



HEMPHILL COUNTY
Underground Water Conservation District
Conserving a Texas Oasis

INVESTMENT POLICY AND INVESTMENT STRATEGY STATEMENT

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**Our mission is to conserve and protect
the groundwater resources of Hemphill County,
by ensuring sustainable development through
local management and the best available science.**

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ARTICLE 1

PURPOSE AND NEED FOR POLICY

Chapter 2256 of the Government Code, as amended from time to time by the Texas State Legislature (“Public Funds Investment Act”) requires each groundwater conservation district to adopt rules governing its investment practices and to define the authority of the investment official. The Investment Policy addresses the methods, procedures and practices which must be exercised to ensure effective and prudent fiscal management of the Hemphill County Underground Water Conservation District funds.

ARTICLE II

SCOPE

The Investment Policy applies to the investment and management of all funds under direct authority of the Hemphill County Underground Water Conservation District (District).

- A. These funds are accounted for in the Districts’ Annual Financial Audit Report and include the following:
 - (1) General Fund
 - (2) Any new fund created by the District unless specifically exempted from this policy by the District or by law.

This Investment Policy shall apply to all transactions involving the financial assets and related activity of all the foregoing funds.

- B. This policy excludes:
 - 1) Employee Retirement and Pension Funds administered or sponsored by the District.
 - 2) Defeased bond funds held in trust escrow accounts.
- C. Review and Amendment
The District Board of Directors is required by state statute and this investment policy to review this investment policy and investment strategies not less than annually and to adopt a resolution or an ordinance stating the review has been completed and recording any changes made to either the policy or strategy statements.

ARTICLE III PRUDENCE

Investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. All persons involved in investment activities shall be referred to as "Investment Officials".

In determining whether an investment official has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

- (1) the investment of all funds, or funds under the entity's control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment; and
- (2) whether the investment decision was consistent with the written policy of the District.

All participants in the investment program will seek to act responsibly as custodians of the public trust. Investment officials will avoid any transaction that might impair public confidence in the District's ability to govern effectively. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism which is worthy of the public trust. Nevertheless, the District recognizes that in a marketable, diversified portfolio, occasional measured losses are inevitable and must be considered within the context of the overall portfolio's investment rate of return.

Investment officials, acting in accordance with written procedures and exercising due diligence, shall not be held personally responsible for market price changes, provided that these deviations from expectations are reported immediately to the Secretary of the District, the General Manager and the full Board of Directors of the Hemphill County UWCD, and that appropriate action is taken by the investment officials and their oversight managers to control adverse developments.

ARTICLE IV OBJECTIVES

A. Preservation of Safety of Principal

Preservation of capital is the foremost objective of the District. Each investment transaction shall seek to ensure that capital losses are avoided, whether the loss occurs from the default of a security or from erosion of market value.

B. Liquidity

The District's investment portfolio will remain sufficiently liquid to enable the District to meet all operating requirements which can be reasonably anticipated. Liquidity will be achieved by matching investment maturities with forecasted cash flow requirements and by investing in securities with active secondary markets.

C. Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above.

ARTICLE V

RESPONSIBILITY AND CONTROL

A. Delegation

Management responsibility for the operation of the investment program consistent with this investment policy has been assigned to the General Manager and shall be named the investment officer. The General Manager may delegate portions of this responsibility to the Administrative Assistant. The General Manager and the Administrative Assistant will be limited by conformance with all federal regulations, ordinances, and the statements of investment strategies. The investment authority granted to any investment official is effective until rescinded by the Board or (1) immediately upon the employee's employment termination or (2) vacating the office of Director of the Board.

B. Subordinates

All persons involved in investment activities shall be referred to as "Investment Officials". No person shall engage in an investment transaction except as provided under the terms of this policy, the procedures established by the General Manager, and the explicit authorization by the General Manager to withdraw, transfer, deposit and invest the District's funds. The District's Board of Directors, in accordance with the By-Laws, has authorized the General Manager to hire staff and conduct the affairs of the District. The General Manager will establish a system of controls to regulate the activities of subordinate Investment Officials.

