

NUECES RIVER AUTHORITY FINANCIAL MANAGEMENT AND INVESTMENT POLICY  
(as of August 2017)

1. General

Monies collected by or donated, granted, loaned, or advanced to NRA are declared to be trust funds to be used for purposes provided for by the NRA statute. (Section 4.05, Article 8280-115 VTCS)

The use of any money or property of NRA for any purposes not provided for by its statute is prohibited. (Section 4.06(b), Article 8280-115 VTCS)

Funds are never to be used to pay for personal expenses of Directors or employees, other than for salaries, Directors' per diem and reimbursement of actual, reasonable and necessary travel expenses incurred and directly related to the conduct of NRA business and as authorized by statute or Board action.

Each Director and employee shall have a personal responsibility to insure that no funds are requested or received to pay for his or her unauthorized personal expenses.

Each shall certify, when requesting expense reimbursements, that those expenses are actual expenses and incurred in the conduct of business directly related to NRA. (Board of Directors, meeting of August 14, 1986)

Violations of this policy will be brought to the attention of either the Finance Committee, the Executive Committee or the Board of Directors, depending on the severity and nature of the case, for review and appropriate disciplinary action. The one bringing charges shall initially determine the entity to hear the charges. (Board of Directors, meeting of August 14, 1986)

2. Bonding

Each member of the Board shall qualify by taking the constitutional oath of office and by executing a bond in an amount to be determined by the Board. (Section 2.03(d), Article 8280-115 VTCS)

The executive director, the treasurer, and other officers, agents, and employees of the authority charged with the collection, custody, or payment of any money of the authority shall execute a fidelity bond. The board shall approve the form, amount, and surety of the bond. (Section 2.08, Article 8280-115 VTCS)

3. Record Keeping

The authority shall keep complete and accurate accounts of its business transactions in accordance with generally accepted methods of accounting. (Section 2.10, Article 8280-115 VTCS)

The Secretary-Treasurer of the Board of Directors shall exercise general supervision and direction over the Executive Director in the matter of financial records kept by the Executive Director. (Article III, Section 6, NRA By-Laws)

The Executive Director will provide a quarterly financial report to each Director showing for the quarter ending the beginning cash balance, ending cash balance, revenues, expenditures, revenues to date, expenditures to date and a comparison of actual revenues and expenditures to budgeted amounts, and investment transactions for all funds covered by the Authority's investment policy (See Section 10, Investment of Funds). (Board of Directors, meeting of August 14, 1986) (Board of Directors, meeting of March 21, 1996)

4. Audit

NRA shall have its fiscal records and accounts audited annually. (Section 49.191, Water Code)

The person who performs the audit shall be a certified public accountant or public accountant holding a permit from the Texas State Board of Public Accountancy. (Section 49.191, Water Code)

The audit shall be completed within 120 days after the close of NRA's fiscal year. (Section 49.191, Water Code)

The Board of Directors shall not advertise for competitive bids before selecting the accountant to perform the annual audit (Section 2254.003, Texas Government Code); however, at the Board's discretion, informal requests for proposals from selected accounting firms should be considered. (Board of Directors, meeting of August 14, 1986) (Board of Directors, meeting of March 21, 1996)

A copy of the audit report shall be filed with the authority, the governor, the lieutenant governor, the speaker of the house of representatives, the attorney general, the commission ( Texas Natural Resource Conservation Commission), the state auditor, and the comptroller of public accounts. (Section 4.08, Article 8280-115 VTCS)

Copies of the audit shall be filed annually in the office of the Authority. (Section 49.194(c) of the Water Code) (Board of Directors, meeting on March 21, 1996)

The audit and NRA's record keeping shall satisfy any requirements for accounting for and reporting industrial development bonds and pollution control bonds that may be promulgated by the State Auditor and, particularly, the State Auditor's October 7, 1988 memorandum on this subject. (Board of Directors, meeting of August 27, 1987)

The NRA Finance Committee will also function as an Audit Committee. It will oversee the selection of auditors and the performance of all audits, and will review each audit prior to its submission to the Board for its approval. It will perform other functions as may be expected of an Audit Committee. (Board of Directors, meeting of August 27, 1987)

