FALLS COUNTY EMERGENCY SERVICE DISTRICT #1

INVESTMENT AND BANKING POLICY

1. Scope

The investment policy of FALLS COUNTY EMERGENCY SERVICE DISTRICT #1 (FCESD#1) applies to all cash and investment of the District unless specifically restricted by Federal, State or local regulations. These funds are accounted for in the District's Comprehensive Annual Financial Report.

2. Statutory Guidelines

The Texas Public Funds Investment Act of 1987, as amended, codified as Chapter 2257 of the Texas Government Code, defines the legal investment options of Texas municipalities and requires each District to have a written investment policy. This document is that Investment Policy for FCESD#1.

The Texas Public Funds Collateral Act, as amended, codified at Chapter 2257 of the Texas Government Code, authorizes the creation of public funds investment pools and establishes criteria for allowable investments and collateral. Section 2256.005 of the Texas Government Code requires the District to adopt a separate written investment strategy for each of the funds under the District's control.

Each investment and/or banking strategy will be provided to the Investment Committee and must describe the investment objectives for the particular fund using the following priorities in order of importance:

- The suitability of the investment to the financial requirements of the District;
- Preservation and safety of principal;
- Liquidity;
- Marketability of the investment if there is a need to liquidate before maturity;
- Diversification of the investment portfolio, and;
- Yield.

3. Investment Objectives

Investment transactions of the FCESD#1 shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering preservation of capital and liquidity as well as the probable income to be derived.

The standard of prudence to be used by Board of Commissioners shall be the "prudent person" standard whereby officials exercising due diligence and acting in full compliance with the investment policy and written procedures shall be personally indemnified for an individual security's credit risk or market price changes. In determining whether the investment officials have 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 District's control, over which the Investment committee had responsibility rather than the consideration of a single investment, and (2) whether the investment decision was consistent with the written investment policy of the District.

3.1. Safety

Safety of principal is the foremost objective of the investment and banking program. Investments of the FCESD#1 shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

3.2. Liquidity

The FCESD#1's investment portfolio will remain sufficiently liquid to enable the District to meet all operating and capital expense which might be reasonably anticipated.

3.3. Yield

FCESD#1 's investment portfolio shall be designed with the objective of attaining the maximum possible rate of return throughout budgetary and economic cycles, taking into account the necessary investment risk associated with the protection of capital required by law, and while providing a desired maturity schedule and level of liquidity to meet the cash flow needs of the District.

4. Delegation Of Authority

4.1. Board Of Commissioners

The Board of Commissioners shall be responsible for the investment of the District's funds. The Board of Commissioners may deposit, withdraw, invest, transfer and manage the District's funds consistent with the provisions of this Investment Policy.

The Board of Commissioners shall maintain written records in compliance with the Texas Open Records Act.

The Board of Commissioners will develop, review and revise the investment strategy of the District.

The Board of Commissioners will establish parameters for the investment process to be used as guidelines to carry out investment transactions for the District.

The Board of Commissioners is responsible for reviewing and approving broker/dealer relationships.

4.2. Investment Coordinator

An Investment Coordinator, appointed by the Board of Commissioners, is responsible for carrying out the decisions of the Board of Commissioners and performing various ministerial duties assigned by the Board of Commissioners from time to time.

Written procedures consistent with the investment policy including explicit delegation of authority to persons responsible for investment transactions are established and monitored by the Board of Commissioners. The Investment Coordinator is required to disclose whether he/she is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the District.

The Investment Coordinator shall attend at least one training session relating to the person's responsibilities as a member of the Investment Committee within twelve months after taking office or assuming duties in accordance with the provisions of 2256.008 of the Texas Government Code.

5. Standard Of Ethics And Conflicts Of Interest

The Board of Commissioners members and employees of the District involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

Employees of the District and Board of Commissioners members shall disclose to the District any material financial interest in financial institutions that conduct business with the District, and they shall further disclose any large personal financial or investment positions greater that two thousand dollars ($2,000) that could be related to the performance of the District's investment portfolio.

The Board of Commissioners shall subordinate their personal regard to the timing of purchases and sales.

Board of Commissioner members who have a personal business relationship with an entity seeking to sell an investment to the District shall file a statement with the District disclosing that personal business interest.

