

## RESOLUTION NO. 2020-08R

A RESOLUTION OF THE BOARD OF DIRECTORS OF WYLIE NORTHEAST SPECIAL UTILITY DISTRICT, COLLIN COUNTY, TEXAS, ADOPTING THE WYLIE NORTHEAST SPECIAL UTILITY DISTRICT BANKING AND INVESTMENT POLICY ATTACHED AS EXHIBIT "A"; DECLARING THAT THE BOARD OF DIRECTORS HAS COMPLETED ITS ANNUAL REVIEW OF THE INVESTMENT POLICY AND INVESTMENT STRATEGIES OF THE DISTRICT AND THAT EXHIBIT "A" RECORDS ANY CHANGES TO EITHER THE INVESTMENT POLICY OR INVESTMENT STRATEGIES; PROVIDING FOR A REPEALING CLAUSE; PROVIDING FOR A SEVERABILITY CLAUSE; AND PROVIDING FOR AN EFFECTIVE DATE.

WHEREAS, the Wylie Northeast Special Utility District (the "District") is a political subdivision of the State of Texas created under authority of Section 59, Article XVI, Texas Constitution, and operating pursuant to Chapters 49 and 65 of the Texas Water Code;

WHEREAS, in accordance with the Public Funds Investment Act, Chapter 2256, Texas Government Code, and Section 49.199, Texas Water Code, the Board of Directors of the District adopted investment policies and investment strategies (the "Investment Policy") regulating the investment of District funds and providing for appointment of one or more investment officers responsible for investing District funds in a manner consistent with said Investment Policy; and

WHEREAS, the Board of Directors of the District has completed its annual review of the Investment Policy and any changes to either the investment policies or investment strategies of the District are recorded in the attached Exhibit "A" as required by Section 2256.005, Texas Government Code.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF WYLIE NORTHEAST SPECIAL UTILITY DISTRICT THAT:

SECTION 1. The Wylie Northeast Special Utility District Banking and Investment Policy attached hereto as Exhibit "A" is hereby approved and adopted by the Board of Directors as the investment policy and investment strategies of the District.

SECTION 2. Resolution No. 2019-05R is hereby repealed. All resolutions and provisions of resolutions of the District in conflict with the provisions of this Resolution be, and the same are hereby, repealed, and all resolutions and provisions of resolutions of the District not in conflict with the provisions of this Resolution shall remain in full force and effect.

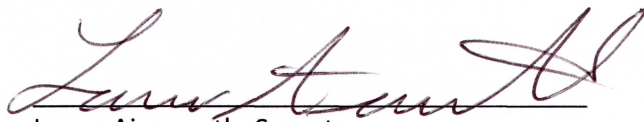
SECTION 3. Should any word, sentence, paragraph, subdivision, clause, phrase or section of this Resolution be adjudged or held to be void or unconstitutional, the same shall not affect the validity of the remaining portions of this Resolution which shall remain in full force and effect.

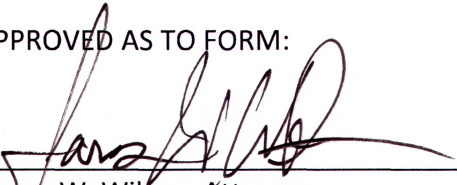
SECTION 4. This Resolution shall become effective immediately from and after its adoption by the Board of Directors.

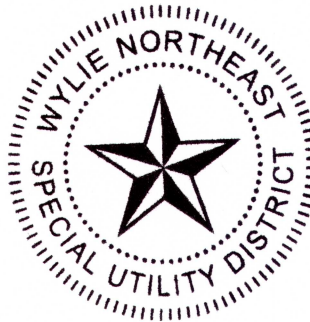
PASSED and ADOPTED on this the 27<sup>th</sup> day of July, 2020, by the Board of Directors of Wylie Northeast Special Utility District.

