank and Pooled Investment Deposits/(Withdrawals) - Net		$1,011
ENDING MARKET VALUE - December 31, 2007		**$1,964,440**

COMPARISON OF BOOK VALUE TO MARKET VALUE:

BEGINNING VALUE - September 30, 2007		
Market Value	$1,963,729	
Book Value	$2,007,527	
Ratio of Market Value to Book Value		97.82%
ENDING VALUE - December 31, 2007		
Market Value	$1,964,440	
Book Value	$2,007,776	
Ratio of Market Value to Book Value		97.84%

CITY OF PHARR, TX

Calculation of Weighted Average Maturity and Yield

As of December 31, 2007

	Market Value	Book Value	# of Days To Maturity	Original Yield to Maturity	Percent of Portfolio
Demand Deposits					
Depository Bank - Operating	$2,000	$2,000	0	0.00%	0.10%
Repurchase Agreement	$10	$10	0	2.80%	0.00%
Saving Account	$10	$10	0	4.33%	0.00%
	$2,020	$2,020			0.10%
Investment Pools					
Tex-Pool	$110	$110	1	4.21%	0.01%
TexStar	$10	$11	1	4.29%	0.00%
	$120	$121			0.01%
Federal Securities and Notes					
Treasury Note 2 5/8% 11-15-06	$997,524	$997,524	319	2.63%	49.68%
FMNT 3.25% 5/18/07	$1,008,111	$1,008,111	503	3.25%	50.21%
	$2,005,635	$2,005,635			99.89%
TOTAL	**$2,007,775**	**$2,007,776**			**100.00%**

Weighted Average Maturity

Weighted Average Days to Maturity	411.05
Weighted Average Days to Maturity - Operating (excl. depository bank)	411.46

Weighted Average Yield

Weighted Average Yield	2.94%
Weighted Average Yield - Operating (excluding depository bank)	2.94%
Yield to Maturity of 180 day T-Bill at December 31, 2007	3.00%

QUARTERLY INVESTMENT REPORT SAMPLE - Continued

CITY OF PHARR, TX
Year To Date Investment Transaction Report
As of December 31, 2007

PURCHASES

Date	Type	Investment #	Principal Purchase Price	Market/Par Value	Yield/Int. Discount Rate	Maturity Date

Total Purchases **$0.00** **$0.00**

MATURITIES

Date	Type	Investment #	Principal Purchase Price	Par Value	Yield/Int. Discount Rate	Maturity Date
10/14/2007	FHLB Note	3133X1GU5	$1,514,331	$1,500,000	2.040%	10/14/2007
11/14/2007	Treasury Note	912828BN9	$1,007,210	$1,000,000	1.625%	11/14/2007
12/14/2007	Treasury Note	912828BS8	$1,493,213	$1,500,000	1.875%	12/14/2007
12/14/2007	FFCB Note	31331TPA3	$1,511,700	$1,500,000	2.000%	12/14/2007

Total Maturities **$5,526,454.50** **$5,500,000.00**