C. Internal Controls

The General Manager and the Board of Directors are responsible for establishing and maintaining an internal control structure designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by investment officials. Controls deemed most important would include: control of collusion, separation of duties, third-party custodial safekeeping, avoidance of bearer-form securities, clear delegation of authority, specific limitations regarding securities losses and remedial action, written confirmation of telephone transactions, minimizing the

number of authorized investment officials, and documentation of and rationale for investment transactions.

In conjunction with the annual independent audit, a compliance audit of management controls on investment and adherence to the Investment Policy and the Investment Strategy shall be performed by the District's independent auditor.

D. Ethics and Conflicts of Interest

An investment officer of the District who has a personal business relationship with a business organization offering to engage in an investment transaction with the District shall file a statement disclosing that personal business interest. An investment officer who is related within the second degree of affinity or consanguinity to an individual seeking to sell an investment to the District shall file a statement disclosing that relationship with the Texas Ethics Commission and the District's Board of Directors. For purposes of this section, an investment officer has a personal business relationship with a business organization if:

- (1) the investment officer owns 10 percent or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;
- (2) funds received by the investment officer from the business organization exceed 10 percent of the investment officer's gross income for the previous year; or
- (3) the investment officer has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for the personal account of the investment officer.

Investment officials of the District shall refrain from personal and business activities involving any of the Districts depositories, broker/dealers or investment advisors which may influence the officer's ability to conduct his duties in an unbiased manner. Investment officials will not utilize investment advice concerning specific securities or classes of securities obtained in the transaction of the District's business for personal investment decisions, will in all respects subordinate their personal investment transactions to those of the District, particularly with regard to the timing of purchase and sales and will keep all investment advice obtained on behalf of the District and all transactions contemplated by the District confidential, except when disclosure is required by law.

E. Investment Training Requirements

The Investment Officer shall attend at least 6 hours of instruction relating to investment responsibilities under Chapter 2256, Government Code, within twelve months of the date the officer took office or assumed the officer's duties. The investment officer shall attend at least four hours of additional investment training before the end of the fiscal year following the second anniversary of the last training session the officer attended. The investment training session shall be provided by an independent source approved by the Board. For purposes of this policy, an "independent source" from which investment training shall be obtained shall include a professional organization, an institution of higher learning or any other sponsor other than a business organization

with whom the District may engage in an investment transaction. The following organizations are specifically authorized as independent sources for training:

- 1) Texas Alliance of Groundwater Districts
- 2) Texas Water Conservation Association
- 3) University of North Texas, Center for Public Management

Training under this section must include education in investment controls, security risks, strategy risks, diversification of investment portfolio, and compliance with Chapter 2256 Government Code the Texas State Public Funds Investment Act and 2257, Public Funds Collateral Act.

ARTICLE VI

AUTHORIZED INVESTMENTS

- A. Obligations, including letters of credit, of the United States or its agencies and instrumentalities.
- B. Direct obligations of the State of Texas or its agencies and instrumentalities.
- C. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the Federal Deposit Insurance Corporation, the State of Texas, the United States, or their respective instrumentalities.
- D. Obligations of states, agencies, 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.
- E. Investment pools of political subdivisions in the State of Texas which invest in instruments and follow practices allowed by current law. A 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.
- F. Interest-bearing banking deposits that are guaranteed or insured by The Federal Deposit Insurance Corporation or its successor; or the National Credit Union Share Insurance Fund or its successor.
- G. Interest-bearing banking deposits other than described in Subdivision F if:
 - (1) the funds invested in the banking deposits are invested through:
 - (a) a broker with a main office or branch office in this state that the investing entity selects from a list the governing body or designated investment committee adopt as required by Section 2256.025; or
 - (b) a depository institution with a main office or branch office in this state that the investing entity selects:

(2) the broker or depository institution selected as described by Paragraph (1) arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the investing entity's account;

(3) the full amount of principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and

(4) the investing entity appoints as the entity's custodian of the banking deposits issued for the entity's account:

- (a) the depository institution selected as described Paragraph 1;
- (b) an entity described by Section 2257.041(d) or
- (c) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3).

