

VICTORIA COUNTY GROUNDWATER CONSERVATION DISTRICT
INVESTMENT POLICY

DOCUMENT CONTROL SECTION

DATE OF ORIGINAL ADOPTION: September 8, 2006

REVISION 1:

PURPOSE: Remove limitation associated with investing only in institutions domiciled in Texas.

SECTIONS ALTERED: 7.01

DATE OF REVISION ADOPTION: May 9, 2008

REVISION 2:

PURPOSE: Correct inconsistency between PFIA 2256.023 and District Policy and increase the limit of FDIC to \$250,000.

SECTIONS ALTERED: 4.02 and 6.02

DATE OF REVISION ADOPTION: August 27, 2010

SIGNATURE: _____

Barbara Dietzel

This Investment Policy (the "Policy") is adopted by the Board of Directors of Victoria County Groundwater Conservation District (the "District"), pursuant to Chapter 2256 of the Texas Government Code and Chapter 36 of the Texas Water Code.

ARTICLE I

Section 1.01. Purpose.

This policy with respect to District investments has been adopted to establish the principles and criteria by which the Victoria County Groundwater Conservation District shall invest its public funds which will insure the safety and protection of these funds at all times while providing adequate liquidity for all District cash flow demands and maximizing the District's investment returns within the state and local statutes governing the investment of public funds as set forth in accordance with the provisions of the Public Funds Investment Act, Chapter 2256, Government Code. This policy also will specify the scope of authority of District Officials who are responsible for the investment of District funds.

ARTICLE II

Section 2.01. Definitions.

Unless the context requires otherwise, the following terms and phrases used in this Policy shall mean the following:

- (a) The term "Authorized Investment" shall mean any security which the District is authorized to invest under Chapter 2256, Texas Government Code.
- (b) The term "Board" shall mean the Board of Directors of the Victoria County Groundwater Conservation District.
- (c) The term "Collateral" shall mean:
 - (1) Government securities or obligations issued by the State of Texas, its agencies or political subdivisions, and approved by the Attorney General of Texas payable from taxes or revenues or a combination thereof and approved by the investment committee; or
 - (2) Direct obligations of the United States of America backed by the full faith and credit of the government; or
 - (3) Any other obligations or securities authorized to be collateral securing the funds of groundwater districts under the laws of the State of Texas and approved by the investment committee.
- (d) The term "Director" shall mean a person appointed to serve on the Board of Directors of the District.
- (e) The term "District" shall mean the Victoria County Groundwater Conservation District, a political subdivision of the State of Texas, created under authority of Article XVI, §59 of the Texas Constitution and with acts of the 79th Legislature (2005), H.B. 3423 and Chapter 36 of the Texas Water Code.
- (f) The term "District Officials" shall mean the Investment Officer, District Directors, officers, employees, and persons and business entities handling investments for the District.
- (g) The term "Employee" shall mean any person employed by the District, but does not include independent contractors or professionals hired by the District as outside consultants.
- (h) The term "Investment Act" shall mean Chapter 2256, Texas Government Code, as amended from time to time.

- (i) The term "Investment Officer(s)" means the Director(s) or Employee(s) of the District appointed from time to time by the Board to invest and reinvest the funds of the District.

ARTICLE III

Section 3.01. Policy of Investment.

- A. The preservation of the District's principal shall be the primary concern of the District Officials who are responsible for the investment of District funds. To the extent that the principal is protected, District funds shall be invested to yield the highest possible rate of return, taking into consideration the strength of the financial institution and the ability of the financial institution to provide proper security with the provisions of all applicable legislation, this investment policy, and the desires of the District's Board of Directors. Applicable legislation includes, but is not limited to, Public Funds Investment Act, Chapter 2256, Texas Government Code, and any other applicable State or Federal laws or restrictions.
- B. District funds shall be invested and reinvested by the District's Investment Officer only in specific allowable investments types as listed in Chapter 2256, Texas Government Code, and the District shall not invest in any investments not specifically allowed under that statute or deemed inappropriate by the District's Board of Directors.

Principal and accrued interest invested in Certificates of Deposit ("CDs") in accordance with this policy shall not exceed the FDIC, or its successor's, insurance limits or the Collateral pledged as security for the District's investments. It shall be acceptable for the District's Investment Officer to periodically receive interest on the CDs if needed to keep the amount of the funds under the insurance or Collateral limits.