  
Jimmy C. Beach, President

ATTEST:

  
Lance Ainsworth, Secretary  
or Amanda Horst, Assistant Secretary

APPROVED AS TO FORM:  
  
James W. Wilson, Attorney



## Exhibit "A"

### Wylie Northeast Special Utility District Banking and Investment Policy

*(12 pages)*

## **WYLIE NORTHEAST SPECIAL UTILITY DISTRICT**

### **BANKING AND INVESTMENT POLICY**

This document sets forth the banking and investment policies for public funds of the Wylie Northeast Special Utility District, Collin County, Texas, a political subdivision of the State of Texas created under the authority of Section 59, Article XVI, Texas Constitution, and operating in accordance with Chapters 49 and 65 of the Texas Water Code (hereinafter referred to as the "Investment Policy").

**SECTION 1. ENACTMENT.** The banking and investment policies contained in this Investment Policy were approved and adopted by the board of directors of Wylie Northeast Special Utility District (the "District") by the passage of Resolution No. 2020-08R on July 27, 2020, to supersede and replace all prior versions of the Investment Policy of the District in their entirety.

**SECTION 2. COMPLIANCE WITH STATE LAW.** It is the intent of the District to comply with the Texas Public Funds Investment Act, Chapter 2256 of the Texas Government Code (the "Investment Act", and the Texas Public Funds Collateral Act, Chapter 2257 of the Texas Government Code (the "Collateral Act"). Terms and provisions of the Investment Act and the Collateral Act shall supersede in the event of a direct conflict with any term or provision of this Investment Policy. Earnings from invested public funds will be used in a manner that best serves the public trust and interests of the District.

**SECTION 3. POLICY STATEMENT.** It is the policy of District that the administration and investment of public funds shall be handled as the District's highest public trust. Investments shall be made in a manner which will provide the maximum security of principal invested through limitations and diversification while meeting the daily cash flow needs of the District and conforming to all applicable state statutes and District policies governing the investment of public funds. The receipt of a market rate of return will be secondary to the requirements for safety and liquidity.

**SECTION 4. SCOPE.** This Investment Policy governs the investment and management of all funds under direct authority of the District. The District commingles its funds into one investment portfolio for investment purposes of efficiency and maximum investment opportunity. Any new operating or bond funds created by the District will be managed under the provisions of this Investment Policy unless specifically exempted by the board or by state or federal law or regulations.

**SECTION 5. OBJECTIVES AND STRATEGY.**

(a) It is District policy that all funds shall be managed and invested with four primary objectives, listed in order of their priority: safety, liquidity, diversification and yield. These objectives encompass the following:

(1) Safety of Principal. Safety of principal is the foremost objective of the District. Investments shall be undertaken in a manner that seeks to insure the preservation of capital in the overall portfolio. The suitability of each investment decision will be made on the basis of safety.

(2) Liquidity. The District's investment portfolio will remain sufficiently liquid to enable it to meet all operating requirements which might be reasonably anticipated. Investment decisions will be based on cash flow analysis of anticipated expenditures.

(3) Diversification. Diversification is required in the investment portfolio's composition. Diversification of the portfolio will include diversification by maturity and market sector and will include the use of a number of broker/dealers or banks for diversification and market coverage. Competitive bidding will be used on each sale or purchase.

(4) Yield. The District's investment portfolio shall be designed with the objective of attaining a reasonable market yield, taking into account the District's risk constraints and cash flow needs. A reasonable market yield for the portfolio will be defined as the six month (180 day) U.S. Treasury Bill which compares to the portfolio's maximum weighted average maturity of six months.

(b) The authorized investment purchased will be of the highest credit quality and marketability supporting the objectives of safety and liquidity. Securities, when not matched to a specific liability, will be short term to provide adequate liquidity. The District's investment portfolio shall be diversified to protect against market and credit risk in any one sector.

(c) The maximum weighted average maturity of the District's investment portfolio will be no more than 180 days and the maximum stated maturity of any security will not exceed two years. The funds are combined for investment purposes but the unique needs of all the funds in the portfolio are recognized and represented.

(d) Effective cash management is recognized as essential to good fiscal management. Cash management is defined as the process of managing monies in order to ensure maximum cash availability. The District shall maintain a cash management program which includes timely collection of accounts receivable, prudent investment, disbursement of payments within invoice terms and the management of banking services.

**SECTION 6. LEGAL LIMITATIONS, RESPONSIBILITIES AND AUTHORITY.** The Investment Act imposes specific investment parameters for the investment of public funds in Texas. The Collateral Act specifies collateral requirements for all public funds deposits. The Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, authorizes local governments in Texas to participate in a Texas investment pool established thereunder. To the extent permitted and in accordance

with the Interlocal Cooperation Act, public funds of the District may be invested in authorized Texas investment pools.