Board of Commissioners members related within the second degree by affinity or consanguinity as determined by chapter 573 of the Texas Government Code, to an individual seeking to sell an investment to the District shall file a statement with the District and the Texas Ethics Commission disclosing the relationship.

6. Authorized Securities Dealers And Financial Institutions

The Board of Commissioners will maintain a list of financial institutions authorized to provide investment service to and on behalf of the District. No deposit of District monies shall be made except in a qualified public depository as established by State laws. As of July 21, 2020, those institutions are:

- Citizens State Bank - Marlin, Texas
    - General operating account for the District
- TexPool Local Government Investment Pool
    - Public Funds depository and investment account for the district
- TexasCLASS Texas Cooperative Liquid Assets Security System Trust
    - Public Funds Reserve depository and investment account for the district

Other business organizations and security brokers/dealers may be approved by the Board of Commissioners. A list of approved businesses will be maintained and reviewed by the Investment Committee who will revise the list as necessary. Securities dealers may include primary dealers, (designated dealers of the Federal Reserve Bank of New York), or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1.

A written copy of this Investment Policy shall be presented to any person seeking to sell to the District an authorized investment.

The registered principal of the business organization seeking to sell an authorized investment shall sign a written statement which states as follows: He/she has received and thoroughly reviewed the Investment Policy of FCESD#1.

He/she acknowledges that his/her organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between his/her organization and FCESD#1.

The Board of Commissioners shall not buy any securities from a person who has not delivered to the district the foregoing statement.

7. Authorized And Suitable Investments

According to the Public Fund Investment Act of 1987, as amended, and the Public Funds Collateral Act, as amended, the legal investment options of FCESD#1 include:

- 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;
- 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;
- Obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or it's equivalent;
- Certificates of Deposit issued by Texas chartered banks and credit unions domiciled in this state which are either insured by the Federal Deposit Insurance Corporation or secured by legal collateral as defined in the Public Funds Collateral Act;
- Repurchase agreements which are full collateralized, and which meet the requirements of 2256.011 of the Texas Government Code;
- Prime Domestic Bankers' Acceptances, subject to limitations of 2256.012 of the Texas Government Code;
- Commercial paper, subject to limitations of 2256.013 of the Texas Government Code;
- Money-market mutual funds, subject to limitations of 2256.014 of the Texas Government Code;
- Public funds investment pools, subject tot he limitations of 2256.016 through 2256.024 of the Texas Government Code;
- Guaranteed Investment Contracts, subject to the limitations of 2256.015of the Texas Government Code.

No security with a stated final maturity exceeding two years will be purchased.

For pooled investment groups, no security of a maximum dollar-weighted average maturity of greater than 80 days will be purchased.

8. Collateralization

Collateralization is required on repurchase agreements, certificates of deposit, and demand deposit accounts in excess of FDIC coverage.

Collateral must be that of securities authorized by State statutes for outright purchase by the District at a minimum market value equal to the purchase price, except that collateral will always be held in a safekeeping or trust account on the District's behalf by an independent third party with whom the District has a current custodial agreement.

A safekeeping receipt showing evidence of collateral ownership must be supplied to and retained by the District.

Collateral may be requested, substituted, or released with oral authorization followed by written confirmation of the Investment Committee.

9. Safekeeping And Custody

All securities, including collateral for repurchase agreements, shall be purchased on a deliver-versus-payment (DIP) basis through a third-party safekeeping/custody account.

The District will authorize the simultaneous release of its funds by the custodial agent to the broker/dealer after securities matching those described for purchase by the District have been delivered by the broker/dealer to the District's safekeeping account through the custodial agent.

The custodial agent shall forward the original safekeeping receipt/confirmation to the District.

10. Diversification

Diversification of investments as to investment type, issuer, institution and maturity serve to reduce overall portfolio risk while attaining market average rates of return.

The District recognizes that in a diversified portfolio, occasional unrealized market losses are inevitable and must be considered within context of the overall portfolio's return and current market conditions.

11. Internal Control

The Board of Commissioners shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

The external auditor shall perform a compliance audit of management controls on investments and adherence to the District's established investment policies.