H. Certificates of Deposit

(1) issued by a depository institution that has its main office or branch office in Texas and such Certificates of Deposits are:

- (a) guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their successors; or
 - (b) secured by obligations described in Article VI, Section A through D above; or
- (2) where the funds are invested through a depository institution that has its main office or a branch office in Texas, or a broker that has its main office or a branch office in Texas and which has been selected from a list of brokers adopted by the District in accordance with Section 2256.25 of the Public Funds Investment Act as amended, and the depository institution or broker contractually agrees to place the funds in a federally insured depository institution or institutions in accordance with the conditions prescribed in Section 2256.010(b) of the Public Funds Investment Act as amended.

I. Fully collateralized repurchase agreements if the repurchase agreement:

- (1) has a defined termination date;
- (2) is secured by a combination of cash and obligations of the United States or its agencies and instrumentalities; and
- (3) requires the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District.

Repurchase agreements must be purchased through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in Texas. The securities received for repurchase agreements must have a market value greater than or equal to 103 percent at the time funds are distributed. All transactions shall be governed by a Master Repurchase Agreement between the District and the primary government securities dealer or financial institution initiation Repurchase Agreement transactions.

The term of any reverse security agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered. Money received under the terms

of the reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized investments acquired must mature not later than the expiration date stated in the reverse security repurchase agreement.

- J. No-load money market mutual funds if the mutual fund:
 - (1) is registered with and regulated by the Securities and Exchange Commission;
 - (2) had a dollar-weighted average stated maturity of 90 days or fewer; and
 - (3) includes in its investment objectives the maintenance of a stable net asset value of one dollar for each share.

- K. Investment instruments not authorized for purchase by the District include the following:
 - (1) Banker's Acceptances
 - (2) "Bond" Mutual Funds;
 - (3) Collateralized Mortgage Obligations of any type; and
 - (4) Commercial paper, except that the District can invest in local government investment pools and money market mutual funds that have commercial paper as authorized investments. A local government investment pool or money market mutual funds that invest in commercial paper must meet the requirement of Article VI, Sections E and H above.

- L. If an investment in the District's portfolio become an unauthorized investment due to change in the Investment Policy or the Pubic Funds Investment Act, or an authorized made investment is rated in a way that causes it to become an unauthorized investment, the investment officer of the District shall review the investment and determine whether it would be more prudent to hold the investment until its maturity, or to redeem the investment. Officials shall consider the time remaining until maturity of the investment, the quality of the investment, and the quality and amounts of any collateral which may be securing the investment in determining the appropriate steps to take

ARTICLE VII

PORTFOLIO AND INVESTMENT ASSET PARAMETERS

A. Depository

At least every five years, a Depository shall be selected through the District's banking services procurement process, which shall include a formal request for proposals (RFP). The selection of a depository will be determined by competitive bid and evaluation of bids will be based on the following selection criteria:

- The ability to qualify as a depository for public funds in accordance with state law.
- The ability to provide requested information or financial statements for the periods specified.
- The ability to meet all requirements in the bank RFP.
- Complete response to all required items on the bid form
- Lowest net banking service cost, consistent with the ability to provide an appropriate level of service.
- The credit worthiness and financial stability of the bank.
- That the firm does not boycott Israel and will not boycott Israel during the term of the contract.

B. Competitive ~~Bids~~Bids It is the policy of the District to require competitive bidding for all individual investment transactions (securities and bank C.D's) except for:

- (1) transactions with money market mutual funds and local government investment pools (which are deemed to be made at prevailing market rates); and
- (2) treasury and agency securities purchased at issue through an approved broker/dealer.