It shall be the responsibility of the District's Investment Officer to invest and reinvest the District funds in accordance with this policy to meet the needs and requirements of the District. The Board, by separate resolution, may provide that the Investment Officer may withdraw or transfer funds from and to accounts of the District on such terms as the Board considers advisable.

- C. The District shall maintain separate written investment strategies for each of the

funds under its control. These strategies shall describe the investment objectives for each fund or fund group. The strategies shall be updated, as required, to reflect any changes to the District's funds or business operations.

ARTICLE IV

Section 4.01. Investment Officer.

The District's Board of Directors shall designate one or more officers or employees of the District to be responsible for the investment of its funds and be the Investment Officer. No person may deposit, withdraw, invest, transfer, or otherwise manage funds of the District without this express authority. Investment Officers(s) shall be responsible for the investment of District funds, consistent with the investment policy adopted by the District. An Investment Officer's authority is effective until rescinded by the Board of Directors, or until termination of employment by the District. Designated Board Members and Investment Officer(s) shall comply with all continuing training requirements including those established by Texas Government Code §2256.008.

Section 4.02. Reporting by the Investment Officer.

Not less than quarterly and within a reasonable time after the end of the period reported, the Investment Officer(s) shall prepare and submit to the Board a written report of the investment transactions for all funds of the District for the preceding reporting period. The report must:

1. Describe in detail the investment position of the District on the date of the report;
2. Be prepared jointly by all the Investment Officers of the District, if the District appoints more than one;
3. Be signed by all Investment Officers and District Officials who prepare the report;
4. contain a summary statement, prepared in compliance with generally accepted accounting principles, of each pooled fund group that states the:
 - A. beginning market value for the reporting period;
 - B. additions and changes to the market value during the period;
 - C. ending market value for the period; and
 - D. fully accrued interest for the reporting period;
5. State the book value and the 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;
6. State the maturity date of each separately invested asset that has a maturity date;

7. State the District fund for which each individual investment was acquired; and
8. State the compliance of the investment portfolio as it relates to this Policy and the Investment Act.

Section 4.03. Assistance with Certain Duties of the Investment Officer.

The Board hereby authorizes and directs the District's Bookkeeper and any other District Officials requested by the Investment Officer to assist the Investment Officer(s) with any of his duties, including but not limited to the following:

1. Presenting a copy of the Policy to any person or business organization seeking to sell an investment to the District and obtaining the necessary written certification from such seller referred to in this section;
2. Handling investment transactions;
3. Preparing and submitting to the Board the written report of all investment transactions for the District as required by this section;
4. Researching investment options and opportunities;
5. Obtaining written depository pledge agreements as required herein;
6. Obtaining safe-keeping receipts from the Texas financial institution which serves as a depository for pledged Collateral; and
7. Reviewing the market value of the District's investments and of the Collateral pledged to secure the District's funds.

ARTICLE V
PROCEDURES FOR INVESTMENT OF DISTRICT MONIES

Section 5.01.

The following are the qualified broker/dealers with whom the District may engage in investment transactions:

*Need to insert list of local brokers/dealers

Section 5.02. Disclosures of Relationships with Entities Offering to Enter into Investment Transactions with the District.

The Investment Officer(s) and the District Officials shall disclose in writing (a) any "personal business relationship" with a business organization offering to engage in an investment transaction with the District and (b) any relationship within the second degree by affinity or

consanguinity, as determined by Chapter 573, Texas Government Code, to any individual seeking to sell an investment to the District, as required by the Investment Act. Such disclosure statement shall be filed with the Board and the Texas Ethics Commission.

Section 5.03. Certifications from Sellers of Investments.

The District shall make its Investment Policy available to any securities firm seeking to do business with the District. The qualified representative of the securities firm, after reviewing the policy, shall provide the District with a written instrument stating that "... the business organization has reviewed the investment policy of the District and acknowledges that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the District and the organization that are not authorized by the District's Investment Policy, except to the extent that this authorization is dependent on analysis of the makeup of the District's entire portfolio or requires an interpretation of subjective investment standards..." before the District may obtain any authorized investment from the securities firm. Neither the Investment Officer nor the District Officials shall purchase or make any investment from a potential seller that has not delivered to the District this written instrument. A form of certificate acceptable to the District is attached hereto as Exhibit A.

Section 5.04. Solicitation of Bids for Certificates of Deposit.