12. Performance Standards

The District's primary investment strategy is passive. To protect the portfolio from imprudent trading, normally a security should not be sold until such time as the current market value of the security is at least equal to the purchase price of the security plus accrued interest. However, should holding the security to maturity adversely affect the financial position of the District, the Investment Committee may authorize sale of the security.

In general, the performance of the investment portfolio is based on the goal to purchase securities with rates of return equal to or greater than US Treasury obligations with like maturities.

13. Reporting

The Investment Committee shall provide to the District a performance report/analysis on a quarterly basis summarizing the performance of investments held by the District's funds.

In addition, a detailed listing of all investments held by the District stating the type of instrument, principal amount, interest rate, broker/dealer purchased from, purchase date and maturity date of each shall be provided at least 72 hours before the publicly posted meeting date.

The report must provide the following:

- Describe in detail the investment position of the District on the date of the report.
- Be prepared jointly by all the Investment Committee members;
- Be signed by each Investment Committee member;
- Contain a summary statement of each pooled fund group that states the beginning market value for the reporting period, additions and changes to the market value during the period, and ending market value for the period;

- State the book value and 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;
- State the maturity date of each separately invested asset that has a maturity date;
- State the account or fund or pooled group fund in the state agency or local government for which each individual investment was acquired, and
- State the compliance of the investment portfolio of the District as it relates to:
    - the investment strategy expressed in the District's investment policy, and;
    - relevant provisions of Chapter 2256 of the Texas Government Code.

14. Investment Policy Adoption And Review

The District's investment policy shall be adopted by resolution of the Board of Commissioners. This policy shall be reviewed annually with the auditor under contract to the District at that time, and may be amended by the District as recommended by the Board of Commissioners or as State law may require.

The Board of Commissioners will review the investment policy annually, or as needed due to changes in State law, and shall make revisions as necessary.

15. Investment Committee

The Investment Committee shall be comprised of all of the members of the Board of Commissioners.

16. Fund Investment Strategy

The Fund Strategy documents are attached to this Investment Policy document.

17. General Operating Account

The purpose of the Falls County ESD 1 General Operating Account (checking account) shall be to fund ongoing operations of the District and to pay monthly operational expenses.

The General Operating Account shall be funded monthly from the Public Funds Account in accordance with the Public Funds Investment Strategy.

The General Operating Account shall not contain more funds than are necessary to pay one months operational expenses.

FALLS COUNTY EMERGENCY SERVICE DISTRICT #1

Public Funds Investment Strategy

1. Selection of Investments

Available funds held by FALLS COUNTY EMERGENCY SERVICE DISTRICT #1 (FCESD#1) shall be invested in an investment pool authorized to manage funds held by ESD entities. The objective of these investments is to maximize income while maintaining an extremely high level of security in order to protect the assets of the District. These funds shall be invested in the TexPool investment pool.

2. Received Funds

All funds received by the District shall be deposited directly into the in the TexPool Falls County ESD 1 Public Funds Account.

3. Disbursement of Funds

As needed for short-term disbursement needs, typically monthly, funds shall be transferred from this account to the District's bank general operating account.

Funds shall be disbursed from the bank checking account to creditors.

No funds will be disbursed from the investment account directly to creditors.

4. Reporting

A report of all fund activity shall be made to the Board Of Commissioners at the monthly meetings

FALLS COUNTY EMERGENCY SERVICE DISTRICT #1

Public Funds Reserve Investment Strategy

1. Investment Objective

As authorized by the Board of Commissioners to meet long-term strategic objectives, a Public Funds Reserve account shall be established. The Public Funds Reserve Account shall be invested in an investment pool authorized to manage funds held by ESD entities. The objective of these investments is to maximize income while maintaining an extremely high level of security in order to protect the assets of the District.

These funds shall be invested in the TexasCLASS investment pool.

2. Transfers Into The Fund

Funds may be transferred into the TexasCLASS Fall County ESD 1 Public Funds Reserve Account only from the TexPool Public Funds Account. Each transaction shall be specifically authorized by the Board Of Commissioners.

3. Disbursement of Funds

Funds may be transferred from the Public Funds Reserve account only into the Public Funds account. Each transaction shall be specifically authorized by the Board Of Commissioners.

4. Reporting

A report of all fund activity shall be made to the Board Of Commissioners at the monthly board meetings