

CERTIFICATE FOR
ORDER ADOPTING AN AMENDED INVESTMENT POLICY
AND APPOINTMENT OF INVESTMENT OFFICER
January 22, 2020

THE STATE OF TEXAS

COUNTY OF DENTON

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-E

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We, the undersigned officers of the Board of Directors of Denton County Fresh Water Supply District No. 1-E (hereinafter called the "Board"), hereby certify as follows:

1. The Board convened on the 22nd day of January, 2020, in regular session, at one of its meeting places outside the boundaries of the District, and the roll was called of the fully constituted officers and member of the Board, to-wit:

Seth Higgins	President
Steven Minear	Vice President
Susan Austin	Secretary
Jack Wrigley	Treasurer/Asst. Secretary
Randall P. Winkler	Assistant Secretary

All members of the Board were present except: DIRECTOR MINEAR
_____. Whereupon, among other business an

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was introduced for the consideration of the Board. It was then duly moved and seconded that said Order be adopted; after a full discussion, said motion, carrying with it the adoption of said Order, prevailed, carried and became effective by unanimous vote.

2. A true, full and correct copy of the aforesaid Order adopted at the meeting described in the above and foregoing paragraph is attached to and follows this Certificate; said Order has been duly recorded in the Board's minutes of said meeting; the persons named in the above and foregoing paragraph are the duly chosen, qualified and acting officers and members of the Board as indicated therein; each of them was notified officially and personally, in advance, of the time, place and purpose of the aforesaid meeting, and said officers and members consented, in advance, to the holding of said meeting; said meeting was open to the public as required by law; and public notice of the time, place and subject of said meeting was given as required by Texas Water Code Section 49.063, as amended and Chapter 551, Government Code, as amended.

SIGNED AND SEALED the 22nd day of January, 2020.

DENTON COUNTY FRESH WATER SUPPLY
DISTRICT NO. 1-E



SETH HIGGINS,

President



SUSAN AUSTIN,

Secretary

[DISTRICT SEAL]

**ORDER ADOPTING AN AMENDED INVESTMENT POLICY
AND APPOINTMENT OF INVESTMENT OFFICER
January 22, 2020**

WHEREAS, DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-E of Denton County, Texas (the "District") is a body politic and corporate and a governmental agency of the State of Texas, operating under and governed by the provisions of Chapters 49, 51 and certain provisions of Chapter 53 of the Texas Water Code, as amended, and Section 59 of Article XVI of the Texas Constitution; and

WHEREAS, Chapter 2256, Texas Government Code, as amended (sometimes referred to herein as the "Public Funds Investment Act"), and Section 49.199, Texas Water Code, require that the Board of Directors of the District adopt certain rules, regulations and policies governing the investment of District funds and designate one or more of its officers or employees to be responsible for the investment of such funds;

NOW, THEREFORE, IT IS ORDERED BY THE BOARD OF DIRECTORS OF DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-E OF DENTON COUNTY, TEXAS, THAT the policies, procedures and provisions set forth herein be and are hereby ADOPTED, and that any instrument heretofore adopted by the Board of Directors establishing policies for the investment of District funds and appointing an investment officer shall be and is hereby revoked and superseded effective as of January 22, 2020, the effective date of this Order.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-E
INVESTMENT POLICY STATEMENTS**

Pursuant to Chapter 2256 of the Texas Government Code, also known as the Public Funds Investment Act, an investment policy shall be submitted and approved by the governing body on an annual basis. The following are policy statements of the Board of Directors of the Denton County Fresh Water Supply District No. 1-E ("District") regarding the investments of District funds:

- A. Scope
 - 1. The investment policy applies to the investment activities of the District. These policies serve to satisfy the statutory requirement to define and approve a formal investment policy.
 - 2. Funds Included - All financial assets of all funds, including the General Fund, the Capital Projects Funds, the Special Revenue Funds, the Debt Service Funds, and all other funds that may be created from time to time unless specifically exempted from this policy by the District, shall be administered in accordance with the provisions of these policies.
- B. Investment Strategy
 - 1. The District maintains a consolidated pooled investment portfolio that utilizes specific investment strategy considerations designed to address the

investment objectives of the individual fund types represented in the pooled investment portfolio. Fund types within the consolidated investment pool include the general fund, special revenue funds, debt service fund, capital project fund, internal service fund, and expendable trust funds.