Bids for certificates of deposit may be solicited orally, in writing, electronically, or in any combination of those methods.

Section 5.05. Settlement Basis.

All purchases on investments, except investment in investment pools or in mutual funds, shall be made on a delivery versus payment basis. The safekeeping entity for all District investments and for all Collateral pledged to secure District funds shall be one approved by the Investment Officer(s).

Section 5.06. Monitoring of the Market Value of Investments and Collateral.

The Investment Officer(s), with the help of such District Officials as needed, shall determine the market value of each investment and of all Collateral pledged to secure deposits of District funds at least quarterly and at a time as close as practicable to the closing of the reporting period for investment. Such values shall be included on the investment report. The following methods shall be used:

- (a) Certificates of deposit shall be valued at their face value plus any accrued but unpaid interest.
- (b) Shares in money market mutual funds and investment pools shall be valued at par plus any accrued but unpaid interest.

- (c) Other investment securities with a remaining maturity of one year or less may be valued in any of the following ways:
 - (1) the lower of two bids obtained from securities broker/dealers for such security;
 - (2) the average of the bid and asked prices for such investment security as published in The Wall Street Journal or The New York Times;
 - (3) the bid price published by any nationally recognized security pricing service; or
 - (4) the market value quoted by the seller of the security or the owner of such Collateral.
- (d) Other investment securities with a remaining maturity greater than one year shall be valued at the lower of two bids obtained from securities broker/dealers for such security, unless two bids are not available, in which case the securities may be valued in any manner provided in 5.06(c) hereof.

ARTICLE VI
PROVISIONS APPLICABLE TO ALL FUNDS

Section 6.01. Provisions Applicable to All Fund Groups.

- A. All Funds of the District shall be invested only in accordance with this Policy and shall comply with any additional requirements imposed by Bond Resolutions of the District and applicable state law or federal tax law, including the Investment Laws.
- B. The Board, by separate resolution, may provide that the District's bookkeeper may withdraw or transfer funds from and to accounts of the District only in compliance with this Policy.
- C. No fund groups shall be pooled for the purposes of investment.

Section 6.02. Policy of Securing Deposits of District Funds – Applicable to All Deposited District Funds.

- A. The District recognizes that FDIC (or its successor) insurance is available for District funds deposited at any one Texas Financial Institution (including branch banks) only up to a minimum of \$250,000 (including accrued interest) for each of the following: (i) demand deposits, (ii) time and savings deposits, and (iii) deposits made pursuant to an indenture or pursuant to law in order to pay bondholders or note holders. It is the policy of the District that all deposited

funds in each of the District's accounts shall be insured by the FDIC, or its successor, and to the extent not insured, shall be secured by Collateral pledged to the extent of the fair market value of the principal amount deposited plus accrued interest.

- B. If it is necessary for the District's depositories to pledge Collateral to secure the District's deposits, (1) the Collateral pledge agreement must be in writing, (2) the Collateral pledge agreement must be approved by the depository's board of directors or loan committee, (3) the depository's approval of the Collateral pledge agreement must be reflected in the minutes of the meeting of the depository's board or loan committee approving the same, and (4) the Collateral pledge agreement must be kept in the official records of the depository. The depository must provide to the Investment Officer or District Officials written proof of the depository's approval of the pledge agreement as required herein in a form acceptable to the District. A signed or certified copy of the minutes of the meeting of the depository's board or loan committee reflecting the approval of the Collateral pledge agreement or other written documentation of such approval acceptable to the Investment Officer will be accepted. It is the preference of the Board that all requirements of this section be met prior to the deposit of any District funds in such financial institution when a pledge of Collateral is required; however, the Board recognizes that compliance with this preference might not be practicable due to time constraints for making a deposit. In such event, the Board directs the Investment Officer and District Officials to proceed diligently to have such agreement approved and documented to assure protection of the District's funds. If the decision is made to forego the protection of a collateral pledge agreement with any depository, the District bookkeeper shall be responsible for maintaining the balance of deposit(s) in such depository plus any accrued but unpaid interest at or below FDIC insurance levels.
- C. Collateral pledged by a depository shall be held in safekeeping at an independent third party institution, and the District bookkeeper shall obtain safe-keeping receipts from the Texas financial institution or the safekeeping institution that reflect that Collateral as allowed by this investment Policy and in the amount required was pledged to the District. Principal and accrued interest on deposits in a financial institution shall not exceed the FDIC's, or its successor's, insurance limits or the market value of the collateral pledged as security for the District's deposits. It shall be acceptable for the bookkeeper to periodically receive interest on deposits to be deposited to the credit of the District if needed to keep the amount of the funds under the insurance or collateral limits. It is the preference of this Board that there be no sharing, splitting or cotenancy of collateral with other secured parties or entities; however, in the event that a depository cannot accommodate this preference due to the denominations of the securities to be pledged, the Board directs the Investment Officer and District Officials to obtain appropriate protections in the pledge agreement with the depository to assure that the Collateral is liquidated and the funds distributed appropriately to all parties with a security interest in such collateral. The District bookkeeper shall monitor

