

North Texas Municipal Water District

Administration and Finance Policies Manual

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SECTION 1. GENERAL INVESTMENT POLICY

1.1. Governing Authority

This Investment Policy is in accordance with Chapter 2256 of the Texas Government Code, the Public Funds Investment Act (the “Act”). The investment strategy conforms to governing legislation and other legal requirements. In addition to this Policy, borrowed funds shall be managed by their respective governing resolution, and by all applicable state and federal regulations.

1.2. Purpose and Scope

This Investment Policy establishes authorized officers to invest NTMWD funds, how NTMWD funds shall be invested, and guidelines for periodic reviews of investments.

This Investment Policy applies to all of the investment activities for NTMWD funds excluding certain trust and pension funds contractually invested by outside managers, e.g. Retirement/Pension, and Employee Deferred Compensation.

This policy includes all funds listed and accounted for in the District’s Comprehensive Annual Financial Report (CAFR) which includes the following:

1. Unrestricted Funds

- Operating Funds
- Capital Improvement Funds
- Preventative Maintenance Funds
- U.S. Government Notes
- Rate Stabilization Funds
- Support Services Escrow Funds

2. Restricted Funds

- Construction Funds
- Interest and Redemption (Sinking) Funds
- Reserve Funds
- Contingency Funds
- Reserve for Maintenance Funds

Pooling of Funds

NTMWD will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration.

Investment income shall be allocated to the various funds based on their respective investment participation, in accordance with generally accepted accounting principles.

1.3. Investment Strategy and Objectives

In conjunction with the annual review, the Board shall review the separate written Investment Strategy Statement, included as Exhibit “A,” for each of NTMWD's funds, and adopt revisions or additional Investment Strategy Statements as needed. The Statement describes the investment objectives according to the following priorities:

1. Investment suitability;
2. Preservation and safety of principal;
3. Liquidity;
4. Marketability prior to maturity of each investment;
5. Diversification; and,
6. Yield.

The primary objective of all investment activity is the preservation of capital and the safety of principal throughout the portfolio. Each investment transaction shall seek to avoid capital losses, whether from securities default or erosion of market value.

The investment portfolio will maintain liquidity to meet reasonably anticipated cash flow requirements. This will be accomplished by structuring the portfolio so securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, not all possible cash demands can be anticipated; the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in local government investment pools and/or money market mutual funds or which offer same-day liquidity for short-term funds.

NTMWD's portfolio shall be designed with the objective of regularly meeting or exceeding the average yield on three-month U.S. Treasury bills. This appropriate indicator is the benchmark for lower risk investment transactions and therefore comprise a minimum standard for NTMWD's portfolio's rate of return. The investment strategy shall seek to augment returns above this threshold, consistent with risk limitations identified herein and prudent investment principles.

1.4. Responsibility and Controls

Authority to Invest

The Executive Director/General Manager (“ED/GM”) or his/her designee shall be the “Investment Officer” of NTMWD. The ED/GM shall designate one or more Alternate Investment Officers to perform the duties of managing NTMWD funds in the absence of the Investment Officer. The authorized Investment Officer can deposit, withdraw, invest, transfer, execute documentation, and otherwise manage NTMWD funds according to the rules governing NTMWD's funds, including but not limited to this Policy.

The Investment Officer and Alternate Investment Officers shall attend at least ten hours of training within 12 months of assuming these duties that addresses investment controls, security risks, strategy risks, market risks, diversification of investment portfolio and compliance with the Public Funds Investment Act. Thereafter, the Investment Officer, Alternate Investment Officers and all

District personnel involved with investments shall attend an investment training session not less than once in a two-year period that begins on the first day of the fiscal year and consists of the two consecutive fiscal years after that date, and receive not less than eight hours of training related to investment responsibilities. This investment training shall be taught by an independent source as listed in Exhibit “B.”

Prudent Investment Management and Standard of Care

Investment Officers exercising due diligence while acting in accordance with written procedures and this investment policy, shall be relieved of personal responsibility for individual security credit risk or market price changes; provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

The standard of prudence used by the Investment Officer shall be the “prudent investor rule” as set forth in the Act and shall be applied in the context of managing an overall portfolio within the applicable legal constraints. The Act states:

“Investments shall be made with the 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.”

Standards of Ethics

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall adhere to NTMWD’s “Code of Conduct” policies. Additionally, they shall file with the Texas Ethics Commission and NTMWD’s Board of Directors a statement disclosing any personal business relationship with an entity seeking to sell investments to NTMWD or any relationship within the second degree by affinity or consanguinity to an individual seeking to sell investments to NTMWD. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of NTMWD.

Establishment of Internal Controls

The ED/GM or his/her designee will oversee the Investment Officer in the maintenance of a system of internal controls over the investment activities of NTMWD.

1.5. Reporting

The Investment Officer shall prepare a quarterly investment report, including a management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the previous quarter. This management summary will be

prepared in a manner that will allow NTMWD to ascertain whether investment activities during the reporting period have conformed to the investment policy. The Board of Directors will receive the quarterly report; prepared and signed by the Investment Officer and the Alternate Investment Officer. The report will include the following:

1. Describe in detail the investment position of NTMWD;
2. State the reporting period beginning book and market value, fully accrued interest during the period, and ending book and market value for the period for each pooled fund group;
3. State the reporting period ending book and market value for each investment security by asset type and fund type;
4. State the maturity date of each investment security;
5. State the fund type for which each investment security was purchased, and;
6. State the compliance of the investment portfolio with NTMWD's Investment Policy and Investment Strategy Statement and the Public Funds Investment Act.

NTMWD, in conjunction with its annual financial audit, shall perform a compliance audit of management controls on investments and adherence to NTMWD's Investment Policy and Investment Strategy Statement. If NTMWD purchases securities other than money market funds, investment pools or accounts offered by its depository bank, an independent auditor shall formally review the reports prepared by the Investment Officer annually. Then, these results of the review will be reported to the Board of Directors.

1.6. Authorized Investment Advisors and Broker/Dealers

An approved list of Authorized Investment Advisors (if applicable) and Broker/Dealers will provide investment transaction services to NTMWD are listed in Exhibit "C".

1. Investment Advisors shall adhere to the spirit, philosophy and specific term of this Policy and shall invest within the same "Standard of Care" as applied to NTMWD.

The Investment Officer will select and establish criteria to evaluate Investment Advisors including:

1. Adherence to NTMWD's policies and strategies;
 2. Portfolio performance and transaction pricing within accepted risk constraints;
 3. Responsiveness to NTMWD's request for services and information;
 4. Understanding of the inherent fiduciary responsibility of investing public funds; and
 5. Similarity in philosophy and strategy with NTMWD's objectives.
2. Broker/Dealers shall adhere to the spirit and philosophy of this Policy and shall avoid recommending or suggesting transactions outside of such standard.

The approved security broker/dealers are selected by creditworthiness and/or other factors, such as FINRA broker check. In addition, the Board of Directors will at least

annually, review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the entity.

All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
- Proof of Financial Industry Regulatory Authority (FINRA) certification
- Proof of state registration
- Completed broker/dealer questionnaire Certification of having read, understood, and agreeing to comply with NTMWD's investment policy. In addition, they have implemented reasonable procedures and controls in an effort to preclude investment transactions conducted that are not authorized by the NTMWD's Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio or requires an interpretation of subjective investment standards.

1.7. Safekeeping and Custody

1. Delivery vs. Payment

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible custody account prior to the release of funds.

2. Safekeeping

Securities will be held by an independent third-party custodian selected by NTMWD and held in NTMWD's name as evidenced by safekeeping receipts of the institution with which the securities are deposited. The safekeeping institution shall annually provide a copy of their most recent report on internal controls.

3. Internal Controls

The Investment Officer shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed annually by the investment committee, where present, and with the independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, third-party misrepresentation, unanticipated changes in financial markets, or imprudent actions by employees and officers of NTMWD.

1.8. Suitable and Authorized Investments

1. Investment Types –The following investments will be permitted by this policy:

- U.S. Treasury obligations which carry the full faith and credit guarantee of the United States government;
- U.S. government agency and instrumentality obligations unconditionally guaranteed or insured by, or backed by the full faith and credit of, the United States or its respective agencies and instrumentalities, excluding mortgage backed and asset backed securities
- A certificate of deposit or share certificate is an authorized investment if the certificate is issued by a depository institution that has its main office or a branch in this state and is:
 - a. Secured in accordance with Chapter 2257 or in any other manner and amount provided by law for deposits of NTMWD; or
 - b. Secured by obligations that are described in Section 2256.009(a) of the Act, 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, but excluding those mortgaged backed securities of the nature described by Section 2256.009(b) of the Act; and
 - c. Solicited for bid orally, in writing, electronically, or any combination of those methods.
- Fully collateralized repurchase agreements meeting the requirements described by the Public Funds Investment Act. The term includes direct security repurchase agreements entered into by NTMWD and reverse repurchase agreements only obtained in connection with investment by NTMWD in an Eligible Investment Pool. All NTMWD repurchase agreement transactions shall be governed by a signed master repurchase agreement.
- Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities; and
- Local government investment pools either state-administered or developed through joint powers statutes and other intergovernmental agreement legislation

The following maximum limits, by instrument, are established for the District’s total portfolio to be followed at time of purchase:

- U.S. Treasury Securities 100%
- U.S. Agencies and Instrumentalities75%
 - U.S. Agency Bullet.75%
 - U.S. Agency Callable25%
- Certificates of Deposit.....40%
- Repurchase Agreements.....40%
- Money Market Mutual Funds.....25%

- Authorized Investment Pools.....100%
- If an authorized investment in the District’s portfolio is rated in a way that causes it to become an unauthorized investment, the Investment Officer shall review the investment to determine whether it would be more prudent to hold the investment until its maturity, or to redeem the investment;
- The District is not required to liquidate investments that were authorized investments at the time of purchase;
- Investments not specifically listed in this policy are strictly prohibited.