Generally accepted accounting principles (GAAP) for governmental units and the Texas Natural Resource Conservation Commission Annual Audit Report Requirements for Texas Water Districts and Authorities will be observed in preparing the annual audit. Audits of State and Local Governmental Units and Governmental Accounting and Financial Reporting Standards shall be used as guides by the auditor in performing the audit. (Board of Directors, meeting of August 27, 1987)

An independent management audit shall be conducted every five years and submitted to the Texas Natural Resource Conservation Commission. As an alternative, an internal audit office may be established which reports to the board of directors. (Rules of the Texas Water Commission adopted September 30, 1992.)

In conjunction with its annual financial audit, the Authority shall perform a compliance audit of management controls on investments and adherence to the Authority's established investment policies. (Public Funds Investment Act, Ch. 2246 Texas Government Code. Board of Directors, meeting on March 21, 1996)

## 5. Budget

Budget. The Finance Committee will review Authority budgets prepared by the Executive Director before submission to the Board for approval (Article IV, Section 3c, NRA By-Laws). The Executive Director is responsible to the Board and the Executive Committee for preparation for review of the Finance Committee and approval by the Board of an annual budget for the Authority to cover the period of September 1 - August 31 (Article V, Section 1b, NRA By-Laws).

The Authority's Annual Budget is a planning device which sets forth in terms of dollars the work which the Authority plans to accomplish during the fiscal year. As recommended to the Board of Directors by the Executive Director, it constitutes the Executive Director's best judgment as to what activities the Authority should endeavor to carry out during the forthcoming fiscal year. When approved by the Board, it is the one document that most clearly sets forth what the Authority's level of effort will be and what objectives the Authority expects to accomplish during the fiscal year. During the fiscal year, the budget serves as a control device in executing the programs approved therein. The Annual Budget is a vehicle under which the annual planning and the execution of programs of the Nueces River Authority are accomplished.

## 6. Depository

The Board shall designate one or more banks inside or outside the authority to serve as depository for the funds of the authority. All money of the authority shall be deposited in the depository bank or banks except that bond proceeds, money pledged to pay bonds, money placed in special funds, and money remitted to a bank of payment for the payment of principal of and interest on bonds, may be handled as provided in a trust indenture or bond resolution. To the extent that funds in the depository banks or a trustee bank are not invested or insured by the Federal Deposit Insurance Corporation, they shall be secured in the manner provided by law for the security of county funds.

Before designating a depository bank or banks, the Board shall issue a notice stating the time and place when and where the Board will meet for such purposes and inviting the banks in the authority to submit applications to be designated depositories. The term of service for depositories shall be prescribed by the Board. The notice shall be published one time in a newspaper or newspapers of general circulation in the authority and specified by the Board, or in lieu of such publication, a copy of such notice may be mailed to each bank in the authority.

At the time mentioned in the notice, the Board shall consider the applications and the management and condition of the banks filing them, and shall designate as depositories the bank or banks which offer the most favorable terms and conditions for the handling of the funds of the authority and which the Board finds have proper management and are in condition to warrant handling of authority funds. Membership on the Board of an officer or director of a bank shall not disqualify such bank from being designated as depository.

If no applications are received by the time stated in the notice, the Board shall designate some bank or banks inside or outside the authority on such terms or conditions as it may find advantageous to the authority. (Section 4.09, Article 8280-115 VTCS)

Subject to the provisions of Section 4.09, Article 8280-115 VTCS, above, the Finance Committee will recommend to the Board the selection of a depository or depositories for Authority funds. (Article IV, Section 3a, NRA By-Laws)

The Board of Directors, upon recommendation of the Finance Committee, shall designate a depository or depositories for the Authority in accordance with the procedure prescribed in Section 4.09 of Article 8280-115 VTCS. (Article VII, Section 1, NRA By-Laws)

The Board of Directors has selected "...First State Bank of Uvalde to serve as NRA depository for a period of two years or until a successor depository is selected", and has approved continuation of the depository agreement with First State Bank of Uvalde "...at NRA's discretion until such time as the NRA Board of Directors decides that a successor depository is desirable." (Board of Directors, meetings of December 13, 1978 and December 9, 1980, respectively.)