2. In order to minimize risk of loss due to interest rate fluctuations, investment maturities will not exceed a maximum of three (3) years. Investment strategy for each of the investment portfolios have as their primary objective to assure that anticipated cash flows are consistent with adequate investment liquidity. The second objective is to create a portfolio structure that will experience minimal market volatility during economic cycles. These objectives are to be accomplished by investing in high quality, short-term securities in combination with investing in a qualified investment pool that provides same day liquidity and income earning fully collateralized bank accounts.

C. Objectives

1. Safety - Safety of principal is the foremost objective of the District. Investments of the District shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities or pooled securities do not exceed the income generated from the remainder of the portfolio.
2. Liquidity - The District's investment portfolio will remain sufficiently liquid to enable the District to meet operating requirements that might be reasonably anticipated.
3. Yield - Funds held for future capital projects shall be invested in securities that reasonably can be expected to produce enough income to offset inflationary construction cost increases.

D. Investment Committee

1. Members - There is hereby created an Investment Committee, consisting of the Chief Financial Officer of the Denton County Fresh Water Supply District No. 1-A (the "Chief Financial Officer"), General Manager of the Denton County Fresh Water Supply District No. 1-A (the "General Manager"), and three others to be designated by the General Manager. The Investment Committee shall meet at quarterly intervals to determine general strategies and to monitor results. The Investment Committee shall be authorized to invite advisors to the meetings as needed including the Attorney for the District and outside advisors.
2. Committee Scope - The Investment Committee shall include in its deliberations such topics as: economic outlook, portfolio diversification,

maturity structure, potential risk to the District's funds, and authorized brokers and dealers.

3. Procedures - The Investment Committee shall provide for minutes of its meetings. Any two members may request a special meeting, and three members shall constitute a quorum. The Investment Committee shall establish its own rules of procedure.

E. Investment Officers

1. The Chief Financial Officer is exclusively designated as the Investment Officer of the District.
2. The Investment Officer may, on behalf of the District, execute purchases and sales of investments as permitted by the Investment Policy.
3. The Investment Officer is required to adhere to training guidelines in accordance with the Government Code 2256.008.
4. The Investment Officer will additionally submit signed quarterly reports to the District and the General Manager.

F. Responsibility and Control

1. Delegation - Management responsibility for the investment program is hereby delegated to the Chief Financial Officer, who shall establish written procedures for the operation of the investment program, consistent with this investment policy. Such procedures shall include explicit delegation to persons responsible for investment transaction accounting.
2. Management and Internal Controls - The Chief Financial Officer shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed by the investment committee and with the independent auditor. The controls shall be designed to reasonably prevent losses of public funds arising from fraud, employee error, mis-representation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the District.
3. Controls and managerial emphasis deemed most important that shall be employed where practical are:
 - a. Control of collusion.
 - b. Separation of duties.
 - c. Separation of transaction authority from accounting and record keeping.

- d. Custodian safekeeping receipts records management.
 - e. Avoidance of bearer-form securities.
 - f. Documentation of investment bidding events.
 - g. Written confirmation of telephone transactions.
 - h. Accurate and timely reports.
 - i. Adequate training and development of investment officials.
 - j. Review of financial condition of all brokers, dealers, and depository institutions.
 - k. Staying informed about market conditions, changes, and trends that require adjustments in investment strategies.
4. No less than quarterly, the Investment Officer(s) shall review with the Investment Committee the credit ratings of the investment instruments contained within the portfolio to ensure adherence to PFIA credit standards and the credit standards of this policy. Should an investment fall below minimum credit standards, the committee and Investment Officer(s) shall exercise prudent judgment with regards to immediate liquidation of the investment.
5. Transaction Authority - Certain signatory responsibilities are required to transact investments. Positions authorized as depository signatories shall be established by the General Manager on behalf of the District.
- a. The persons holding these positions are also designated as authorized to transact wire transfers, buy/sell, and trade investments in accordance with the goals and objectives of the District's investment strategy.
 - b. Bonding or insurance coverage of all those individuals authorized to place, purchase, or sell investment instruments shall be required.
6. Prudence - Investments shall be made with the exercise of due care, 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 own capital as well as the probable income to be derived. Prudence extends beyond the consideration of single investments to include the prudence of the entire portfolio structure.
7. Investment Officers acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual's security's credit risk or market price dangers, provided

deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

G. Ethics

1. Conflicts of Interest - Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Conflict of interest provisions in state law shall apply to the selection of depositories.
2. Disclosure - Employees and Investment Officials shall disclose to the General Manager any material financial interests in financial institutions that conduct business with the District, and shall further disclose any large personal financial or investment positions that could be related to the performance of the District's portfolio. Employees and Investment Officials shall subordinate their personal investment transactions to those of this jurisdiction, particularly with regard to the timing of purchases and sales.

H. Reporting Investment Earning Evaluation

1. Quarterly Reports - The Investment Officer shall submit quarterly, an investment report that:
 - a. Describes in detail the investment position of the District on the date of the report;
 - b. Must be prepared by the Investment Officer;
 - c. Must be signed by the Investment Officer;
 - d. Contains a summary statement of each pooled fund group that states:
 - (1) Beginning market value for the reporting period;
 - (2) Ending market value for the period; and
 - (3) Fully accrued interest for the reporting period.
 - e. State the book value and market value of each separately invested asset at the 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 District's pooled fund group for which each individual investment was acquired; and
 - h. States compliance of the portfolio in aspect to investment strategy.
2. Annual Report - Within 60 days of the end of the Fiscal Year, the Chief Financial Officer shall present an annual report on the investment program activity. The annual report shall include 12-month performance information, and shall suggest improvements that might be made in the investment program.

I. Investments

- 1. Strategy Statement - The District intends to pursue an active vs. a passive portfolio management philosophy. That is, securities may be sold before they mature if market conditions present an opportunity for the District to benefit from the trade. The maximum maturity terms for individual securities will not exceed three years. The maximum weighted average maturity for the composite portfolio is one and one-half years.
- 2. Eligible Investments - Financial assets of the government of the District e may be invested in:
 - a. Obligations of the United States or its agencies and instrumentalities; and
 - b. Direct obligations of the State of Texas or its agencies, and instrumentalities; and
 - c. Other obligations and interest-bearing bank deposits, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or its agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States.
 - d. Fully collateralized direct repurchase agreements meaning a simultaneous agreement to buy, hold for a specified time, and then sell back at a future date, obligations described by Subsection (a) of this section or a combination of cash and obligations described in Subsection (a) of this section, the principal and interest of which are guaranteed by the United States or any of its agencies, market value of not less than the principal amount of the funds disbursed. Repurchase agreements include direct security repurchases and reverse security repurchase agreements not exceeding 90 days after the date delivered. Such repurchase securities shall be pledged to the District and deposited with a third party selected and approved

by the District, and placed through a primary government securities dealer, as defined by the Federal Reserve, or a bank domiciled in this state.

- e. Up to a legal limit of 15% of operating fund can be placed in a no load money market mutual fund that is regulated by the Federal Securities and Exchange Commission and complying with SEC rule 2a-7 up to a maximum of 80 percent of the aggregate monthly average fund balance, excluding bond proceeds in money market funds. The District's account may not exceed 10 percent of the total assets of the money market mutual fund.

- f. Public Funds Investment Pools 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: first, safety of principal; second, liquidity; and third, income. The pool may consist of assets authorized through the Public Funds Investment Act (Government Code 2256) and have an established advisory board composed of participants and other qualified persons. A public fund investment pool must be continuously rated no lower than AAA or AAA -m or at an equivalent rating by at least one nationally recognized rating service. The Board of Directors of the District must approve a resolution authorizing investment in the particular pool following Chief Financial Officer evaluation of an offering circular containing the following comprehensive information: the pools qualified investments; maximum average dollar-weighted maturity allowed based on the stated maturity date; maximum stated maturity date of any investment security within the pool portfolio; objectives of the pool; size of the pool; names and terms of the advisory board; custodian bank used for safekeeping pool assets; pool intent to maintain a net asset value of one dollar and the risk of market price fluctuation; whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or other described guarantees; the name and address of the pool's independent auditor; deposit and withdrawal guidelines; performance history; and the pool's policy regarding holding deposits in cash. An investment pool shall invest the funds it receives from entities in authorized investments permitted by the Public Funds Investment Act. An investment pool that is created to function as a money market mutual fund must maintain a maximum weighted average maturity not to exceed 60 days. Any investment pool that does not meet the requirements of one that is created to function as a money market mutual fund must maintain a maximum average dollar weighted maturity that does not exceed 365 days (or 366 in the case of a leap year) and must provide a fixed interest rate and a fixed maturity term for each pool position.