2. Collateralization

All bank and savings and loan association deposits of NTMWD shall be federally insured or collateralized with eligible securities. Financial institutions serving as depository of NTMWD Funds (“Depositories”) will be required to sign a Depository Pledge Agreement with NTMWD and a third-party safekeeping institution (the “Agreement”). The Agreement shall define NTMWD’s rights to the collateral in case of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with Federal and State regulations, and shall be:

- in writing;
- executed by the Depository, NTMWD, and the third-party safekeeping institution (“Safekeeping Institution”) contemporaneously with the acquisition of the asset;
- approved by the Depository's Board of Directors or the loan committee of the Depository and a copy of the meeting minutes must be delivered to NTMWD; and
- part of the Depository's “official record” continuously since its execution.

Allowable Collateral

1. Collateralized Deposit - Eligible securities for collateralization of deposits are defined by the Public Funds Collateral Act, Chapter 2257, Texas Government Code, as amended and meet the constraints of this Policy.
2. Repurchase Agreement - Securities underlying repurchase agreements are limited to cash, United States Government, Agencies and Instrumentalities obligations, which are eligible for wire transfer (i.e., book entry) to NTMWD's designated Safekeeping Institution through the Federal Reserve System and meet the constraints of the Act.

Collateral Levels

1. Collateralized Deposits - The market value of the principal portion of collateral pledged for collateralized deposits must at all times be equal to or greater than the amount of the deposit plus accrued interest, less the applicable level of FDIC insurance.

2. Repurchase Agreements - A repurchase agreement's purchase security market value shall include the accrued interest applicable to the security. The security's market value must be maintained at the minimum level of 102% of the repurchase agreement's principal value.

Collateral Substitution

Collateralized deposits and repurchase agreements often require substitution of collateral. Any broker, dealer or financial institution requesting substitution must contact the Investment Officer for approval and settlement. The substituted security's value will be calculated and substitution approved if its value is equal to or greater than the required security level. The Investment Officer, or a designee, must provide written notification of the decisions to the bank or the Safekeeping Institution holding the security prior to any security release. Substitution is allowable for all transactions, but should be limited, if possible, to minimize potential administrative problems and transfer expense. The Investment Officer may limit substitution if substitution becomes excessive or abusive.

3. Protection of Principal

NTMWD shall seek to control the risk of loss due to the failure of a security issuer or grantor. Such risk shall be controlled by investing only in the safest types of securities as defined in the Policy, by qualifying the Investment Provider with whom NTMWD will transact, by collateralization and through portfolio diversification by maturity and type.

1.9. Investment Diversification and Constraints

1. Diversification by Investment Type

Diversification by investment type shall provide NTMWD's portfolio with a reduction in credit risk. Bond proceeds may be invested in a single security or investment if the Investment Officer determines that such an investment is necessary to comply with Federal arbitrage restrictions or to facilitate arbitrage recordkeeping and calculation.

2. Diversification by Investment Maturity

In order to minimize risk of loss due to interest rate fluctuations, investment maturities will not exceed the anticipated cash flow requirements of the funds. Maturity guidelines, at the time of purchase, by fund are as follows:

- Operating Funds - The weighted average days to maturity for the operating fund portfolio shall be less than 270 days and the maximum allowable maturity shall be 18 months.
- Construction Funds - The investment maturity of Construction Funds shall be limited to the anticipated expenditure schedule. Bond proceeds (excluding Reserve and Interest and Sinking Funds) shall generally be limited to the anticipated cash flow requirement.

- Interest and Sinking Funds - Interest and Sinking Funds shall be invested to ensure adequate funding for each consecutive debt service payment. The Investment Officer shall invest in such a manner as not to exceed an “unfunded” debt service date with the maturity of any investment. An unfunded debt service date is defined as a coupon or principal payment date that does not have cash or investment securities available to satisfy said payment.
- Debt Service Reserve Funds - Market conditions, Bond Resolution constraints, and Arbitrage regulation compliance will be considered when formulating Reserve Fund strategy. Maturity limitation shall generally not exceed the call provisions of the Bond Resolution and shall not exceed the final maturity of the bond issue.
- Contingency - The weighted average days to maturity for the fund portfolios shall be less than 180 days and the maximum allowable maturity shall be 3 months.
- Reserve for Maintenance Funds – The weighted average days to maturity for the fund portfolios shall be less than 180 days and the maximum allowable maturity shall be 3 months
- Rate Stabilization Funds – The weighted average days to maturity for the fund portfolios shall be less than 180 days and the maximum allowable maturity shall be 3 months.

1.10. Term of Investments

The maximum term of any investment may not exceed ten (10) years from the settlement date.

1.11. Competitive Bidding

The Investment Officer shall attempt to obtain competitive bids from at least three approved brokers or financial institutions on all purchases and sales of investment instruments transacted on the secondary market. In the case of the purchases executed by the approved Investment Advisor, the Investment Advisor shall obtain at least three bids from their list of approved brokers and provide documentation accordingly with the trade ticket.

1.12. Portfolio Pricing Source

When determining the market value of NTMWD’s securities, prices shall be obtained from a reputable and independent source including but not limited to Bloomberg, the Wall Street Journal, Intercontinental Exchange (ICE), and the District’s safekeeping agent. In the event NTMWD has retained the services of a Registered Investment Advisor, the advisor shall also provide security pricing from ICE, Bloomberg or similarly recognized pricing services.

1.13. Policy Considerations

This policy shall be reviewed on an annual basis. Any changes must be submitted by the Investment Officer. Additionally, it shall be approved by the investment oversight committee or authoritative body acting in such capacity.

1.14. Approval of Investment Policy

The Investment Policy shall be formally approved and adopted by the governing body of NTMWD and reviewed annually.

SECTION 2. INVESTMENT POLICY FOR RETIREMENT FUND AND RETIREE HEALTH INSURANCE PROGRAM

2.1. Purpose and Scope

This Investment Policy applies to all of the investment activities of the NTMWD Retirement Fund (the “Retirement Fund”), including the Retiree Health Insurance Program (the “Program”), and establishes guidelines for those who can invest NTMWD funds, for how NTMWD funds will be invested, and for when and how a periodic review of investments will be made.

Retiree Health Insurance Program

Funding for the Retiree Health Insurance Program shall be included in NTMWD's annual operating budget and:

1. NTMWD's contributions to the Program shall be irrevocable;
2. Program assets shall be used for the exclusive benefit of the participants of the Program; and
3. Program assets shall be protected from creditors.

2.2. Responsibility and Controls

The Finance/Audit Committee shall manage the investment of funds of the Retirement Fund and the Program. The ED/GM or his/her designee shall be the “Investment Officer” of NTMWD. The ED/GM shall designate one or more Alternate Investment Officers to perform the duties of the Investment Officer in the absence of the Investment Officer. The Investment Officer is authorized to deposit, withdraw, invest, transfer, execute documentation, and otherwise manage NTMWD funds according to the instructions of the Finance/Audit Committee. The Finance/Audit Committee acting in accordance with these policies and procedures shall be relieved of personal liability.

Controls

The Finance/Audit Committee members adhere to NTMWD's “Code of Conduct” Policies. Additionally, the Finance/Audit Committee shall file with NTMWD's Board of Directors a statement disclosing any personal business relationship with an entity seeking to sell investments to NTMWD or any relationship within the second degree by affinity or consanguinity to an individual seeking to sell investments to NTMWD. The ED/GM will oversee the Investment Officer in the maintenance of a system of internal controls over the investment activities of NTMWD.

2.3. Reporting and Advisors

Reporting

The Investment Officer will provide a quarterly comprehensive report for the Retirement Fund and the Program, signed by the Investment Officer and Alternate Investment Officer, to NTMWD's Board of Directors within a reasonable time after the end of the period. This investment report shall:

1. Describe in detail the investment position of the funds.
2. State the reporting period beginning book and market value, additions or changes to the book and market value during the period, and ending book and market value for the period of each investment.
3. State the compliance of the investment portfolio with this Investment Policy.