Consistent with the requirements of the Public Funds Collateral Act, it is the policy of NRA to require full collateralization of all NRA investments and funds on deposit with a depository bank, other than investments, that are obligations of the U.S. government and its agencies and instrumentalities. Collateral shall be held by the

depository bank's trust department, a Federal Reserve bank or branch of a Federal Reserve bank, a Federal Home Loan Bank, or a third party bank approved by the NRA. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the NRA and retained. Collateral shall be reviewed at least monthly by the Bank to assure that the market value of the pledged securities is adequate.

NRA shall accept only the following types of collateral:

- Obligations of the United States or its agencies and instrumentalities
- Direct obligations of the state of Texas or its agencies and instrumentalities
- Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States
- Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized rating firm not less than A or its equivalent with a remaining maturity of ten (10) years or less
- A surety bond issued by an insurance company rated as to investment quality by a nationally recognized rating firm not less than A
- A letter of credit issued to the NRA by the Federal Home Loan Bank

#### 7. Obligation of Funds

The Executive Director and the Deputy Executive Director may execute or verbally approve, on behalf of the Authority, without specific authorization of the Board any contract or purchase not subject to competitive bidding and in an amount not exceeding that approved in the annual budget. The Executive Director and the Deputy Executive Director may execute or verbally approve on behalf of the Authority with specific authorization of the Board, any other contract or purchase. Power to approve contracts, which are subject to competitive bidding is vested solely in the Authority's Board of Directors. Authorization will direct either the President or Executive Director to execute the contract.

The annual budget of the Authority allocates the amount of funds that may be expended by the Executive Director and the Deputy Executive Director during the applicable fiscal year for the following purposes:

- The employment of employees, agents, accountants, attorneys, engineers and others rendering professional services necessary and required to accomplish the purposes of the Authority.
- The cost of maintaining the Authority's office, including but not limited to rent, office supplies, telephone, office furniture and office equipment.
- Travel and transportation expenses.
- Contingencies.

The Executive Committee may approve the execution of any contract or obligation involving the expenditure of an amount no greater than Five Thousand Dollars (\$5,000). (Article IV, Section 2e, NRA By-Laws)

The execution of any contract or obligation involving the expenditure of an amount in excess of Five Thousand Dollars (\$5,000) is subject to the approval of the Board of Directors. (Board of Directors, meeting of August 14, 1986)

The President may authorize the obligation and expenditure of funds for unbudgeted purposes in amounts not to exceed \$1,000. (Board of Directors, meeting of March 17, 1995)

The Executive Director is authorized to execute contracts between NRA and other governmental entities where

(1) the contract is for NRA services; i.e. NRA is the “performing agency”, or (2) the contract involves NRA in its role of administrative agent for the Coastal Bend Regional Water Planning Group (Region N) and the planning group has approved the contract and has asked NRA to execute it. In either case, the Executive Director must first transmit to all Directors, explain the pertinent contract provisions, state that he/she has determined that the contract does not cause a Budget deficit and requires no additional full time employees, and that the President has determined that time is of the essence and formal Board action is impractical. Directors will have until a specifically stated date, such date not being less than five working days, to object to the execution of the contract. If three or more objections are received, the Executive Director may not execute the contract until authorized by the Board of Directors. (Board of Directors meeting of April 11, 2001)

#### 8. Emergency Transfer of Funds

The Finance Committee may authorize the transfer of not to exceed \$300,000 of invested funds to NRA’s checking account, provided (1) the Executive Director certifies that there is insufficient business to justify the cost and inconvenience to Directors of a special Board meeting, (2) the market value of remaining invested funds equals or exceeds \$1 million, and (3) the Executive Director reasonably expects that the funds to be transferred can be replaced within 12 months. Finance Committee approval must be unanimous and may be secured by email. The Executive Director will report any transfers of invested funds to the Board. Transfers of invested funds under any other conditions require Board approval. (Board of Directors meeting of December 16, 2011)

