

JOHNSON COUNTY, TEXAS

Notes to the Financial Statements

For The Year Ended September 30, 2014

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

	<u>Governmental</u>	<u>Fiduciary</u>	<u>Total</u>
Investments:			
Broker-Dealer:			
U.S. Treasury Notes	\$ 518,595	\$	\$ 518,595
U.S. Agency Securities	<u>10,298,273</u>	<u> </u>	<u>10,298,273</u>
Sub-total	<u>10,816,868</u>	<u>-0-</u>	<u>10,816,868</u>
Total Cash and Temporary Investments and Investments	\$ <u>40,379,177</u>	\$ <u>8,411,077</u>	\$ <u>48,790,254</u>

Deposits

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to them. The County requires that all deposits with financial institutions be collateralized in an amount equal to 100 percent of uninsured balances.

At year-end, in addition to petty cash of \$ 10,056, the carrying amount of the County's financial institution deposits, were \$ 33,110,396, while the financial institution balances totaled \$ 31,566,701. Of these balances, \$ 4,195,064 represents amounts controlled by County courts and held by various financial institutions jointly under the name of the County and the court's beneficiaries and carrying the identification number of the beneficiaries. These accounts are entirely covered by federal deposit insurance. Of the remaining balances, \$ 250,000 was covered by federal depository insurance coverage, \$ 121,617 was covered by the Securities Investor Protection Corporation, and \$ 27,000,020 was covered by collateral held by the County's agent in the County's name.

Investments

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the County to invest its funds under written investment policy (the "investment policy"). The investment policy primarily emphasizes safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. This investment policy defines what constitutes the legal list of investments allowed under the policies, which excludes certain instruments allowed under chapter 2256 of the Texas Government Code.

The County's deposits and investments are invested pursuant to the investment policy, which is approved by Commissioners Court. The investment policy includes lists of authorized investment instruments and allowable stated maturity of individual investments. In addition it includes an "Investment Strategy Statement" that specifically addresses each investment option and describes the priorities of suitability of investment type, preservation and safety of principal, liquidity, marketability, diversification and yield. Additionally, the soundness of financial institutions (including broker/dealers) in which the County will deposit funds is addressed. The County's investment policy and types of investments are governed by the Public Funds Investment Act (PFIA). The County's management believes it complied with the requirements of the PFIA and the County's investment policy.

The County's Investment Officer submits an investment report each quarter to the Commissioners Court. The report details the investment positions of the County and the compliance of the investment portfolio as it relates to both the adopted investment strategy statements and Texas state law.