NTMWD, in conjunction with its annual financial audit, shall perform a compliance audit of management controls on investments and adherence to this Investment Policy and strategies.

Investment Advisors and Investment Providers

Selection of Investment Advisors and Investment Providers will be performed by the Finance/Audit Committee. The Financial/Audit Committee will establish criteria to evaluate Investment Advisors and Providers including:

1. Adherence to NTMWD's policies and strategies.
2. Portfolio performance and transaction pricing within accepted risk constraints.
3. Responsiveness to NTMWD's request for services and information.
4. Understanding of the inherent fiduciary responsibility of investing public funds.

2.4. Investment Policies and Strategies

Authorized Investments

Investments described below are authorized as eligible securities for the funds of the Retirement Fund and Program. The purchase of specific issues may at times be restricted or prohibited by the Finance/Audit Committee. NTMWD funds governed by this Investment Policy may be invested in:

1. Obligations of the United States or its agencies and instrumentalities.
2. Other obligations, the principal and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the United States or its respective agencies and instrumentalities.
3. Collateralized deposits issued by state and national banks and savings and loan associations that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor.

4. Mutual Funds or commingled funds, which may include equities or bonds in their portfolio.
5. Money market funds and other pooled fixed rate investments.

Protection of Principal

Safety of principal is provided through diversification in the portfolio of investments. The overall allocation of investments should fall within the following ranges:

Fixed Income Investments	20% to 80%
Equities	20% to 80%

The mutual funds or commingled funds portion of the portfolio is to be diversified so that no one mutual fund or commingled fund represents more than 50% of the mutual fund or commingled fund portion.

2.5. Voting

For the Audit/Finance Committee to take any action on the investment of funds of the Retirement Fund or the Program, a two-thirds majority vote must be obtained.

SECTION 3. EMERGENCY EXPENDITURES

3.1. Overview

The financial operation of NTMWD is controlled by the Board of Directors through the Annual Budget by the adoption of an appropriation resolution. From time to time it is necessary for emergency expenditures to be authorized that were not planned in the Annual Budget. This policy outlines how NTMWD may make emergency expenditures when necessary, prior to Board action.

An emergency is a condition when the failure to immediately repair equipment could endanger the delivery system; endanger the service provided by NTMWD to the municipalities with which it contracts; or cause deterioration to facilities that could result in a failure of the system. Under these circumstances, the ED/GM may declare an emergency and, using the best judgment possible, develop a plan to remedy the apparent problem on a temporary or permanent basis in accordance with the following procedures.

3.2. Executive Director/General Manager – Less Than \$25,000

When an emergency condition has been declared and the cost will over-expend the budget of a Fund, the ED/GM may expend up to \$25,000 for the necessary repairs or replacements. The ED/GM will, at the next regular meeting of the Board of Directors, detail in a memorandum the emergency, the planned action, and the cost, and request that the Board amend the planned budget.

3.3. Executive Committee - \$25,000 to \$100,000

When an emergency condition has been declared and the expenditure to implement the planned repair or replacement will cost between \$25,000 and \$100,000, and the cost will over-expend the budget of a Fund, the ED/GM may counsel with the members of the Executive Committee of the Board of Directors (President, Vice President, Secretary, and Past President) and proceed with the majority approval of the Executive Committee. The ED/GM will, at the next regular meeting of the Board of Directors, detail in a memorandum the emergency, the planned action, and the cost, and request that the Board amend the planned budget.

3.4. Board of Directors – More Than \$100,000

When an emergency condition has been declared and the plan of action for repair or replacement exceeds \$100,000, and the cost will over expend the budget of a Fund, a special meeting of the Board of Directors will be required to authorize the expenditure.

SECTION 4. WATER REBATE PROCEDURES

4.1. Overview

This policy is intended to provide a framework with which the Board of Directors, on an annual basis, may consider a rebate of monies paid by the member cities and customers, when such cities' and customers' demands for water do not require NTMWD to meet or exceed its annual system volume requirement. When approved, refunds would be in an amount equal to the estimated variable cost savings (power, chemicals, etc.) that resulted for NTMWD because of the decreased demands. This policy is intended to reward water conservation and assist the member cities and customers when their actions result in reduced water deliveries and greater water conservation.

4.2. Procedure

The following provides a description of the program and required procedures:

1. The rebate shall be calculated according to a formula based upon the estimated per unit reduction in expenditure for variable cost incurred by NTMWD, as determined annually by the Board of Directors.
2. To be eligible for a rebate, the member city or customer shall:
 - a. have had water demands supplied at volumes less than its annual minimum volume requirement as established in the Budget Resolution;
 - b. not currently be establishing an annual minimum volume requirement by contract negotiation.

The volume eligible for rebate, if authorized by the Board of Directors, would be the difference between the annual minimum volume requirement as established in the Budget Resolution and the actual usage by the member city or customer during the most recently completed 12-month water year (August 1 through July 31).

3. Each year at the August Board of Directors meeting, the Board of Directors will be provided by the ED/GM a list of member cities and customers eligible for rebate, if any, the estimated rate of the rebate, and the total amount of funds to be considered for rebate. The item shall be a "discussion item" on the August agenda.

After considering the financial condition of NTMWD, the Board of Directors shall either instruct the ED/GM to place the rebates on the September agenda for consideration, or accept the report as information only.

4. Should the Board of Directors elect to provide a rebate at the September Board of Directors meeting, the ED/GM shall provide payment to the eligible member cities and customers within 30 days of the Board's action.
5. The Board shall follow the above-referenced procedure on an annual basis.

SECTION 5. IDENTITY THEFT PREVENTION PROGRAM

5.1. Purpose

This Policy is to authorize an Identity Theft Prevention Program (“Program”) for NTMWD pursuant to the Federal Trade Commission Red Flags Rules (“Rules”), which implement Section 114 of the Fair and Accurate Credit Transactions Act of 2003. The Program is to provide for the identification, detection and responses to patterns, practices, or specific activities – known as “red flags” – that could indicate identity theft.

5.2. Definitions

Following are definitions set forth in the Rules:

1. Identity Theft – fraud committed using the Identifying Information of another person.
2. Red Flag – a pattern, practice or specific activity that indicates the possible existence of Identity Theft.
3. Identifying Information – any name or number that may be used, alone or in conjunction with any other information, to identify a specific person. Such information may include name, address, telephone number, social security number, date of birth, government issued driver’s license or identification number, alien registration number, government passport number, employer or taxpayer identification number, unique electronic identification number, computer’s internet protocol address, or routing code.

5.3. Identification of Red Flags

In order to detect potential identity theft, NTMWD has identified the following Red Flags in each of the listed categories:

Suspicious Documents:

- Identification document appears to be forged, altered or inauthentic
- Identification document on which a person’s photograph or physical description is not consistent with the person presenting the document
- Application for service appears to have been altered or forged

Suspicious Personal Identifying Information

- Driver’s license number, address or phone number presented that is the same as another customer
- A person fails to provide complete personal Identifying Information on the application when reminded to do so
- A person’s Identifying Information is not consistent with the information that is on file for the customer
- Identifying Information presented that is consistent with fraudulent activity such as an invalid phone number

Suspicious Account Activity or Unusual Use of Account

- Notice to NTMWD that the customer is not receiving mail sent by NTMWD
- Notice to NTMWD that the account has unauthorized activity
- Account used in a way that is not consistent with prior use (e.g., very high activity where low activity was previously the norm)

Alerts from Others

- Notice to NTMWD from a customer, identity theft victim, law enforcement or other person, that NTMWD has opened or is maintaining a fraudulent account for a person engaged in identity theft.

5.4. Procedures to Prevent and Mitigate Identity Theft

In order to enhance the detection of the Red Flags identified above associated with the opening of a new account, NTMWD personnel will take the following steps to obtain and verify the identity of the person opening the account:

- Require certain Identifying Information such as name, address, driver's license or other identification.
- Verify the customer's identity (example – review driver's license).
- Review documentation showing the existence of a business entity and independently contact the business entity.

For an existing account, NTMWD personnel will verify the validity of requests to change billing address.

In the event NTMWD personnel detect any of the above identified Red Flags, such personnel shall immediately notify the ED/GM or his/her designee, who will determine the appropriate action to be taken. Such action may include:

- Continue to monitor the account for further evidence of Identity Theft
- Contact the customer
- Deny request to open a new account
- Close an existing account
- Notify local law enforcement

In order to further minimize the likelihood of identity theft, NTMWD will take the following steps with respect to its internal operating procedures:

- Require and keep only the customer information necessary for NTMWD business purposes
- Ensure that employees do not leave sensitive papers on their desks when not at their work stations
- Require employee escorts accompany visitors who enter areas where sensitive files are kept
- Install anti-virus and anti-spyware programs on any computers that run on NTMWD servers and ensure that programs are periodically updated
- Ensure access to computer information is controlled using passwords that must be periodically changed

5.5. Program Administration

NTMWD's Board of Directors, after approving the initial Identity Theft Prevention Program, shall designate the ED/GM or his/her designee to administer the Program. Program administration responsibilities include:

- Assigning specific responsibility for the Program's implementation;
- Reviewing staff reports about compliance with the Rule;
- Approving important changes to the Program; and
- Monitoring the activities of any service providers covered by the Red Flags Rule.