**SECTION 7. Delegation of Investment Authority.**

(a) Designation of Investment Officer. The board of directors of the District shall designate an Investment Officer responsible for the investment of District funds consistent with this Investment Policy. The board of directors is responsible for considering the quality and capability of staff, investment advisors, and consultants involved in investment management and procedures. All participants in the investment process shall seek to act responsibly as custodians of the public trust.

(b) Procedures. The Investment Officer shall develop and maintain written administrative procedures for the operation of the investment program which are consistent with this Investment Policy. Procedures will include safekeeping, wire transfers, banking services contracts, and other investment related activities.

(c) Responsibilities.

(1) The Investment Officer shall be responsible for all investment transactions undertaken for and by the District and shall establish a system of controls to regulate the activities of subordinate officials and staff to accomplish the purposes of this Investment Policy.

(2) The Investment Officer shall designate a staff person as a liaison/deputy in the event circumstances require timely action and the Investment Officer is not available.

(3) No officer or designee may engage in an investment transaction except as provided under the terms of this Investment Policy and the procedures established by the Investment Officer.

(d) Biennial Investment Training. The Investment Officer will attend an investment training session not less than once in a two-year period that begins on the first day of the District's fiscal year and consists of the two consecutive fiscal years after that date. The Investment Officer may attend any investment training course that complies with the training requirements of the Investment Act.

**SECTION 8. PRUDENCE.**

(a) Prudent Person Standard. The standard of prudence to be used in the investment function shall be the "prudent person" standard and shall be applied in the context of managing the overall portfolio. This standard states:

"Investments shall be made with judgement 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 the probable safety of their capital as well as the expected income to be derived."

(b) Limitation of Personal Liability. The Investment Officer and those delegated investment authority, when acting in accordance with the written procedures and this Investment Policy and in accord with the prudent person standard, shall be relieved of personal liability in the management of the portfolio provided that deviations from expectations for a specific security's credit risk or market price change are reported in a timely manner and that appropriate action is taken to control adverse market effects.

**SECTION 9. Internal Controls.**

(a) Establishment and Annual Review. The Investment Officer, in consultation with the General Manager, Office Manager and District auditor, will from time-to-time recommend internal control policies designed to protect District funds from loss, theft or misuse for consideration and adoption by the board of directors. The internal control policies of the District shall be designed to provide reasonable assurance that the foregoing objectives will be satisfied. The concept of "reasonable assurance" recognizes that (i) the cost of a control should not exceed the benefits likely to be derived and (ii) the valuation of costs and benefits requires the Investment Officer to make discretionary estimates and judgments. Accordingly, the Investment Officer shall submit the District's internal control policies and procedures to an independent, external auditor for annual review and a determination that the internal controls provide reasonable assurance against the loss, theft or misuse of District funds. Said review of internal controls may be performed in conjunction with the District's annual audit. The auditor's written findings and final determination shall be submitted to the board. The internal controls shall, at a minimum, address the following points:

- (1) Control of collusion;
- (2) Keeping investment transaction authority separate from accounting and record keeping;
- (3) Custodial safekeeping;
- (4) Avoidance of physical delivery of securities;
- (5) Clear delegation of authority to subordinate staff members;
- (6) Written confirmation for telephone transactions for investments and wire transfers;

(7) Development of a wire transfer agreement, signature agreement, collateralization agreements, and other agreements with the District's authorized depository banks or third party custodians as necessary to protect District funds in accordance with District internal controls.

(b) Procedures and Enforcement. The Investment Officer, in consultation with the General Manager, Office Manager and District auditor, may from time-to-time establish or approve of procedures when necessary to implement internal control policies adopted by the board. Internal control procedures established by the Investment Officer shall be reported to the board. The General Manager and Office Manager shall implement and enforce the internal control policies of the District as is appropriate to their respective job responsibilities and managerial duties, except when enforcement is expressly delegated to a particular person.