Additionally, approved pools are required to furnish a monthly report with the following minimum information:

- (1) The types and percentage breakdown of securities in which the pool is invested;
 - (2) The current average dollar-weighted maturity, based on the stated maturity date, of the pool;
 - (3) The current percentage of the pool's portfolio in investments that have stated maturities of more than one year;
 - (4) The book value versus the market value of the pool's portfolio, using amortized cost valuation;
 - (5) The size of the pool;
 - (6) The number of participants in the pool;
 - (7) The custodian bank that is safekeeping the assets of the pool;
 - (8) A listing of daily transaction activity of the entity participating in the pool;
 - (9) The yield and expense ratio of the pool; including a statement regarding how yield is calculated.
 - (10) The portfolio managers of the pool; and
 - (11) Any changes or addenda to the offering circular.
3. Length of Investments - The District shall invest in instruments with scheduled maturity of duration not to exceed three (3) years at the time of purchase. In the event a coupon security maturity exceeds the specified limit with a calculated duration of three (3) years, the instrument will satisfy this policy requirement.
4. Diversification - It shall be the policy of the District to diversify the investment portfolio. Diversification strategies shall be determined and revised periodically by the Investment Committee. In establishing specific diversification strategies, the following general constraints shall apply:
- a. Portfolio maturities shall be staggered to avoid concentration of assets in a specific maturity sector. The maximum weighted average maturity of the composite portfolio will not exceed one and one-half years.

- b. Portfolio investment instruments and issuers shall be diversified by type.
- c. The following maximum limits by instruments are established for the District's total portfolio:
 - (1) U.S. Treasury Securities 100%
 - (2) U.S. Agency and Instrumentalities 75%
 - (3) Authorized pools 50%
 - (4) Repurchase Agreements 25%
 - (5) No-load Money Market Mutual Funds 15%
- d. Competitive quotes among dealers/pools for placement of investments must facilitate diversification. However, Repurchase Agreements shall be placed only with primary government securities dealers.

J. Selection of Depositories

- 1. **Bidding Process** - Depositories shall be selected through the District's banking services application process. Before awarding a depository services contract, the Board of Directors of the District shall receive applications for the performance of depository services from one or more state or national banks, state or federal credit unions or state or federal savings associations.
 - a. **Notice Content**- The Chief Financial Officer shall give notice to banks, credit unions, and savings associations requesting submission of application proposals to perform depository services. This notice to institutions must contain the responsible staff person's name and address, date and time the applications are to be received by staff, and the date, time, and place the Board will consider the selection of one or more depositories.
 - b. **Notice Publication**- Notice of the request for depository application proposals shall be published in accordance with District policy for publication of requests for proposals (RFPs).
- 2. **Review of Applications** - In reviewing applications, the Chief Financial Officer shall consider the terms and conditions for the performance of depository services, including the type and cost of services to be provided to the District, consistent with this policy to include the following general criteria:

- a. Sound capital and operating structure capable of providing a full range of depository services.
 - b. Ability to perform securities safekeeping custody and book entry securities clearance for the District's investment portfolio.
 - c. Continuous ability and contractual commitment to pledge acceptable collateral to guarantee public funds deposits.
 - d. Enhance treasury cash management performance by maximizing earnings on demand deposits, securities investments, and in the event of favorable market pricing, the placement of time deposits with the depository.
 - e. Competitive fees for depository services.
 - f. Active community reinvestment of public funds deposits back into the local economy through loans for businesses, property development, and improvements within the District. Diversification of loan recipients and a Community Reinvestment Act rating of "Outstanding" are considered prerequisite.
3. Term, Conditions, and Additional Services - The District may approve, execute, and deliver any depository services contract whose term does not exceed five (5) years. The depository services contract(s) may contain terms and conditions approved by the Board of Directors. In addition to depository services, the District may elect to contract with financial institutions under separate contract(s) if additional financial services are necessary in the administration, collection, investment, and transfer of District funds.
4. Qualification as Depository - The selected depository institution shall, not later than five (5) days before the commencement of the term of the depository services contract, provide security for the public funds.