The ED/GM's designee shall review the Program annually and provide a report to the ED/GM evaluating the effectiveness of the Program in addressing the risk of identity theft, any significant incidents of identity theft and NTMWD's response, and any recommendations for changes to the Program based on new technology or new tactics of identity thieves.

SECTION 6. PURCHASING

It is the goal of NTMWD to obtain quality goods and services at reasonable cost by generating competition whenever possible. The Executive Director/General Manager, in an Administrative Directive, will create procedures, guidance and instruction to be followed by NTMWD employees for purchasing activities.

6.1. Purpose

The purpose of this policy is to:

1. Establish authority of the purchasing function within NTMWD;
2. Establish purchasing guidelines to obtain goods and services in a consistent manner;
3. Serve as stewards of NTMWD funds by exercising fiduciary responsibility through compliance with applicable laws, internal policies, directives, and industry best practices;
4. Ensure the purchasing system is fair and equitable;
5. Provide for increased efficiency in public purchasing;
6. Foster effective competition from all segments of the supplier community;
7. Safeguard the integrity of the purchasing system and protect against corruption, waste, fraud and abuse.

6.2. Application

1. This purchasing policy applies to all NTMWD employees and officials involved in the purchasing process. Adherence to this policy and NTMWD Personnel Policies Manual, Section II, is an individual and department/system responsibility. A breach or unauthorized departure from the procedures derived from this policy may result in removal from the purchasing process and possible criminal penalties.
2. This policy applies to NTMWD purchases made with All Systems Budget funds approved by the Board in the annual operating budget.
3. This policy excludes grant, bond, and capital improvement funded projects outlined in the Board approved annual budget.

6.3. Purchasing Authority

The Executive Director/General Manager has designated the Purchasing Department as being the procurement authority for NTMWD. The Purchasing Manager will have the right to determine which method of purchase provides the best value for NTMWD, adopt operational procedures consistent with sound business practices and applicable state law; and oversee the purchase of materials, goods, professional, and general services applicable under Section 6.2.2 of this policy.

6.4. Signature Authority

1. This section applies to expenditures funded in the annual operating budget approved by the Board and awarded by contract, agreement, modification, purchase order, and/or change order.
 - a. Signature authority of \$100,000.00 or more is granted to the Executive Director/General Manager, or their designee.
 - b. Signature authority up to \$99,999.99 is granted to Deputy Directors, or their designee.
 - c. Signature authority up to \$24,999.99 is granted to Assistant Deputies, or their designee for an amount not to exceed \$10,000.00. Signature authority up to \$24,999.99 is granted to the Purchasing Manager, or their designee. If Assistant Deputies or Purchasing Manager need to delegate their signature authority, approval is required from their Deputy Director.
2. Requisition approval levels for the NTMWD financial system are outlined in Administrative Directive No. 10.
3. Signature Authorization on Checks
All checks written for services or goods purchased by NTMWD, in any amount, must be signed by at least two individuals. The primary signees are the Executive Director/General Manager and the Deputy Director of Administrative Services. The Executive Director/General Manager shall designate alternate signees in the event of absence of the primary signees. Delegated signature authority card is on file at the bank.

6.5. Centralized and Decentralized Purchasing Functions

1. NTMWD shall maintain a centralized purchasing function applicable to expenditures made under Section 6.2.2 of this policy. As such, the following applies:
 - a. The Purchasing Department is responsible for administration of the purchasing policy and directives, consolidation of purchases when applicable, and analysis of prices paid.

- b. Department expenditures between \$0.01 and \$24,999.99 may be reviewed by the Purchasing Department to verify compliance with this policy.
 - c. Expenditures of \$25,000.00 and above will be facilitated through the Purchasing Department.
2. The following areas are considered decentralized and it shall be the overseeing Deputy Director's responsibility to abide by applicable Board policies, statutes, and related requirements:
- a. Expenditures not funded in NTMWD's annual Board approved All Systems Budget that can include, but are not limited to:
 - 1) Grant funded projects;
 - 2) Bond funded projects;
 - 3) Capital improvement funded projects;
 - 4) Construction and related professional services managed by NTMWD's Engineering Department.

6.6. Purchasing Thresholds

Applies to purchases made with funding approved by the Board in the annual operating budget.

- 1. For Purchases of \$25,000.00 or more
 - a. The Purchasing Department will facilitate the appropriate competitive process and award via written contract and/or purchase order.
- 2. For Purchases between \$3,000.00 and \$24,999.99
 - a. User departments must request and receive price quotations in writing from a minimum of three sources, or purchase through an approved cooperative contract.
 - b. User departments must make reasonable efforts to assure that the best value is being obtained for NTMWD, and must document quotations or cooperative contract reference in the notes section of the purchase requisition.
 - c. If an increase to the original award causes the amount to exceed \$24,999.99, user departments must first contact the Purchasing Department.
- 3. For Purchases between \$0.01 and \$2,999.99
 - a. User departments shall seek a source with fair and reasonable pricing, competitive quotations are encouraged, but are not required. These may be purchased prior to completion of a purchase requisition.

- b. User departments shall make reasonable efforts to assure that the best value is being obtained for NTMWD.
4. Change Order Thresholds
- a. The original award amount may not be increased by more than 25 percent, unless approved by the Executive Director/General Manager.
 - b. The original award amount may not be decreased by more than 25 percent without the consent of the contractor.

6.7. Personal, Professional and Consulting Services

- 1. NTMWD must follow the Professional Services Procurement Act and facilitate the process as outlined in Texas Government Code Chapter 2254 to award professional services defined in statute.
- 2. For personal, professional, and consulting services that are not defined in Chapter 2254 but “require special knowledge or attainment and a higher order of learning, skill, and intelligence,” per *Op. Tex. Att’y Gen. Nos. JM-1038 (1989), JM-940 (1988), MW-344 (1981)*, a competitive process based upon demonstrated competence, qualifications, and a fair and reasonable price may be used for expenditures of \$25,000.00 or more.

6.8. Cooperative Purchasing

NTMWD participates in purchasing programs of various local, state and national cooperatives. The Purchasing Department acts as the official representative for NTMWD in all matters relating to cooperative purchasing programs.

- 1. Purchasing Department Responsibility:
 - a. For purchases of \$25,000.00 or more, the Purchasing Department may garner competition within cooperatives to obtain the best value for NTMWD;
 - b. All purchasing-related interlocal and cooperative agreements must be reviewed by the Purchasing Manager and entered into through the Purchasing Department;
 - c. The Purchasing Department will maintain a list of approved interlocal and cooperative purchasing programs that can be found on the Purchasing Department’s NTMWD intranet page;
 - 1) For interlocal or cooperative purchasing programs that are not found on this list, the Purchasing Department must first review, recommend approval, and obtain proper authorization before the agreement is used.

2. Department Responsibility:
 - a. For purchases of \$24,999.99 and under, departments may garner competition within cooperatives to obtain the best value for NTMWD;
 - b. For new purchasing-related interlocal or cooperative agreements, departments must submit an approval request to the Purchasing Department before the agreement is used.

6.9. General Exemptions

The following is an inclusive list of exemptions to this policy:

1. Emergency Expenditures
 - a. For emergency expenditures, NTMWD must adhere to the process as outlined in the **NTMWD Administration and Finance Policies Manual, Section III Emergency Expenditures**.
 - 1) Emergency conditions include:
 - a) A purchase made because of a public calamity that requires the immediate appropriation of money to preserve the property of NTMWD;
 - b) A purchase necessary to preserve or protect public health or safety;
 - c) A purchase necessary because of unforeseen damage to public machinery, equipment, or other property;
2. A purchase for personal, professional, or planning services;
3. A purchase of land or right-of-way;
4. Electricity, unless as described in Administrative Directive No. 42;
5. Advertising, other than legal notices;
6. Sole and Single Source Purchases
 - a. To qualify as a sole source, the good or service must be obtained from only one source due to patents, copyrights, secret processes, or natural monopolies. The purchase of captive replacement parts or components for equipment that is already owned by NTMWD may be considered for acquisition as a sole source good or service. Sole source also applies to films, manuscripts, books, and gas, water, or other utility services.
 - b. Single source purchases are available from more than one source, but have a justifiable reason to purchase from a single source (e.g. natural monopoly created by having a sole distribution in Texas for a particular product or piece of equipment).

- c. Sole and single source requests for goods and services require completion of the Sourcing Justification Form and submission to the Purchasing Department for verification and approval prior to purchase of goods and services.

6.10. Roles and Responsibilities in the Purchasing Process

Applies to purchases made with funds approved by the Board in the annual operating budget.