(c) Cash Flow Forecasting. Cash flow forecasting is designed to protect and sustain cash flow requirements. The Investment Officer will maintain a cash flow forecasting process designed to monitor and forecast cash positions for investment purposes. Cash flow will include researching and monitoring of specific cash flow items, payables, and receivables as well as overall cash position and patterns.

(d) Signature Stamps Prohibited. Use of a signature stamp in lieu of the written signature of an authorized signatory to issue or endorse District checks, or for any other purpose under this Investment Policy, is expressly prohibited.

(e) Segregation of Account Duties. The District shall segregate the duty to enter accounts payable and prepare checks or online payments from the duty to reconcile the District's bank statements.

(f) Duplicate Statements. District depositories and financial institutions must issue duplicate statements for District accounts and mail one duplicate to the Office Manager of the District and mail the other duplicate to the auditor of the District.

(g) Accounts Payable Subsidiary Ledger. All vendor invoices shall be entered into the accounts payable subsidiary ledger before checks are issued to pay said invoices. This policy does not apply to loan payments.

(h) District Credit Card Use Requirements and Procedures.

(1) Use of District credit cards to pay monthly vendor invoices is prohibited. The District may furnish credit cards to non-managerial employees with limits not to exceed \$500.00 for use by employees to purchase repair supplies after hours or to pay for one-time or unforeseen expenses. During regular business hours, employees must attempt to obtain advance authorization to use District credit cards from the General Manager or Office Manager. Every use of a District credit



card must be accompanied by a vender invoice and/or receipt, as appropriate, and the same shall be filed according to the vendor not payment method.

(2) The District employee charged with preparing vendor invoices for payments of credit card bills shall require a receipt for every use of a District credit card that has been initialed by the person that made the purchase with an explanation as to why the purchase was made.

(i) Purchase Orders Required. A purchase order shall be required for the purchase of District supplies, repair services, office equipment, small tools, and other goods and services. Purchase orders should generally state a description of the goods and/or services being purchased, the approximate cost, a location if the purchase is for repair services, and state why the goods and/or services are needed. Purchase orders should be approved by the Office Manager except purchase orders for an amount in excess of \$1,000.00 shall be approved by the General Manager.

(j) Accounting Software. The District keeps computerized accounting records using QuickBooks software. Access to the QuickBooks accounting software shall be limited to the Office Manager of the District except when QuickBooks access is required by the auditor, General Manager or Board Secretary to verify account status. This policy is intended to prevent a person from writing a District check and then subsequently changing the payee's name, transaction date, or the account to which the transaction was charged in order to conceal the identity of the true payee.

**SECTION 10. AUTHORIZED INVESTMENTS.**

(a) Acceptable investments for District funds under this Investment Policy shall be limited to the following instruments as authorized by the Investment Act:

(1) Obligations, including letters of credit, of the United States or its agencies and instrumentalities with stated maturity not to exceed two years.

(2) Direct obligations of the State of Texas or its agencies with a stated maturity not to exceed two years.

(3) Certificates of deposit issued by state and national banks domiciled in Texas that are:

(A) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor with a stated maturity not to exceed two years; or

(B) secured by obligations that are described by Section 2256.009(a) of the Texas Government Code, including mortgage backed securities directly issued by a federal agency or instrumentality that have

a market value of not less than the principal amount of the certificates and a stated maturity not to exceed two years, but excluding those mortgage backed securities of the nature described by Section 2256.009(b); or

(C) secured in any other manner and amount provided by law for deposits of political subdivisions created under the authority of Section 59, Article XVI, Texas Constitution, with a stated maturity not to exceed two years.

(4) Certificates of deposit issued by state and national banks domiciled in Texas that are made in accordance with Section 2256.010(b) of the Texas Government Code.

(5) No-load money market mutual funds that are registered with the Securities and Exchange Commission, and no-load mutual funds which are rated AAA by at least one nationally recognized rating service and follow practices authorized by the Public Funds Investment Act, are authorized investments per the Act, if:

(A) the no-load money market mutual fund has a dollar-weighted average stated maturity of 90 days or less, and the investment objectives require a stable net asset value of \$1.00 for each share;

(B) the no-load mutual fund has an average weighted maturity of less than two years, and is invested exclusively in obligations approved by Section 2256.014(a)-(c) of the Texas Government Code;

(C) the District may not invest more than 50% of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in the mutual funds described above; and

(D) it may not invest any portion of its bond proceeds and reserves and funds held for debt service, in mutual funds described above; and

(E) it may not invest funds under its control, including bond proceeds and reserves and other funds held for debt service, in any one mutual fund described above in an amount that exceeds 10% of the total assets of the mutual fund.