At least three bids or offers must be solicited for all other investment transactions. In a situation where the exact security being offered is not offered by other dealers, offers on the closest comparable investment may be used to establish a fair market price of the security.

C. Maximum Maturities

The District will manage its investments to meet anticipated cash flow requirements. Unless matched to a specific cash flow, the District will not directly invest in securities maturing more than five years from the date of purchase.

D. Maximum Dollar-Weighted Average Maturity

Under most market conditions, the composite portfolio will be managed to achieve a one-year or less dollar-weighted average maturity. However, under certain market conditions, investment officials may need to shorten or lengthen the average life or duration of the portfolio to protect the District. The maximum dollar-weighted average maturity based on the stated final maturity, authorized by this investment policy for the composite portfolio of the District shall be three years.

E. Diversification

The allocation of assets in the portfolios should be flexible depending upon the outlook for the economy and the securities markets. In establishing specific diversification strategies, the following general policies and constraints shall apply.

- (1) Portfolio maturities and call dates shall be staggered in a way that avoids undue concentration of assets in a specific sector. Maturities shall be selected which provide for stability of income and reasonable liquidity.
- (2) To attain sufficient liquidity, the District shall schedule the maturity of its investments to coincide with known disbursements. Risk of market price

volatility shall be controlled through maturity diversifications such that aggregate realized price losses on instruments with maturities exceeding one year shall not be greater than coupon interest and investment income received from the balance of the portfolio.

(3) The following maximum limits, by instrument are established for the Districts total portfolio:

- Interest bearing checking accounts100%
- US Treasury Notes/Bill.....100%
- U.S. government Agencies and Instrumentalities.....100%
- U.S. Treasury & U.S. Agency Callables..... 25%
- Certificates of Deposits.....100%
- Repurchase Agreements (See D.(4) below)..... 20%
- Money Market Mutual Funds (See D. (5) below).....100%
- Local Government Investment Pools (See D. (5) below.....100%
- State of Texas Obligations & Agencies.....25%
- Obligations of states, agencies, cities and other political Subdivisions of any state.....25%

(4) The District shall not invest more than 20% of the investment portfolio in repurchase agreements, excluding bond proceeds and reserves.

(5) The District shall not invest more than 15% of the investment portfolio in any individual money market mutual fund or 100% in a government investment pool.

(6) The Board of Directors shall review diversification strategies and establish or confirm guidelines on at least an annual basis regarding the percentages of the total portfolio that may be invested in securities other than U.S. Government Obligations. The Board of Directors shall review quarterly investment reports and evaluate the probability of market and default risk in various investment sectors as part of its consideration.

ARTICLE VIII
AUTHORIZED BROKER/DEALERS
AND FINANCIAL INSTITUTIONS

A. Investment officials will maintain a list of financial institutions and broker/dealers selected by credit worthiness, who are authorized to provide investment services to the District. These firms may include:

- (1) all primary government securities dealers; and
- (2) those regional brokers/dealers who qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule), and who meet other financial credit criteria standards in the industry.

The investment officials may select up to six firms from the approved list to conduct a portion of the daily District investment business. These firms will be selected based

on their competitiveness, participation in agency selling groups and the experience and background of the salesperson handling the account. The approved broker/dealer list will be reviewed and approved along with this investment policy at least annually by the board of directors.

B. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions will be asked to supply the investment officials with the following:

- (1) Audited financial statements;
- (2) Proof of National Association of Securities Dealers (N.A.S.D.) certification, unless it is a bank;
- (3) Resumes of all sales representatives who will represent the financial institution or broker/dealer firm in dealings with the District; and
- (4) An executed written instrument, by the qualified representative, in a form acceptable to the District and the business organization substantially to the effect that the business organization has received and 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 an analysis of the makeup of the District's entire portfolio or requires an interpretation of subjective investment standards.