1. NTMWD employees must:
 - a. Not purchase any goods or services for personal benefit;
 - b. Not authorize product demonstrations, trials or wear tests with intent to purchase without prior notification given to the Purchasing Department;
 - c. Not obligate NTMWD for the purchase of goods that are delivered for use on a trial basis;
 - d. Not commit to acquire goods or services without an authorized purchase order;
 - e. Not use purchasing strategies to avoid the requirements of this Policy such as “Component,” “Separate,” or “Sequential”.
2. No officer or employee of NTMWD can participate on an evaluation committee or make a recommendation of award if they have a financial interest, direct or indirect, in the contract with NTMWD, or shall be financially interested, direct or indirect, in the sale to NTMWD of any materials, supplies, or services.
3. No persons writing specifications that are to be awarded through a NTMWD competitive solicitation process, including vendors and NTMWD personnel, shall receive any direct or indirect financial benefit from utilization of such specifications and in accordance with the NTMWD Personnel Policies Manual.
4. A vendor that prepares specifications in a bid/proposal should contractually agree that neither it nor its subsidiaries, or other entity with financial affiliation will be permitted to bid/propose on the project.
5. The Purchasing Department is responsible for the following:
 - a. Purchases of \$25,000.00 or more whose funding has been approved by the Board in the annual operating budget;
 - 1) Solicit, advertise, and facilitate the award of purchase orders and contracts to vendors;
 - b. Foster a transparent and competitive purchasing process, whether the item is subject to bid or not;

- c. Ensure applicable statutory compliance;
 - d. Determine the best method to procure the requested goods or services;
 - e. Determine responsive and responsible bidders;
 - f. Work with departments to ensure prompt delivery of goods or services, as requested;
 - g. Contact contractors in regard to breach of contract and/or poor performance, as requested;
 - h. Develop change orders, contract modifications, renewals and other contract actions for awards made through the Purchasing Department;
 - i. Train personnel involved in the purchasing process;
 - j. Notify the department regarding violations of this Purchasing Policy;
 - k. Assist in combining purchases of similar items to allow for better pricing and establishing of a centralized, competitive atmosphere;
 - l. Verify that appropriate departments have been notified of any purchase that may impact their department.
6. User Departments are responsible for the following:
- a. Purchases up to \$24,999.99 that have been approved by the Board in the annual operating budget;
 - b. For purchases of \$3,000.00 and above, departments must enter a requisition in the financial system and verify its approval *prior to* placing orders against it;
 - c. Departments must verify contract and/or quoted pricing prior to entering, approving, or receiving a NTMWD order;
 - d. Departments must submit an approved Bid Initiation form through Laserfiche to start the purchasing process for goods or services of \$25,000.00 or more;
 - e. Departments must provide scopes of work and specifications to the Purchasing Department for goods or services of \$25,000.00 or more;
 - f. Identify and ensure internal stakeholders from other departments have reviewed and approved scopes of work and specifications that directly impact their department;

- g. Managers are responsible for ensuring employees under their control comply with all purchasing policies, and for ensuring personnel have completed the mandatory purchasing training. A signed and completed “North Texas Municipal Water District Employee Certification of Compliance with Ethics Policies” form must be on file. Department personnel may be removed from the purchasing process for policy violations;
- h. Prior approval must be obtained from a Deputy Director or Executive Director/General Manager for a request to change cost evaluation criteria to less than forty percent (40%) when a request for proposal or best value bid solicitation method is used;
- i. Departments are responsible for oversight of their solicitation and contracts to include, but not limited to:
 - 1) Specification development and approval;
 - 2) Technical evaluation of bid and proposal responses, assist in determining bidder responsibility, and provide recommendation of award;
 - 3) Monitor budget;
 - 4) Monitor contractor performance and compliance to ensure it meets specifications;
 - 5) Receive and inspect goods and ensure delivered items meet specifications and packaging documents are accurate. Inspect for damages;
 - 6) Submit receiving tickets to Accounts Payable within three working days;
 - 7) Review invoices to ensure they are correct;
 - 8) Establish and maintain professional communication with contractors;
 - 9) Provide documentation to the Purchasing Department for change orders and contract modifications;
 - 10) Address performance issues promptly and maintain detailed documentation in a Laserfiche contract file, and;
 - 11) Notify the Purchasing Department if performance issues are not easily resolved.

6.11. Vendor Relations and Vendor Performance

1. No NTMWD employee is required to place their time at the disposal or discretion of sales people.
2. For purchases \$25,000.00 or more, the Purchasing Department will facilitate correspondence with vendors, with the exception of when technical or other details make it necessary to assign such correspondence to the department.
3. Prices and other specific information received from vendors will be considered confidential during the purchasing process. Once the process has been awarded, information received from one supplier will not be divulged to another supplier unless through an open records request.
4. Departments must work with their Purchasing Department representative to foster open competition.
5. If product/service demonstrations or budgetary information is needed, departments are to contact their Purchasing Department representative. Purchasing will communicate with the supplier to ensure understanding that the request is undertaken only as a means to gather additional information and the provision of a budgetary quote(s) or product demonstration to NTMWD in no way obligates NTMWD to any present or future financial commitment of any kind.

6.12. Advertisement and Notice Requirements

For bids and proposals of \$25,000.00 or more, notice of the bid request and of the time and place at which the sealed bids will be publicly opened and read aloud must be published at least once a week for two consecutive weeks in a newspaper of general circulation in Collin County and on NTMWD's website through the electronic bidding system. The date of the first publication must be at least 14 days before the date set to open the sealed bids. The Purchasing Department will be responsible for preparing and submitting the request to publish the notice, and for publicly opening and reading aloud the bids.

6.13. Electronic Bidding

Electronic sealed bids or proposals must be in compliance with state law which requires the identification, security, and confidentiality of electronic bids or proposals to remain effectively unopened until the proper time.

6.14. Purchasing Code of Ethics

1. NTMWD strictly adheres to conducting business activities at an uncompromising level of integrity, and abides by NTMWD's Code of Ethics as outlined in NTMWD Personnel Policies Manual, Section 2.2 Ethics, Gifts, and Conflicts of Interest.
2. In addition, NTMWD adheres to The Institute for Public Procurement (NIGP) Code of Ethics. These principles shall govern the conduct of every employee

involved, directly or indirectly, in NTMWD's purchasing process.

6.15. Bid Protests

1. Any active or prospective bidder or proposer who is aggrieved in connection with a solicitation for goods or services may protest.
2. If a department is made aware of, or is contacted by a vendor regarding a protest relating to the advertising of bid notices, deadline, solicitation openings, and all other related procedures, as well as any protests relating to alleged improprieties or ambiguities in the specifications, the department must either contact the Purchasing Manager or instruct the vendor to contact the Purchasing Manager.
3. The Purchasing Manager will attempt to determine the reasons behind the potential protest, and failing to satisfy the vendor, will instruct the vendor to prepare a written protest.

6.16. Request to Withdraw Bid After Closing

No bid may be withdrawn after bid closing without acceptable reason given in writing and with the approval of the Purchasing Manager.

6.17. Post Award Debriefing

Vendors have the right to request a debriefing and be furnished with the basis for the selection, decision and award of any purchase. Purchasing will coordinate the vendor meeting and the user department may be required to attend and actively participate in all requested debriefing sessions.

6.18. Exceptions to Purchasing Policy

Exceptions to this policy must be approved by a Deputy Director and/or the Executive Director/General Manager, and must be submitted in writing to the Purchasing Manager.

6.19. Credit Applications

All requests for vendor credit accounts or new NTMWD customer applications for expenditures must be sent to the Purchasing Department for approval.

6.20. Purchasing Card Program

NTMWD has established a Purchasing Card Program for the purchase of relatively small-dollar items. Use of the card is not, however, intended to replace the bid process where that process is appropriate. This program will allow the acquisition of materials and services in a timely manner and increase processing efficiencies. The cards must be used in accordance with NTMWD's Purchasing Policy.

The responsibility for card control ultimately rests with the employee using the card. This policy is designed to protect both the employee and NTMWD. Violation of this policy may result in loss of the privilege of using the card and in disciplinary action.

Personal use of the card

All purchases made on the Purchasing Card should be for official NTMWD business only. **Use of the card for personal purchases is strictly prohibited.** Misuse of the card will result in revocation of the card, disciplinary action up to termination, and possible filing of criminal charges.

Guidelines for use of the card

All purchases must be made in compliance with NTMWD's Purchasing Policy. As a cardholder, the employee is responsible for all charges made to the card and as one to whom purchasing authority has been delegated to insure that all purchase activity is conducted in compliance with NTMWD's Ethics, Gifts, and Conflicts of Interest Policy in the Personnel Policies Manual. The card should be kept secure and protected at all times and used only by the cardholder. Individual purchases on the Purchasing Card are limited to a per transaction dollar limit, including freight, as established by the cardholder department.

Lost or stolen cards

Lost or stolen Purchasing Cards shall be immediately reported to the Accounting Department via email to pcard@ntmwd.com or by calling the Assistant Accounting Manager or Staff Accountant.

The cardholder is responsible for obtaining itemized receipts for all Purchasing Card purchases.