(6) Eligible Investment Pools as defined in Section 2256.016 of the Texas Government Code provided that:

(A) investment in the particular pool has been authorized by the District's board of directors;

(B) the investment pool furnishes to the Investment Officer an offering circular or similar disclosure instrument that contains the information required by Section 2256.016(b), Government Code;

(C) the investment pool furnishes to the Investment Officer written conformations of all investment transactions made with it;

(D) the investment pool furnishes to the Investment Officer monthly reports that contain, at a minimum, the information required by Section 2256.016(c), Government Code;

(E) a public funds investment pool created to function as a money market mutual fund must maintain a stable net asset value of \$1.00 and otherwise comply with provisions of Section 2256.016(f), Government Code;

(F) whose investment philosophy and strategy are consistent with this Investment Policy and with the District's ongoing investment strategy; and

(G) the pool provides evidence of maintaining a credit rating no lower than AAA or AAA-m by at least one nationally recognized credit rating service.

If additional types of securities are approved for the investment of public funds by state statute, they will not be eligible for investment until this Section 10(a) is amended by resolution of the District's board.

(b) Liquidation Requirements. An investment that requires a minimum rating under the Investment Act or this Investment Policy does not qualify as an authorized investment during the period the investment does not have the minimum rating. The District shall take all prudent measures consistent with this Investment Policy to liquidate any investment that does not have or is down-graded to less than the minimum rating. *(Gov't Code § 2256.021)* Except for the loss of a minimum rating, the District is not required to liquidate investments that were authorized at the time of purchase. *(Gov't Code § 2256.017)*

(c) Competitive Bidding Requirement. All securities, including certificates of deposit, will be purchased or sold only after a minimum of two offers are taken competitively to verify that the District is receiving fair market value/price for the investment.

(d) Delivery versus Payment. All investment security transactions shall be conducted on a delivery versus payment (DVP) basis to assure that the District has control of its assets and/or funds at all times.

**SECTION 11. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS.** The District shall maintain a list of no less than three financial institutions and/or broker/dealers which are authorized to provide investment services. This list will be reviewed and approved by the board each year. Securities broker/dealers may be primary or regional broker/dealers and will meet other criteria as determined by the Investment Officer including state registration and completion of a District broker/dealer questionnaire. The following criteria must be met by authorized firms:

- (a) annual provision of an audited financial statement;
- (b) proof of certification by the National Association of Securities Dealers (NASD); and
- (c) proof of current registration with the Texas State Securities Commission.

Every bank and broker/dealer with whom the District transacts business will be provided a copy of this Investment Policy to assure that they are familiar with its goals and objectives. The bank or broker/dealer will be required to return a signed instrument certifying that the Banking and Investment Policies of the District have been received and reviewed by the bank or broker/dealer, and the same have agreed that only those securities approved by this Investment Policy will be sold to the District.

**SECTION 12. DIVERSIFICATION AND MATURITY LIMITATIONS.** It is the policy of the District to diversify its investment portfolio. Invested funds shall be diversified to minimize risk or loss resulting from over-concentration of assets in a specific maturity, specific issuer, or specific class of securities. Diversification strategies shall be established and periodically reviewed. At a minimum, diversification standards by security type and issuer shall be:

| <u>Security Type</u>  | <u>Max % of Portfolio</u> |
|---|---------------------------|
| U.S. Government Securities . . . . .                                      | 80%                       |
| U.S. Government agencies and instrumentalities . . . . .                  | 60%                       |
| Obligations of the State of Texas and its agencies. . . . .               | 50%                       |
| Certificates of Deposit . . . . .   | 100%                      |
| Money Market Mutual Funds ( <i>See 13(b) below</i> ). . . . .             | 50%                       |
| Eligible Government Investment Pools ( <i>See 13(b) below</i> ) . . . . . | 80%                       |

The Investment Officer shall diversify the maturity dates of District investments. The Investment Officer, to the extent possible, will attempt to match investments with anticipated cash flow requirements. Matching maturities with cash flow dates will reduce the need to sell securities prior

to maturity, thus reducing market risk. Unless matched to a specific liability, the Investment Officer may not invest more than 20% of the portfolio for a period greater than one year.