he pledged collateral to assure that it is pledged only to the District, review the fair market value of the collateral to ensure that the District's funds are fully secured, and report periodically to the Investment Officer and the Board regarding the collateral.

- D. The District's funds deposited in any Texas financial institution, to the extent that they are not insured, may be secured in any manner authorized by law for the District as such law is currently written or as amended in the future. As of the date of this Agreement, the following are the securities in which a public entity may invest under the Investment Act and, therefore, may be used as collateral:
1. Obligations of the U.S. or its agencies and instrumentalities;
 2. Direct obligations of the State of Texas or its agencies and instrumentalities;
 3. Collateralized mortgage obligations directly issued by a federal agency or instrumentality or the U.S., the underlying security for which is guaranteed by an agency or instrumentality of the U.S.;
 4. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of the U.S. or the State of Texas or their respective agencies and instrumentalities;
 5. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent.
 6. Certificates of deposit issued by a state or national bank domiciled in this State or a savings bank domiciled in this State or a state or federal credit union domiciled in this State that are guaranteed by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or its successor that are secured by the obligations in which the District may invest under the Investment Act.
 7. Repurchase agreements that comply with the Investment Act;
 8. Bankers' acceptances that comply with the Investment Act;
 9. Commercial paper that comply with the Investment Act;
 10. No-load money market mutual funds that comply with the Investment Act; and
 11. No-load mutual funds that comply with the Investment Act.

Notwithstanding anything to the contrary provided above, the following may not be used as collateral and are not authorized as investments for the District under the Investment Act:

- a. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
- b. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
- c. Collateralized mortgage obligations that have a final stated maturity date of greater than 10 years; or
- d. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Section 6.03. Diversification.

The Investment Officer may invest up to 100% of the funds of the District in any investment instrument authorized in this Policy.

ARTICLE VII
AUTHORIZED INVESTMENTS

Section 7.01. Authorized Investments.

Unless specifically prohibited by law or elsewhere by this Policy, District monies in any of its fund groups may be invested and reinvested in any account, security, obligation, certificate, agreement, fund, pool, program, or other instrument in which the District is authorized to invest under Chapter 2256, Texas Government code.

Section 7.02. Prohibited Investments.

Notwithstanding anything to the contrary stated herein, no funds of the District may be invested in the following or in any other type of investment prohibited by the Investment Act or other applicable law:

1. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security Collateral and pays no principal (IO's);

2. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security Collateral and bears no interest (PO's);
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 adjusts opposite to the changes in a market index (inverse floaters).

ARTICLE VIII
INVESTMENT STRATEGIES

Section 8.01. Strategies.

It is assumed that all District Funds have the following investment objectives in common and that these objectives will have priority over any additional investment objective identified for the individual funds:

1. Understanding of the suitability of the investment to the financial requirements of the District;
2. Preservation and safety of principal;
3. Liquidity;
4. Marketability of the investment if the need arises to liquidate the investment before maturity;
5. Diversification of the investment portfolio; and
6. Yield.

Section 8.02. Fund Strategies.

Funds in the following District accounts shall be invested by the District's Investment Officer as follows:

1. Operating or General Account: Funds in this account shall be invested to meet the operating requirements of the District as determined by the annual operating budget prepared by the bookkeeper and adopted by the Board. This fund accounts for the general administrative, governmental, and operations functions of the District. Funds available in the Operating or General Fund are used to pay the ongoing operational expenditures during the fiscal year. Operating or General Funds shall not be invested for longer than thirteen (13) months.