SECTION 7. RECORDS MANAGEMENT POLICY

All NTMWD records shall, at a minimum, be retained in accordance with the Texas State Library and Archives Commission (TSLAC) schedules, whether electronic or hard copy.

The Board of Directors shall appoint a Records Management Officer to ensure that the maintenance, storage and disposition of NTMWD records are carried out in accordance with the requirements of the Texas Local Government Records Act, the requirements of the Texas State Library and Archives Commission, and the directives and procedures of the NTMWD. Each NTMWD department shall appoint a Records Liaison Officer who will be thoroughly familiar with all records created by that department and will work with the Records Management Officer to properly implement this Policy for that department.

The ED/GM will create procedures in the form of an Administrative Directive to provide instructions and procedures to be followed by employees of NTMWD for efficient, economical, and effective controls and processes for the creation, distribution, organization, maintenance, use and disposition of all Records, from their creation to their ultimate disposition, consistent with the Local Government Records Act and accepted records management practices. All Records shall be created, maintained and disposed of in accordance with that Directive.

Please refer questions about the detailed Records Management procedures to the Records Management Officer.

SECTION 8. HIPAA

8.1. Purpose

The purpose of this policy is to ensure that NTMWD, a Covered Entity under the federal Health Insurance Portability and Accountability Act (HIPAA), is in compliance with the Act.

8.2. Definitions

Business Associate: A person or entity that performs a function that requires the creation, use or disclosure of PHI for a Covered Entity and is not considered part of the workforce.

Covered Entity: A Group Health Plan that provides or pays the cost of medical care; a health care clearinghouse; or a healthcare provider. NTMWD is considered a Covered Entity.

Group Health Plan: An employee welfare benefit plan as defined by the Employee Retirement Income Security Act (ERISA), including insured and self-insured plans that pay for items and services for medical care for employees and/or their dependents directly through insurance, reimbursement or that otherwise has 50 or more participants or is administered by an entity other than the employer that has established and maintains the health plan.

Health Insurance Portability and Accountability Act (HIPAA): Federal law that, in part, protects both an individual's rights to keep and/or transfer his/her health insurance when moving from one job to another, and the privacy of the individual's Protected Health Information.

Privacy Officer: Individual responsible for the development and implementation of policies and procedures necessary for HIPAA compliance. This individual is responsible for providing information and handling the administration of request for records. The ED/GM or his/her designee shall serve as the Privacy Officer for NTMWD.

Protected Health Information (PHI): Health information that contains unique features or details that allow an individual to be identified.

8.3. Protected Health Information

The following items have been identified as PHI and are maintained by the Privacy Officer:

- Health Insurance Enrollment Applications
- Insurance Claims Reports

The following items have been identified as PHI and are maintained by the Business Associate:

- Health Insurance Enrollment Applications
- Explanation of Benefits (EOB's) as provided by the Employee
- Other items as provided by the Employee

All identified PHI will be maintained in secured files located in the Human Resources Department. Access to these files will be limited to the Privacy Officer and other Human Resources and Accounting personnel that may, from time to time, have access on a must-need basis. NTMWD will not accept

explanation of benefit forms or medical bills from employees or family members of employees. Such information is to be directed to the Business Associate for assistance with payment concerns.

NTMWD may disclose information about an employee in response to a court proceeding, in response to a subpoena or other legal process. Information may be accessed for business legal requirements, e.g., situations regarding child support or by the expressed written consent of the employee.

8.4. Complaint Procedure

Complaints of potential violations of this policy should be forwarded to the Privacy Officer. The Privacy Officer will follow the Complaint Procedure as outlined in the NTMWD Personnel Policy Manual to resolve all conflicts. Any questions regarding this policy should be directed to the Privacy Officer.

SECTION 9. EMPLOYEE CONCESSION COMMITTEE

The sale of food and beverage on NTMWD property and in NTMWD facilities is a benefit to the employees and to the NTMWD. Adequate, clean, and economical vending machines can provide a convenience to the employee. It is the belief of NTMWD that any profit from vending machines should be used for the benefit of the employees, and that a committee of employees should determine such use.

The employee committee shall be composed of a Chairman and four members, each with a term of two years. The ED/GM shall appoint the Chairman, who will then appoint the Committee members.

It is the objective of the Employee Concession Committee to:

- Provide clean and adequate vending machines for use of NTMWD employees;
- Establish charges that will cover costs and provide capital to purchase additional equipment;
- Develop a plan to use any profits for the benefit of NTMWD employees such as holiday parties, summer picnics, or other approved purposes.

The ED/GM reserves the right to veto plans, which in his judgment are not in the best interest of NTMWD and its employees.

The Chairman of the committee shall be responsible to the ED/GM for the activities of the committee and the employee concession operations. Any problems should be brought to the attention of the ED/GM.

SECTION 10. HANDGUN POLICY

It is the policy of the North Texas Municipal Water District (“NTMWD”), in accordance with Texas Penal Code 46.035, to allow the holder of a valid handgun license to carry his or her weapon in buildings or portions of a building owned or occupied by NTMWD which are open to the public, if the weapon is concealed or carried in a shoulder or belt holster, except that such person shall not be allowed to carry a handgun into a room where an Open Meeting subject to Chapter 551 of the Texas Government Code is being held (Public Meeting).

A Public Meeting is a meeting which had been posted under Section 551 of the Government Code at which a quorum is present whether the meeting is held in a room on NTMWD premises or at another location and includes:

- A meeting of the Board of Directors.
- A meeting of a Committee of the Board of Directors
- A public hearing, workshop or training session at which the Board of Directors is present.
- Any other meeting involving the Board of Directors properly posted and conducted under Chapter 551 Texas Government Code.

The proper signage will be posted advising the public of this policy.

In accordance with the Texas Penal Code and as adopted in Section 2.11 of NTMWD’s “Personnel Policy Manual” NTMWD employees, including contract and temporary employees, are prohibited from carrying a weapon outside their personal vehicle while in the course and scope of performing their job for NTMWD, or while attending any NTMWD sponsored function, whether or not they are on the NTMWD’s property at the time. NTMWD employees may store a firearm or ammunition they are lawfully entitled to possess in a locked privately owned vehicle in the District parking lot as set forth in Section 2.11 of the NTMWD Personnel Policy Manual. Employees of contractors or subcontractors lawfully entitled to possess a handgun who enter on to NTMWD property are prohibited from carrying a weapon outside their vehicle and shall keep all firearms and ammunition in a locked vehicle while on NTMWD property.

This policy does not restrict the ability of police officers, deputy sheriffs, State, Federal or local enforcement or security guards to lawfully carry a weapon on NTMWD premises including in rooms where Open Meetings are being held, whether said rooms are on NTMWD Premises or at another location.

Nothing in this policy authorizes access to any portion of NTMWD property by a Handgun License Holder where public access is otherwise prohibited or restricted for health, safety or security reasons or as provided by NTMWD policy, Federal or State Law.

SECTION 11. FUND BALANCE POLICY

The purpose of this policy is to set guidelines for NTMWD's Fund Balances. Fund Balance shall be defined as the total amount of Cash and Investments (at Purchase Cost) plus Accounts Receivable less Accounts Payable, and less any Remaining Payments to be made on Contracts and Agreements that have been awarded by the Board of Directors. The intent of this policy is to ensure that NTMWD maintains adequate Fund Balances to:

1. Provide sufficient cash flow liquidity for NTMWD's operations
2. Secure and maintain investment grade bond ratings
3. Minimize revenue shortfalls
4. Provide funds for unforeseen expenditures related to emergencies
5. Comply with contractual and bond covenant obligations

Guidelines for Fund Balances Ending as of September 30 are as follows:

1. Operating Funds:
 - a. Definition: The Operating Funds pay for operating expenses including maintenance, minor capital outlay, and other operational expenses.
 - b. Regional Water System – Minimum Balance based on 90 Days' Budgeted Operations and Maintenance Expense for the next Fiscal Year
 - c. All Other (Break-Even) Systems including Support Service Internal Service Fund – shall be maintained at \$0
 - d. Excess operating funds in each system may be transferred to that system's:
 - 1) Capital Improvement Fund,
 - 2) Contingency or Escrow Fund, or
 - 3) Equipment Replacement Fund, or
 - 4) Rate Stabilization Fund

After the annual post audit review or prior to the year-end close out and with approval of the Finance/Audit Committee as required by this policy.

2. Capital Improvement Funds:
 - a. Definition: Funded by either budgeted transfers from operating funds or funds directly provided by cities, Capital Improvement Funds cash finance projects within the Capital Improvement Plans.
 - b. Regional Water System Capital Improvement Fund Minimum Balance shall be maintained at \$15,000,000.