**SECTION 13. SAFEKEEPING AND COLLATERALIZATION.**

(a) Securities Owned by the District. State law and prudent treasury management require that all purchased securities be bought on a delivery versus payment (DVP) basis and be held in safekeeping by either an approved, independent third party financial institution or by the District's designated depository. All safekeeping arrangements shall be in written form and submitted to the District's board for approval. The board may authorize the Investment Officer to execute safekeeping agreements on behalf of the District. The safekeeping bank may not be within the same holding company as the bank from which the securities are purchased. The custodian shall be required to issue original safekeeping receipts to the District listing each specific security, rate, description, maturity, cusip number, and other pertinent information.

(b) Collateral. Collateralization shall be required on all bank time and demand deposits for principal and accrued interest amounts over the FDIC insurance coverage of \$250,000 (by tax identification number). In order to anticipate market changes and provide a level of additional security for all funds, collateral with a market value equal to 102% of the total deposits are required. The pledging bank will be made contractually liable for monitoring and maintaining the collateral levels at all times. All collateral will be held by an independent third party bank outside the holding company of the bank, pledged to the District. Authorized collateral will include only obligations of the U.S. Government, its agencies and instrumentalities to include mortgage backed securities.

(c) Safekeeping. The custodian shall be required to provide original safekeeping receipts clearly marked that the security is pledged to the District.

**SECTION 14. QUARTERLY INTERNAL MANAGEMENT REPORTS.**

(a) Not less than quarterly, the Investment Officer shall prepare and submit to the board of directors a written report of investment transactions for all funds covered by the Investment Act for the preceding reporting period. This report shall be presented to the board within a reasonable time after the end of the quarterly period. At a minimum the report must:

(1) describe in detail the investment position of the District on the date of the report;

(2) contain a summary statement for each pooled fund group (i.e., each internally created fund in which one or more accounts are combined for investing purposes) prepared in compliance with generally accepted accounting principles that states the:

- (A) the beginning market value for the reporting period;
- (B) ending market value for the period; and
- (C) fully accrued interest for the reporting period;

(3) state the book value and market value of each separately invested asset at the end of the reporting period by the type of asset and fund type invested;

(4) state the maturity date of each separately invested asset that has a maturity date;

(5) state the account or fund or pooled group fund in the District for which each individual investment was acquired;

(6) state the compliance of the investment portfolio of the District as it relates to the investment strategies expressed in this Investment Policy and relevant provisions of the Investment Act;

(7) state any rating change for each separately invested asset and the liquidation of any investment that loses its minimum rating pursuant to Section 11(a) of this Investment Policy; and

(8) be signed by the Investment Officer.

(b) Quarterly reports will be prepared jointly by the Investment Officer together with District staff, consultants, and auditors possessing knowledge of District investment activities. The three month Treasury Bill average yield for the reporting period will be reported as a gauge of performance and risk. Prices used for the calculation of market values shall be obtained from an independent source.

(c) If the District 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 quarterly reports prepared by the Investment Officer shall be formally reviewed at least annually by the District's independent auditor, and the result of the review shall be reported to the governing body by that auditor. (*Gov't Code § 2256.023*)

**SECTION 15. DEPOSITORIES.** The District will designate one banking institution through a competitive process as its primary depository or banking services provider at least every 5 years. This institution will be used for normal banking services including disbursements, deposits, and safekeeping of District owned securities. Other banking institutions from which the District may purchase only certificates of deposit will also be designated as depositories. All banking

arrangements will be in written form in accordance with Financial Institutions Reform Recovery and Enforcement Act of 1989 (FIRREA) which requires a resolution of approval of the agreement by the bank's governing board or loan committee. Said agreement shall contain a provision wherein the designated depository agrees to issue and deliver duplicate account statements in accordance with Section 9(f) above.

**SECTION 16. ANNUAL REVIEW.** This Investment Policy and incorporated investment strategies shall be reviewed annually by the board of directors. Board approval and any amendments made to this Investment Policy will be stated in a written resolution.