C. All investments made by the District will be made through either the District's banking services bank, or an approved broker/dealer.

D. Securities broker/dealers must meet certain criteria as determined by the Investment Officer.

E. A written copy of the Policy shall be presented to any business organization offering to engage in an investment transaction with the District. "Business organization" means an investment pool or investment management firm under contract with the District to invest or manage the District's investment portfolio that has accepted authority granted by the District under the contract to exercise investment discretion in regard to the District's funds. Nothing in this subsection relieves the District of the responsibility for monitoring the investments made by the District to determine that they are in compliance with this Investment Policy. The qualified representative of the business organization offering to engage in an investment transaction with the District shall execute a written instrument in a form attached here as "Exhibit A", signed by a qualified representative of the business organization offering to engage in an investment transaction with the District. This certificate will document such person's receipt, review, and understanding of this Policy; will reflect that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the business organization and the District that are not authorized by the District's investment policy, as required by the Investment Act; and will reflect that the business organization has reviewed

the terms and characteristics of the investment and determined that the investment complies with the requirements of the Investment Act.

F. The Investment Officer may not acquire or otherwise obtain any authorized investment described in this policy from a business organization that has not delivered to the entity the instrument required by Subsection C.

ARTICLE IX SAFEKEEPING AND CUSTODY OF INVESTMENT ASSETS

All security transactions, including collateral for repurchase agreements entered into by the District shall be conducted using the delivery vs payment (DVP) basis. That is, funds shall not be wired or paid until verification has been made that the correct security was received by the safekeeping bank. The only exceptions to DVP settlement shall be wire transfers for money market funds and government investment pools. The safekeeping or custody bank is responsible for matching up instructions from the broker/dealer, prior to releasing the District's designated funds for a given purchase. The security shall be held in the name of the District or held on behalf of the District in a bank nominee and evidenced by safekeeping receipts or statements. The safekeeping bank's records shall assure the notation of the District's ownership of or explicit claim on the securities. A copy of all safekeeping receipts shall be delivered to the District. A safekeeping agreement must be in place which clearly defines the responsibilities of the safekeeping bank.

ARTICLE X COLLATERAL

The District's depository bank shall comply with Chapter 2257 of the Government Code, Collateral for Public Funds, as required in the Banks depository contract.

A. Market Value

The Market Value of pledged Collateral must be equal to or greater than 102% of the principal and accrued interest for cash balances in excess of the Federal Deposit Insurance Corporation (FDIC) or National Credit Union Share Insurance Fund (NCUSIF) insurance coverage. The Federal Reserve Bank and the Federal Home Loan Bank are designated as custodial agents for collateral. The securities comprising the collateral will be marked to market on a monthly basis using quotes by a recognized market pricing service quoted on the valuation date, and the District will be sent reports monthly.

B. Collateral Substitution

Collateralized investments often require substitution of collateral. The substitution will be approved if its value is equal to or greater than the required collateral value.

C. Collateral Reduction

Should the collateral's market value exceed the required amount, the Safekeeping Bank may request approval from the District to reduce Collateral. Collateral reductions may be permitted only if the collateral's market value exceeds the required amount.

D. Collateral Defined

The District 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, or other political subdivision of any state rated as to investment quality by a nationally recognized rating firm not less than A or the equivalent with a remaining maturity of (10) years or less.
- A surety bond issued by an insurance company rates as to investment quality by a nationally recognized rating firm not less than A.
- A irrevocable Letter of Credit issued to the District by the Federal Home Loan Bank

ARTICLE XI INVESTMENT REPORTS

A. Reporting Requirements

The Investment Officer shall prepare a quarterly investment report in compliance with section 2256.023 of the Public Funds Investment Act of the State of Texas. The report shall be submitted to the Board of Directors within 60 days following the end of the quarter.