- c. All Other system's Capital Improvement Funds Minimum Balances shall be maintained at the projected ending balances set forth in the most recent Strategic Financial Plan Projections.
- 3. Construction Funds:
 - a. Definition: Funded by the issuance of revenue bonds, Construction Funds are used to debt finance projects within the Capital Improvement Plans.
 - b. Minimum Balance based on the amount of the Initial Bond Proceeds plus Interest Earnings less Past Project payments and less Future Project Payments to be paid on Contracts Awarded by the NTMWD Board of Directors
- 4. Interest & Sinking Funds:
 - a. Definition: The Interest and Sinking Funds pay the principal and interest on each system's debt service obligations.
 - b. Minimum Balance based on 1/12 of the Next Year's Debt Service Payment multiplied by the Number of Months since the Last Debt Service Payment as required the Bond Resolution
- 5. U.S. Government Notes Fund (Regional Water System):
 - a. Definition: Debt Service issued in the Regional Water System through the United States Army Corps of Engineers.
 - b. Minimum Balance based on 1/12 of the Next Year's Debt Service Payment multiplied by the Number of Months since the Last Debt Service Payment
- 6. Debt Service Reserve Funds:
 - a. Definition: Funded by bond proceeds, Debt Service Reserve Funds is required in accordance with the System's Bond Resolutions.
 - b. Minimum Balance based on the Average Annual Debt Service Payments on the Outstanding Bonds as required by the Bond Resolution
- 7. Pipeline Reserve Fund – Chapman (Regional Water System):
 - a. Definition: Funded by budgeted transfers from operating funds, these funds are 50% NTMWD and 50% the City of Irving. These reserve funds are used for repairs and projects on the Chapman Pump Station and Pipeline.
 - b. \$500,000 Maximum Balance as required by the June 4, 1998 Irving Operations Agreement

8. Contingency Funds:
 - a. Definition: Funded by budgeted transfers from operating funds, Reserve for Maintenance Funds are used for large unforeseen expenses.
 - b. Regional Water System - A minimum balance of \$20,000,000.
 - c. Little Elm Water Transmission Facilities - \$50,000 Maximum Balance as required by the March 27, 2003 Water Transmission Facilities Contract
 - d. Plano Water Transmission Facilities - \$75,000 Maximum Balance as required by the March 27, 1997 Water Transmission Facilities Contract
 - e. Stewart Creek Wastewater Treatment Plant - \$100,000 Maximum Balance as required by the October 27, 2011 Wastewater Contract
 - f. Muddy Creek Wastewater Treatment Plant - \$15,000 Maximum Balance as required by the May 27, 1999 Wastewater Contract
 - g. Support Services Internal Service Fund – Maximum Balance based on 15 Days’ Budgeted Operations and Maintenance Expense for the next Fiscal Year.
 - h. All Other Systems’ Contingency Funds Minimum Balances shall be maintained at the projected ending balances set forth in the most recent Strategic Financial Plan Projections.
9. Reserve for Maintenance Funds:
 - a. Definition: Funded by budgeted transfers from operating funds, Reserve for Maintenance Funds are used for large unforeseen expenses
 - b. Kaufman Four-One Water Distribution Facilities: \$75,000 Maximum Balance as required by the October 2, 1989 Water Supply Contract
 - c. All Other Systems’ Reserve For Maintenance Fund Minimum Balances shall be maintained at the funding target set forth in the most recent Strategic Financial Plan Projections
10. Preventative Maintenance Escrow Funds:
 - a. Definition: Funded by budgeted transfers from operating funds, the Preventative Maintenance Escrow Funds are used for large operations and maintenance and maintenance inspection projects that occur approximately once every five to ten years for certain systems. Funds required for the large tasks are collected over a course of years with the objective to reduce large expenditure variances in systems

- b. All Systems' Preventative Maintenance and Equipment Replacement Fund Minimum Balances shall be maintained at the projected ending balances set forth in the most recent Strategic Financial Plan Projections
11. Equipment Replacement Escrow Funds:
- a. Definition: Funded by budgeted transfers from operating funds, the Equipment Replacement Escrow Funds are used for purchasing one-time short term capital purchases
 - b. All Systems' Equipment Replacement Fund Minimum Balances shall be maintained at the projected ending balances set forth in the most recent Strategic Financial Plan Projections
12. Rate Stabilization Fund (Regional Water System):
- a. Definition: The Rate Stabilization Fund is used for assistance to minimize RWS rate fluctuations on a one-time occurrence.
 - b. Maximum balance for the Regional Water system shall be maintained at \$7,000,000
13. Health Insurance Holding Funds:
- a. Definition: The Health Insurance Holding Funds are used to operate the District's Health Insurance Fund for Active Employees and Retirees
 - b. Cumulative Maximum Balance for the Active and Retiree Health Insurance Holding Funds shall be maintained at 2 months' worth of expenses.

Fund Balances shall be evaluated by NTMWD Staff as of September 30 each Fiscal Year. This Policy and the September 30 Fund Balances shall be reviewed by NTMWD Staff with the Finance/Audit Committee within a reasonable time after completion of the annual financial audit.

SECTION 12. DEBT MANAGEMENT POLICY

12.1. Purpose

This policy sets guidelines for NTMWD's management of debt. NTMWD issues debt to primarily fund major capital improvements, expansions and repairs to existing facilities for projects identified in the Capital Improvement Plan of each System. NTMWD does not issue debt to fund routine operation and maintenance expenses or for the primary purpose of investing bond proceeds. The types of debt that can be issued are long term revenue bonds in accordance to each system's bond resolution and short-term Extendable Commercial Paper (ECP) in systems authorized by the NTMWD Board of Directors. For matters not addressed in the policy, legal requirements will prevail.

12.2. Responsibilities and Standards of Care

Employees involved in the debt management process will act as responsible stewards and shall refrain from personal business activity that could conflict with the proper execution and management for the debt management program, or that could impair their ability to make impartial decisions. Employees shall abide by NTMWD's Code of Ethics as outlined in NTMWD Personnel Policies Manual, Section 2.2 Ethics, Gifts, and Conflicts of Interest.

NTMWD shall consider the current debt service payments over the life of outstanding bonds and attempt to maintain level debt service payments unless it is determined that a nonlevel debt service structure would achieve a more desirable result on the system's rates/revenue requirements. Debt issuance schedules shall be determined based upon anticipated funding needs and delivered in a manner that best manages the system's costs over time. Long-term debt shall be issued at a fixed rate, and the term of the debt may not exceed the expected useful life of the project being financed.

Use of specific debt products will be based on analysis provided by Finance Management and Financial Advisor. Recommendations to the Board of Directors will be provided by NTMWD's Executive Staff including but not limited to the Executive Director, Deputy Director of Administrative Services, and Assistant Deputy – Finance.

12.3. Issuance of Debt

NTMWD will use the services of an independent Financial Advisor (FA) for advice on the structuring of new debt, financial analysis of various options, including refunding opportunities, the rating review process, the marketing and marketability of NTMWD debt obligations, issuance and post-issuance services, the preparation of offering documents and other services as necessary. The FA shall not bid on nor underwrite any NTMWD debt issues. NTMWD will be informed by the FA of changes in state and federal legislation related to debt management. The FA shall evaluate credit enhancements for each debt issuance and evaluate the need of bond insurance when applicable and provide recommendation.

Bonds may be sold through competitive sales, negotiated sales or private placement.

Debt may be issued to refund existing debt for restructuring purposes to increase debt capacity,

improve debt coverage ratios in specific years or improve debt service structure. Refunding existing debt may be Taxable or Tax-Exempt, and the District shall require a minimum of 3.00% Present Value Savings to consider a refunding unless the refunding is undertaken for debt restructuring purposes. A Parameter Bond Resolution for refunding existing debt or new money projects may be recommended for approval to the NTMWD Board of Directors seeking to ‘pre-approve’ a refunding transaction subject to certain parameters.

12.4. Disclosure and Monitoring of Debt

NTMWD shall comply with continuing disclosure requirements under SEC Rule 15-c2-12 and its bond documents. NTMWD may use a contracted party to complete continuing disclosure requirements and an arbitrage consultant shall be used to determine federal law compliance. NTMWD shall provide an annual report of outstanding debt obligations in accordance to Texas House Bill No. 1378 and provide a link to debt information on the NTMWD website.

12.5. Procedures for Budgeting and Preparing to Issue Extendable Commercial Paper Bonds

1. Staff will provide the Assistant Deputy - Finance with an estimate of capital needs for the upcoming budget year by March 1. The Assistant Deputy - Finance will determine if long-term debt and/or ECP will be used during the budget year to finance the capital needs, although such determination is not required for the issuance of ECP during the year.
2. Principal and interest will be budgeted each fiscal year for all financings including ECP Bonds. For ECP Bonds, interest will be budgeted at an estimate of the District’s 30 year borrowing cost. Any excess principal and interest collected will be used to (i) pay off outstanding ECP Bonds or bonds, and/or (ii), other purposes allowed by the contract.
3. The Board of Directors will annually approve a resolution authorizing bonds to currently refund ECP. If market conditions are favorable and the outstanding ECP amount is nearing the District’s maximum authorization amount, the District may exercise its option to issue long term fixed rate bonds. The Executive Director, Deputy Director Administrative Services, and Assistant Deputy – Finance have been delegated to act as the District’s Authorized Representative to issue ECP bonds and to issue long term bonds to retire ECP bonds.
4. The District’s obligation to pay the principal of and interest on each ECP bond when due is a limited obligation of the District payable solely from Proceeds of the sale of ECP Bonds, a subordinate lien on Pledged Revenues (as further described in each resolution that authorizes the ECP bond program), or long term refunding bonds issued to refinance ECP Bonds and any funds held and lawfully available for such purpose.
5. All transactions in ECP bonds between the Dealer, the Issuing and Paying Agent, and the District shall be in accordance with the ECP bond financing documents and with the customs and practices in the commercial paper market regarding settlement and delivery, to the extent not inconsistent with the ECP bond financing documents.