#### 9. Disbursement of Funds

The authority's money may be disbursed only by check, draft, order, or other instrument, signed by the person or persons authorized to do so in the board's bylaws, or by resolution of the board. (Section 4.01, Article 8280-115 VTCS)

Authorization to sign NRA checks is granted to the President, 1st Vice-President, 2nd Vice-President, Secretary-Treasurer, the Executive Director and the Deputy Executive Director . (Board of Directors, meeting of August 24, 1978)

Payments for administrative expenses incurred in operating the offices of the Authority, checks for purchase of certificates of deposit or other investments of Authority funds approved by the Finance Committee, and checks for payments of obligations within limits approved by the Board of Directors or the Executive Committee shall be signed by the Executive Director or, in either his/her absence or with his/her verbal or written authorization, a Director or the Deputy Executive Director. All other checks shall be signed by the Executive Director and countersigned by an officer of the Authority. (Article VII, Section 2a, NRA By-Laws, Board of Directors April 14, 2000), Board of Directors, meeting of December 16, 2005.

Any construction, maintenance, operation, or repair contract, or contract for the purchase of material, equipment, or supplies, or any contract for services other than technical, scientific, legal, fiscal, or other professional services, which will require an estimated expenditure of more than \$10,000, or is for a term of six months or more, shall be awarded to the lowest and best bidder. A notice to bidders shall be published once each week for three consecutive weeks before the date set for awarding the contract. In the event of a catastrophe or calamity of any kind, the authority may let contracts necessary to protect and preserve the public health and welfare or the properties of the authority without using the bidding procedures. (Section 3.15, Article 8280-115 VTCS - to which reference is made for further elaboration on bid procedures, including publication of notices.)

The Executive Director may not exceed total budgeted expenditures without approval of the Board of Directors. (Board of Directors, meeting of August 14, 1986)

The Executive Director may over expend a budget item by not more than twenty five percent (25%) without

Finance Committee approval. (Board of Directors, meeting of March 17, 1995)

The Executive Director may exceed any expenditure item in the Authority's annual budget, other than salaries, if the exceeded amount is reimbursable under approved contracts. (Board of Directors, meeting of August 24, 2001)

**Cash Disbursements** All incoming invoices, bills, and statements shall be delivered to the Executive Assistant, General Office, where each shall be marked with the Authority's receipt stamp. Each invoice, bill, or statement must be initialed by the Executive Director, as approved for payment by the Executive Director. Those originating from the Coastal Bend Division also must be initialed as approved for payment by the Office Manager, Coastal\_Bend Division. The Executive Assistant, General Office, will review each invoice, bill or statement for material received or services performed. Such review will include a mathematical verification, comparison with contractual agreement and, if applicable, a comparison with delivery slips. After verification and approval of payment is accomplished, the Executive Assistant, General Office, will prepare checks for the Executive Director's signature and make all necessary accounting entries.

#### 10. Investment of Funds

##### (a) Standard of Care and Investment Training

Authority 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 person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.

The investment officer shall ensure that reasonable internal controls are established and maintained to protect the portfolio from unauthorized or erroneous transactions. Investment of funds shall be governed by the following investment objectives, in order of priority:

- (i) preservation and safety of principal;
- (ii) liquidity; and
- (iii) yield.
- (iv) public trust

In accordance with Chapter 49.151 (Water Code) and Chapter 2256 Texas Government Code (Public Funds Investment Act), the designated investment officer(s) shall attend an investment training session no less often than once every two years and shall receive not less than 4 hours of instruction relating to investment responsibilities. A newly appointed investment officer must attend a training session of at least 6 hours within 12 months of the date the officer took office. Training may be received from any independent source approved by the Board of Directors. The Board approves the following sources:

- Texas Water Conservation Association
- Any accredited state college or university

(Public Funds Investment Act, Ch. 2256 Texas Government Code, as amended; Board of Directors meetings of March 21, 1996, August 28, 1998 and December 12, 2003)