B. Investment Records

The Investment Officer shall be responsible for the recording of investment transactions and the maintenance of the investment records with reconciliation of the accounting records and of investments carried out ~~by~~by a broker.

Information to maintain the investment program and the reporting requirements, including pricing or marking to market the portfolio, may be derived from various sources such as: broker/dealer research reports, newspapers, financial on-line market quotes, direct communication with broker/dealers, market pricing services, investment software for maintenance of portfolio records, spreadsheet software, or external financial consulting services relating to investments.

C. Auditor Review

The District's independent external auditor must formally review the quarterly investment reports annually to ensure compliance with the State of Texas Public Funds Investment Act and any other applicable State Statutes.

ARTICLE XII

INVESTMENT STRATEGY STATEMENTS

The Hemphill County Underground Water Conservation District maintains a conservative investment portfolio that utilizes specific investment strategy considerations designed to address the unique characteristics of the fund groups represented in the portfolio. While it is recognized that at this time the District has only the General Operating Funds, the Board of Directors felt it prudent to establish appropriate guidelines and procedures to accommodate any future demands.

A. Operating Funds

Suitability – All investments authorized in the Investment Policy are suitable for Operating Funds.

Preservation and Safety of Principal – All investments shall be high quality securities with no perceived default risk.

Liquidity – Investment strategies for the pooled operating funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The dollar-weighted average maturity of operating funds, based on the stated final maturity date of each security, will be calculated and limited to one year or less. Constant \$1 NAV investment pools, certificates of deposits and money market mutual funds shall be an integral component in maintaining daily liquidity. Investments for these funds shall not exceed an 18-month period from date of purchase.

Marketability – Securities with active and efficient secondary markets will be purchased in the event of an unanticipated cash requirement.

Diversification – Maturities shall be staggered throughout the budget cycle to provide cash flows based on anticipated needs. Investment risks will be reduced through diversification among authorized investments.

Yield – The District’s objective is to maintain a competitive market yield for comparable securities and portfolio constraints. The benchmark for Operating Funds will be the 3 month Treasury bill.

B. Reserve and Deposit Funds

Suitability – All investments authorized in the Investment Policy are suitable for Reserve and Deposit Funds.

Preservation and Safety of Principal – All investments shall be high quality securities with no perceived default risk.

Liquidity – Investment strategies for reserve and deposit funds shall have as the primary objective the ability to generate a dependable revenue stream to the appropriate reserve funds from investments with a low degree of volatility. Except as may be required by the bond ordinance specific to an individual issue; investments should be of high quality, with short to intermediate term maturities. The dollar-weighted average maturity of reserve and deposit funds, based on the stated final maturity date of each security, will be calculated and limited to three years or less.

Marketability – Securities with active and efficient secondary markets will be purchased in the event of an unanticipated cash requirement.

Diversification – Maturities shall be staggered throughout the budget cycle to provide cash flows based on anticipated needs. Investment risks will be reduced through diversification among authorized investments.

Yield – The District’s objective to attain a competitive market yield for comparable securities and portfolio constraints. The benchmark for Reserve and Deposit Funds will be the 3 month Treasury bill.

C. Bond and Certificate Capital Project Funds and Special Purpose Funds

Suitability – All investments authorized in the Investment Policy are suitable for Bond and Certificate Capital Project Funds and Special Purpose Funds.

Preservation and Safety of Principal – All investments shall be high quality securities with no perceived default risk.

Liquidity – Investment strategies for bond and certificate capital project funds, special projects and special purpose funds’ portfolios have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The stated final maturity dates of investments held should not exceed the estimated project completion date or a maturity of no greater than five years. The dollar-weighted average maturity of bond and certificate capital project funds and special purpose funds, based on the stated final maturity date of each security, will be calculated and limited to three years or less.

Marketability – Securities with active and efficient secondary markets will be purchased in the event of an unanticipated cash requirement.