K. Selection of Brokers, Dealers, and Pools

Primary Dealers and Approved List - For brokers and dealers of government securities, the Investment Committee shall select only those dealers reporting to the Market Reports Division of the Federal Reserve Bank of New York, also known as the "primary government securities dealers," unless a broker/dealer comprehensive questionnaire and certification reveals that regional firms are adequately managed and financed to conduct public business. All brokers and dealers must be authorized by the Investment Committee. Investment officers shall not conduct business with any firm which has been removed from the approved list by the Investment Committee. All Brokers/Dealers should be reviewed and re-approved or removed annually by the Investment Committee.

L. Safekeeping and Custody

1. Insurance or Collateral - All deposits and investments of District funds with commercial banks shall be secured by pledged collateral or a letter of credit issued by a Federal Home Loan Bank with a market value equal to no less than 100% of the deposits or investments less an amount insured by the FDIC. Collateral shall be reviewed monthly to assure the market value of the securities pledged equals or exceeds the related bank balances. Master repurchase agreement shall be in place documenting the terms and conditions of the fully collateralized repurchase transactions placed only with primary dealers.
2. Pledged Collateral Safekeeping Agreement - All safekeeping arrangements shall be in accordance with a Safekeeping Agreement approved by the Investment Committee which clearly defines the procedural steps for gaining access to the collateral should the District determine that the District's funds are in jeopardy. The safekeeping institution, or Trustee, shall be the Federal Reserve Bank or a third party custodial institution, not a branch of the firm pledging the collateral. Collateral is to be deposited in the custodian account subject to the order and direction of the District as pledgee, and the written consent of the District shall be required before release from the custodian. The safekeeping agreement shall include the authorized signatures of the District, the depository pledging the collateral, and the custodian.
3. Collateral Defined - The District shall accept only the following securities as collateral:
 - a. Negotiable direct obligations of the United States with maturities under 10 years shall use current market value equal to 100% of total District deposits, OR with maturities over 10 years shall use current market value equal to 102% of total District deposits; or
 - b. Negotiable general obligations of the United States and backed by its full faith and credit with maturities under 10 years shall use current market value equal to 100% of total District deposits, OR with maturities over 10 years shall use current market value equal to 102% of total District deposits; or
 - c. Negotiable obligations, the principal of and interest on which are unconditionally guaranteed by the United States, with maturities under 10 years shall use current market value equal to 100% of total District deposits OR with maturities over 10 years shall use current market value equal to 102% of total District deposits; or
 - d. Negotiable general or special obligations issued by the State of Texas or any county, city town or municipal corporation of the

State of Texas or any other political subdivision of the State of Texas, payable from taxes, revenues, or a combination of taxes and revenues that has been rated as to investment quality by a nationally recognized rating agency and that has a current rating of not less than "A" or its equivalent with maturities under 10 years using current market value equal to 100% of total District deposits, OR with maturities over 10 years using current market value equal to 102% of total District deposits; or

- e. Obligations of the United States or its agencies and instrumentalities including Federal Home Loan Bank letters of credit.
4. Subject to Audit - All collateral shall be subject to inspection and audit by the Chief Financial Officer or the District's independent auditors.
 5. Delivery vs. Payments - Eligible investment securities shall be purchased using the delivery vs. payment method. That is, funds shall not be wired or paid until verification has been made that the security was received by the District Safekeeping/Clearance Agent. The security shall be held in the name of the District. The original copy of all safekeeping receipts shall be delivered to the District.

The President or Vice-President is authorized to execute and the Secretary or Assistant Secretary to attest this Investment Policy on behalf of the Board and the District.

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PASSED AND ADOPTED this the 22nd day of January, 2020.

DENTON COUNTY FRESH WATER SUPPLY
DISTRICT NO. 1-E

By: 
SETH HIGGINS, President
Board of Directors

ATTEST;


By: SUSAN AUSTIN Secretary
Board of Directors

[DISTRICT SEAL]