Any funds in the treasury of the authority that are not required for current payment of obligations of the authority or for sinking funds and that the board considers available for investment may be invested or reinvested by the authority from time to time in direct obligations of or obligations the principal and interest of which are guaranteed by the United States; in direct obligations of or participation certificates guaranteed by the Federal Intermediate Credit Banks, Federal Land Banks, Federal National Mortgage Association, Federal Home Loan Banks, Banks for Cooperatives, or the successor or successors to any of those entities, and in certificates of deposit of any bank or trust company the deposits of which are fully secured by a pledge of securities of any of

the kind herein above specified; in any other securities made eligible for such investment by other laws and constitutional provisions; or in any combination of the foregoing. The type and maturity of investments made hereunder shall be determined by the board which, in the case of funds established in connection with the authorization of bonds, shall provide appropriate recitals with regard thereto in the resolutions relating to the issuance of such bonds. Income and profit on such investments shall be applied as directed by the board. (Section 4.07, Article 8280-115 VTCS)

In the investment of the Authority's funds, the Authority shall also comply with the Public Funds Investment Act of Chapter 2256, Texas Government Code, and the Public Funds Collateral Act Chapter 2257, Texas Government Code, each of which is incorporated herein by reference, and any other appropriate statutes which are applicable to the investment of the Authority's funds. (Rules of the Texas Natural Resource Conservation Commission adopted September 30, 1992.)

(b) Scope of Authority to Make Investments

Each state agency or political subdivision shall adopt rules governing the investment of local funds of the agency or subdivision. The rules shall clearly specify the scope of authority of officers and employees of the agency or subdivision that are designated to invest the local funds. (Article 4413 (34c) VTCS)

The political subdivision by rule, order, ordinance, or resolution shall designate one or more officers or employees of the subdivision to be responsible for the investment of local funds. At least once each year the investment officer shall prepare a written report concerning the subdivision's local funds investment transactions for the preceding year and describing in detail the investment position of the subdivision as of the date of the report. (Article 4413 (34c) VTCS)

In accordance with the paragraph immediately above, the NRA Board of Directors has designated the Executive Director as the NRA investment officer. (Board of Directors, meeting of August 14, 1986)

Subject to the provisions of Section 4.07, Article 8280-115 VTCS, above, the Finance Committee is authorized to determine the most advantageous investments of Authority funds in amounts of \$100,000 or more and direct such investments be made by the Executive Director. (Article IV, Section 3b, NRA By-Laws)

The Executive Director is responsible to the Board and the Executive Committee for investing or reinvesting funds of the Authority in amounts less than \$100,000 in short term certificates of deposit of any bank or financial institution designated as a depository by the Board of Directors. The Executive Director is further authorized to make inter-account or inter-depository transfers of funds in amounts less than \$100,000. (Article V, Section 1d, NRA By-Laws)

(c) Investment in Certificates of Deposit

For the investment in certificates of deposit of \$100,000 or more, the Executive Director shall solicit bids from not less than 6 banks: 2 of which shall be within the upper basin and 2 of which shall be within the lower basin. (Amended by Board of Directors, meeting of August 24, 2001)

The requests shall be for bids on interest rates to be paid for NRA investment in certificates of deposit of \$100,000 or more for maturities of 6 months, 1 year, 1 1/2 years, 2 years and 2 1/2 years. Bids may be received by telephone or on bid forms provided by NRA.

The request for bids will state that it is not a request for depository services and that NRA retains the right to reject any and all bids.

Also to be stated on the request, or on the bid form, shall be NRA's policy on security pledge requirements, as

follows:

"The Nueces River Authority is a governmental agency and, as such, its funds, by statute, must at all times be secured by a pledge of eligible securities acceptable to NRA, in addition to FDIC insurance coverage.

Eligible securities are limited to U. S. Treasury securities, securities issued or guaranteed by the United States, or general purpose municipal securities rated "A" or better by a recognized security rating service.

The market value of these securities shall at all times equal or exceed the amount of NRA funds being secured. Safekeeping receipts for each security pledged will be mailed to the Nueces River Authority."

On receipt of bids, the Executive Director will confer with one or more Finance Committee members, or other Directors known to have investment expertise, regarding the length of maturity to select based on the bids received and current market conditions and will then notify the bank submitting the highest rate for the maturity selected of its successful bid.