Diversification – Maturities shall be staggered throughout the budget cycle to provide cash flows based on anticipated needs. Investment risks will be reduced through diversification among authorized investments.

Yield – The District’s objective is to attain a competitive market yield for comparable securities and portfolio constraints. The benchmark for Bond and Certificate Capital Project Funds and Special Purpose Funds shall be the 3 month Treasury bill. ~~A secondary objective of these funds is to achieve a yield equal to or greater than the arbitrage yield of the applicable bond or certificate.~~

D. Debt Service Funds

Suitability – All investments authorized in the Investment Policy are suitable for Debt Service Funds.

Preservation and Safety of Principal – All investments shall be high quality securities with no perceived default risk.

Liquidity – Investment strategies for debt service funds shall have as the primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date. Securities purchased shall not have a stated final maturity date which exceeds the debt service payment date. The dollar-weighted average maturity of debt service funds, based on the stated final maturity dated of each security, will be calculated and limited to one year or less.

Marketability – Securities with active and efficient secondary markets will be purchased in the event of an unanticipated cash requirement.

Diversification – Maturities shall be staggered throughout the budget cycle to provide cash flows based on anticipated needs. Investment risks will be reduced through diversification among authorized investments.

Yield – The District’s objective is to attain a competitive market yield for comparable securities and portfolio constraints. The benchmark for Debt Service Funds shall be the 3 month Treasury bill.

Exhibit A

CERTIFICATION PURSUANT TO THE PUBLIC FUNDS INVESTMENT ACT,
CHAPTER 2256, TEXAS GOVERNMENT CODE

I hereby certify that I have received and thoroughly reviewed the investment policy of Hemphill County Underground Water Conservation District (“District”) and have implemented reasonable procedures and controls designed to preclude imprudent investment activities arising out of investment transactions conducted between this firm and the District. Transactions between this firm and the District will be directed towards protecting the District from credit or market risk.

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 _____, 20__ (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.

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

8. All the sales personnel of this Business Organization dealing with the District's account have been informed and will be routinely informed of the District's investment horizons, limitations, strategy and risk constraints, whenever we are so informed.

9. This Business Organization pledges due diligence in informing the District through its duly appointed Investment Officer(s) of foreseeable risks associated with financial transactions connected to this firm.

10. This Business Organization does not boycott the State of Israel and will not boycott the State of Israel during the term of this contract. (Excludes sole proprietorships and companies fewer than 10 employees.)

Business Organization, Financial Institution, or Investment Pool:

(Firm)

(Signature of Registered Principal)

(Name)

(Title)

(Date)

Hemphill County Underground Water Conservation District:

(Signature of Investment Official)

(Printed Name)



HEMPHILL COUNTY
Underground Water Conservation District
Conserving a Texas Oasis

BROKERS' LIST
(Adopted August 25, 2022)

The District will consider brokers authorized to provide investment services to the District who are either primary government securities dealers or regional brokers/dealers who qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule), and who meet other financial credit criteria standards in the industry.

The brokers will be considered based on their credit worthiness, competitiveness, participation in agency selling groups and the experience and background of the salespersons who would handle the District's account.

In order to be considered, the brokers will be required to supply the following:

- (1) Audited financial statements;
- (2) Proof of National Association of Securities Dealers (N.A.S.D.) certification, unless it is a bank;
- (3) Resumes of all sales representatives who will represent the financial institution or broker/dealer firm in dealings with the District; and
- (4) An executed written instrument, by the qualified representative, in a form acceptable to the District and the business organization substantially to the effect that the business organization has received and 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 an analysis of the makeup of the District's entire portfolio or requires an interpretation of subjective investment standards.

The District has thus far, been unable to identify any brokers who meet the criteria for selection.

APPROVED FINANCIAL INSTITUTION'S LIST

InterBank
Canadian, Texas

Happy State Bank
Canadian, Texas

Wellington State Bank
Canadian, Texas