2. Debt Service Account: Funds in this account shall be invested to meet the debt service requirements of the District and to comply with the District's bond resolutions or orders. It shall be the policy of the District that Debt Service Funds shall not be invested for longer than thirteen (13) months.

ARTICLE IX

Section 9.01. Miscellaneous.

- A. Checks/Drafts: Number of Signatures required on District Checks - all checks drawn on District accounts shall require two signatures.
 1. One of the signatures on a check drawn on a District account may be the General Manager or the Financial Secretary.
 2. The other signature(s) on the check shall be one or more of the members of the Board of Directors.
- B. Depositories: All funds of the District except petty cash shall be deposited from time to time to the credit of the District in such banks or accounts as the Board may, from time to time, designate, and upon such terms and conditions as shall be fixed by the Board. The Board may, from time to time, authorize the opening and maintaining of general and special accounts within any such depository as it may designate, and may make such special rules and regulations with respect thereto as it may deem expedient.

Section 9.02. Annual Review.

The District shall review this Investment Policy at least annually and adopt a resolution confirming the continuance of the Investment Policy without amendment or adopt an Amended Investment Policy.

Section 9.03. Superseding Clause.

This Policy supersedes any prior policies adopted by the Board of Directors regarding investment or securitization of District Funds.

Section 9.04. Open Meeting.

The Board officially finds, determines, and declares that this Investment Policy was reviewed, carefully considered, and adopted at a regular meeting of the Board, and that a sufficient written notice of the date, hour, place, and subject of this meeting was posted at a place convenient to the public for the time required by law preceding this meeting, as required by the Open Meetings Act, Chapter 551, Texas Government Code, and that this meeting had been open to the public as required by law at all times during which this Policy was discussed, considered and acted upon. The Board further ratifies, approves, and confirms such written notice and the contents and posting thereof.

Exhibit A

CERTIFICATE OF COMPLIANCE FROM SELLERS OR INVESTMENTS
AS REQUIRED BY THE PUBLIC FUNDS INVESTMENT ACT

To: Victoria County Groundwater Conservation District

From: _____,
[Name of the person offering or the "qualified representative of the business organization" offering to engage in an investment transaction with the District] [Office such person holds]

of _____ (the "Business Organization")
[Name of financial institution, business organization or investment pool]

Date: _____, 200__

In accordance with the provisions of Chapter 2256 of the Texas Government Code, I hereby certify that:

1. I am an individual offering to enter into an investment transaction with the District or a "qualified representative" of the Business Organization offering to enter into an investment transaction with the District, as applicable, as such terms are used in the Public Funds Investment Act, Chapter 2256, Texas Government Code, and that I meet all requirements under such Act to sign this Certificate.
2. I or the Business Organization, as applicable, anticipate selling to the District investments that comply with the District's Investment Policy and the Investment Act (collectively referred to herein as the "Investments") dated _____, 200__ (the "Investment Policy").
3. I or a registered investment professional that services the District's account, as applicable, have received and reviewed the Investment Policy, which the District has represented is the complete Investment Policy of the District now in full force and effect. The District has further acknowledged that I or the Business Organization, as applicable, may rely upon the Investment Policy until the District provides me or the Business Organization, as applicable, with any amendments to or any newly adopted form of the Investment Policy.

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4. I or the Business Organization, as applicable, have/has implemented reasonable procedures and controls in an effort to preclude investment transactions between the District and me or the Business Organization, as applicable, that are not authorized by the Investment Policy, except to the extent that this authorization is dependent upon an analysis of the District's entire portfolio or requires an interpretation of subjective investment standards.
5. I or the Business Organization, as applicable, have/has reviewed or will review prior to sale, the terms, conditions and characteristics of the investments to be sold to the District and determined (i) that each of the Investments is an authorized investment for local governments under the Investment Act and (ii) each of the Investments is an authorized investment as to whether any limits on the amount of District monies to be invested in the Investments exceeds or in any way violates the Investment Policy.
6. The Business Organization makes no representations or guarantees regarding the prudence, reasonableness or adequacy of the Investment Policy.
7. The Business Organization has attached hereto, for return to the District, or will provide a prospectus or disclosure document for each of the Investments other than certificates of deposit and direct obligations of the United States.

By: _____

Name: _____

Title: _____

Investments other than certificates of deposit are not FDIC insured, are not deposits or other obligations of me, the Business Organization or any of its affiliates, and are subject to investment risks, including possible loss of the principal amount invested.