On notification of the successful bidder, the Executive Director will insure that the bank will have acceptable security(ies) pledged as of the date of the fund investment.

The Executive Director will, upon bank selection, immediately notify the Finance Committee, in writing, of all bids received and the selection made, and will include a form to be returned by each Committee member expressing the member's approval, disapproval, and comments, if any, regarding the investment.

The Executive Director shall maintain a current record of all certificates of deposit and keep each certificate in the NRA safety deposit box within its depository. (Board of Directors, meeting of August 14, 1986)

(d) Investment in Marketable Securities

It is advisable for the Authority to use professional services when investing in marketable securities.

The Finance Committee is authorized to select, secure, and as necessary, change professional investment services, and is authorized directly, or through the Executive Director, to establish accounts in the Authority's name, to execute agreements, to give investment instructions, to transfer funds, and to take any and all steps necessary and appropriate to carry out the purposes of this Resolution.

The Finance Committee is encouraged to restrict investments, in other than certificates of deposit, to securities that are direct obligations of or obligations the principal and interest of which are guaranteed by the United States.

The President, Vice Presidents, Secretary/Treasurer, and Executive Director are individually authorized to execute any documents and to take any and all steps necessary and appropriate to carry out the purposes of this Resolution. (Resolution of the Board of Directors, meeting of March 9, 1992)

The Board of Directors shall review its investment policy and investment strategy not less than annually. The Board of Directors shall adopt a written instrument by rule, order, ordinance or resolution stating that it has reviewed the investment policy and investment strategies and the written instrument so adopted shall record any changes made to either the investment policy or investment strategies.

The Board of Directors or a designated investment committee of the Board of Directors shall, at least annually, review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the Nueces River Authority. (Chapter 2256, Texas Government Code, as amended; Board meeting of August 28, 1998).

(e) Other Investments Approved by the NRA Board of Directors

Any type of investment authorized by the Public Funds Investment Act, Chapter 2256 of the Texas Government Code, including:

- (i) obligations of the United States or its agencies or instrumentalities;
- (ii) direct obligations of the State of Texas or its agencies or instrumentalities;
- (iii) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States;
- (iv) other obligations, the principal and interest of 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 their respective agencies and instrumentalities;
- (v) 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;
- (vi) certificates of deposit issued by a state or national bank or saving and loan association or a state or federal credit union domiciled in Texas that complies with Section 2256.010 of the Texas Government Code;
- (vii) Repurchase agreements with a defined termination date that comply with Section 2256.011 of the Texas Government Code;
- (viii) Bankers' acceptances with a stated maturity of 270 days or fewer from the date of its issuance that comply with Section 2256.012 of the Texas Government Code;
- (ix) Commercial paper that has a stated maturity of 270 days or fewer from the date of its issuance that complies with Section 2256.013 of the Texas Government Code;
- (x) Money Market Mutual funds that are 1) registered and regulated by the Securities and Exchange Commission, 2) have a dollar weighted average stated maturity of 90 days or less, 3) rated AAA by at least one nationally recognized rating service, and 4) seek to maintain a net asset value of \$1.00 per share.
- (xi) Local government investment pools, which 1) meet the requirements of Chapter 2256.016 of the Public Funds Investment Act, 2) are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service, 3) seek to maintain a \$1.00 net asset value, and 4) are authorized by resolution or ordinance by the Board.

The following are not authorized investments:

- (i) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
- (ii) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;

- (iii) collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and
  - (iv) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.
- (f) Maximum Term for any Investment

The maximum term for any investment shall be 10 years.

- (g) Business Organizations Seeking to Sell Investments

This investment policy shall be presented to any person seeking to sell to the Authority an authorized investment. The qualified representative of the business organization offering to engage in an investment transaction shall execute a written instrument in a form acceptable to the Nueces River Authority substantially to the effect that the business organization has:

- (a) received and reviewed the Authority's investment policy; and
- (b) acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Authority and the organization that are not authorized by the Authority's investment policy.

(Public Funds Investment Act, Ch. 2256 Texas Government Code, as amended; Board of Directors meeting August 28, 1998.)

The Authority may not buy any security from any person who has not delivered to the Authority an instrument in substantially the form provided above.

- (h) Personal, Family and Business Relationships

An investment officer of the Authority who has a personal business relationship with an entity seeking to sell an investment to the Authority shall file a statement disclosing that personal business interest. An investment officer who is related within the second degree of affinity or consanguinity, as determined under Chapter 573, Texas Government Code, to an individual seeking to sell an investment to the Authority shall file a statement disclosing that relationship. Statements required by this section in accordance with Section 2256.005(I) of the Texas Government Code, shall file the statements with the Texas Ethics Commission and the president and secretary of the Board of Directors.

- (i) Investment Strategies

The Authority has the following broadly defined funds: a General Fund, one or more Special Revenue Funds, an Enterprise Fund, and a Capital Fund. Investments of these funds should be in accordance with this investment policy and in compliance with the Public Funds Investment Act.

#### General Fund

The General Fund requires ultimate liquidity to allow the Authority to meet its financial obligations and should be kept in demand deposits in federally insured institutions for safety of the principal. Marketability and yield are not issues with regard to these funds, however, as much of the funds as possible should be kept in interest bearing checking accounts. The Executive Director, in his preparation of the annual budget, shall determine the

amount of funds to be maintained in the Operating Fund.

#### Special Revenue Funds

Special Revenue Funds are established to manage and account for income and expenses arising from contracts in which the Authority provides services to other governmental entities toward accomplishing specific projects, such as water supply planning and water quality assessment. These funds require liquidity to allow the Authority to meet its financial obligations under each contract. These funds should be kept in demand deposits in federally insured institutions for the safety of the principal. Marketability and yield are not issues with regard to these funds, however, as much of the funds as possible should be kept in interest bearing checking accounts. The Executive Director shall be responsible for the prudent management of these funds.

#### Enterprise Fund

The Enterprise Fund is composed of all bond accounts established by bond documents with the issuance and refinancing by the Authority of water supply revenue bonds for the Choke Canyon Reservoir Project. Policy and strategy for the security and management of these funds are set forth in the bond documents and are the responsibility of the Trustee Bank.

#### Capital Fund

The Capital Fund represents the Authority's savings which generate a sizable amount of the Authority's annual operating income. The primary objective is to achieve maximum yield while investing for absolute security of principal. These funds do not require as much liquidity and may be invested for longer periods. The current strategy is to invest all Capital Funds in U. S. Treasury bills and notes. Approximately equal amounts should mature in 1, 3, 5, and 7 years, or similar staggered times subject to advice of the Authority's professional investment manager which is Herndon Plant Oakley, Ltd., Corpus Christi. This laddering of maturities tends to level out risks associated with fluctuating interest rates. All of these investments are to be held to maturity and, unless otherwise instructed by the Board of Directors, the principal is to be reinvested. Interest earned is to be deposited in the Authority's General Fund.

(H.B. 2459, Public Funds Investment Act, Chapter 2256, Texas Government Code and action of the Board of Directors meeting on March 21, 1996)

#### (j) Reports

The Investment Officer shall, at least quarterly, submit a signed report to the Board of Directors describing in detail the investment position of the Authority on the date of the report. The report shall state the book value, market value and maturity date of each separately invested asset at the beginning and end of each reporting period. The report shall state the compliance of the investment portfolio as it relates to the investment strategy expressed in the Authority's investment policy.

If the Authority invests in other than money market mutual funds, investment pools or accounts offered by its depository bank in the form of certificates of deposit, or money market accounts or similar accounts, the reports prepared by the Investment Officer shall be formally reviewed at least annually by an independent auditor, and the results of the review shall be reported to the Board of Directors by that auditor.

(Public Funds Investment Act, Ch. 2256 Texas Government Code, as amended; Board of Directors meeting August 28, 1998.)

### 11. Lending of Credit; Grants

Except to the extent allowed by Article III, Section 52, of the Texas Constitution, the Authority shall not lend its credit or grant public money or things of value in aid of, or to any individual, association or corporation whatsoever, or to become a stockholder in such corporation, association or company. (Rules of the Texas Water Commission adopted September 30, 1992)

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