ADOPTION BY BOARD OF DIRECTORS

The Administration and Finance Policies in this Manual have been passed and approved, as amended, by the Board of Directors of the North Texas Municipal Water District, in a Regular Meeting of the Board, on this 23rd day of September 2021, and attested to by the signature of the President and Secretary, as indicated below.


RICHARD PEASLEY, Secretary

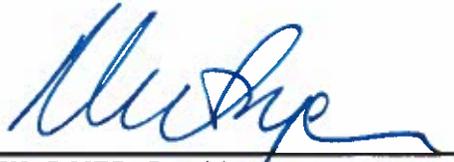

PHIL DYER, President



EXHIBIT A

NTMWD INVESTMENT STRATEGY STATEMENT

PREFACE

It is the policy of the North Texas Municipal Water District that, giving due regard to the safety and risk of investment, all available funds shall be invested in conformance with State legislation, Federal arbitrage regulations, applicable Bond Resolution requirements, adopted Investment Policy, and adopted Investment Strategy.

In accordance with the Public Funds Investment Act, NTMWD investment strategies shall address the following priorities (in order of importance):

- Understanding the suitability of the investment to the financial requirements of NTMWD;
- Preservation and safety of principal;
- Liquidity;
- Marketability of the investment prior to maturity;
- Diversification of the investment portfolio; and,
- Yield.

Effective investment strategy development coordinates the primary objectives of NTMWD's Investment Policy and cash management procedures to enhance interest earnings and reduce investment risk. Aggressive cash management will increase the available "investment period" and subsequently interest earnings. Maturity selections shall be based on cash flow and market conditions to take advantage of various interest rate cycles. NTMWD's portfolio shall be designed and managed in a timely manner responsive to the public trust and consistent with the Investment Policy.

Each major fund type has varying cash flow requirements and liquidity needs. Therefore, specific strategies shall be implemented considering the fund's unique requirements. NTMWD funds shall be analyzed and invested according to the following major fund types:

- A. Operating Funds
- B. Construction Funds
- C. Interest and Sinking Funds
- D. Debt Service Reserve Funds
- E. Contingency Funds
- F. Reserve for Maintenance Funds
- G. Rate Stabilization Funds

INVESTMENT STRATEGY

In order to minimize risk of loss due to interest rate fluctuations, investment maturities will not exceed the anticipated cash flow requirements of the funds. Investment guidelines by fund-type are as follows:

A. OPERATING FUNDS

1. Suitability

Any investment eligible in the Investment Policy is suitable for Operating Funds.

2. Safety of Principal

All investments shall be of high quality securities with no perceived default risk. Market price fluctuations will however occur. By managing the weighted average days to maturity of the Operating Fund portfolios to less than 270 days and restricting the maximum allowable maturity to 18 months, the price volatility of the overall portfolio will be minimized.

3. Liquidity

The Operating Funds require short-term liquidity. Repurchase agreements and short-term investment pools shall provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

4. Marketability

Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market.

5. Diversification

Investment maturities shall be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of NTMWD. Market cycle risk will be reduced by diversifying the appropriate maturity structure out through 18 months.

6. Yield

Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling three-month treasury bill portfolio shall be the minimum yield objective.

B. CONSTRUCTION FUNDS

1. Suitability

Any investment eligible in the Investment Policy is suitable for Construction Funds.

2. Safety of Principal

All investments shall be of high quality securities with no perceived default risk. Market price fluctuations will however occur. By managing the Construction Fund's portfolio to not exceed the anticipated expenditure schedule, the market risk of the overall portfolio will be minimized.

3. Liquidity

NTMWD funds used for Construction programs have reasonably predictable draw down schedules. Therefore, investment maturities shall generally follow the anticipated cash flow requirements. Investment pools shall provide readily available funds generally equal to one month's anticipated cash flow needs, or a competitive yield alternative for short term fixed maturity investments. A singular repurchase agreement may be utilized if disbursements are allowed in the amount necessary to satisfy any expenditure request, this investment structure is commonly referred to as a flexible repurchase agreement.

4. Marketability

Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market.

5. Diversification

Market conditions and the arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for bond proceeds and other construction funds. With bond proceeds, if investment rates exceed the applicable arbitrage yield, NTMWD is best served by locking in most investments. If the arbitrage yield cannot be exceeded, then concurrent market conditions will determine the attractiveness of diversifying maturities or investing in shorter and larger amounts. At no time shall the anticipated expenditure schedule be exceeded in an attempt to bolster yield with any NTMWD funds.

6. Yield

Achieving a positive spread to the applicable arbitrage yield is the desired objective for bond proceeds. Non-bond proceeds construction and capital project funds will target a rolling portfolio of six-month treasury bills.

C. INTEREST AND SINKING FUNDS

1. Suitability

Any investment eligible in the Investment Policy is suitable for Interest and Sinking Funds.

2. Safety of Principal

All investments shall be of high quality securities with no perceived default risk. Market price fluctuations will however occur. By managing the Interest and Sinking Fund's portfolio to not exceed the debt service payment schedule, the market risk of the overall portfolio will be minimized.

3. Liquidity

Interest and Sinking Funds have predictable payment schedules. Therefore, investment maturities shall not exceed the anticipated cash flow requirements. Investment pools shall provide a competitive yield alternative for short-term fixed maturity investments. A singular repurchase agreement may be utilized if disbursements are allowed in the amount necessary to satisfy any debt service payment, this investment structure is commonly referred to as a flexible repurchase agreement.

4. Marketability

Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market.

5. Diversification

Market conditions influence the attractiveness of fully extending maturity to the next "unfunded" payment date. Generally, if investment rates are trending down, NTMWD is best served by locking in most investments. If interest rates are flat or trending up, then concurrent market conditions will determine the attractiveness of extending maturity or investing in shorter alternatives. At no time shall the debt service schedule be exceeded in an attempt to bolster yield.

6. Yield

Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling three month treasury bill portfolio shall be the minimum yield objective.

D. DEBT SERVICE RESERVE FUNDS

1. Suitability

Any investment eligible in the Investment Policy is suitable for the Debt Service Reserve Funds. Bond resolution constraints and insurance company restrictions create issue-specific considerations in addition to the Investment Policy.

2. Safety of Principal

All investments shall be of high quality securities with no perceived default risk. Market price fluctuations will however occur, by managing the Debt Service Reserve Fund's portfolio maturities to not exceed the call provisions of the bond issue, will reduce the investment's market risk if NTMWD's bonds are called and the reserve fund liquidated. No investment maturity shall exceed the final maturity of the bond issue. Annual mark-to-market requirements or specific maturity and average life limitations within the bond issues' documentation will influence the attractiveness of market risk and reduce the opportunity for maturity extension.

3. Liquidity

Debt Service Reserve Funds have no anticipated expenditures. The funds are deposited to provide annual debt service payment protection to NTMWD's bond holders. The funds are "returned" to NTMWD at the final debt service payment. Market conditions and arbitrage regulation compliance determine the advantage of security diversification and liquidity. Generally, if investment rates exceed the applicable arbitrage yield for a specific bond issue, NTMWD is best served by locking in investment maturities and reducing liquidity. If the arbitrage yield cannot be exceeded, then concurrent market conditions will determine the attractiveness of locking in maturities or investing shorter and anticipating future increased yields.

4. Marketability

Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market.

5. Diversification

Market conditions and the arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for Debt Service Reserve Funds. At no time shall the final debt service payment date of the bond issue be exceeded in an attempt to bolster yield.

6. Yield

Achieving a positive spread to the applicable arbitrage yield is the desired objective.

E. CONTINGENCY FUNDS

1. Suitability

Any investment eligible in the Investment Policy is suitable for Contingency Funds.

2. Safety of Principal

All investments shall be of high quality securities with no perceived default risk. Market price fluctuations will however occur. By managing the weighted average days to maturity of the Contingency Fund's portfolio to less than 180 days and restricting the maximum allowable maturity to 3 months, the price volatility of the overall portfolio will be minimized.

3. Liquidity

The Contingency Funds require the greatest short-term liquidity of any of the fund types. Repurchase agreements and short-term investment pools shall provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

4. Marketability

Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market.

5. Diversification

Investment maturities shall be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of NTMWD. Market cycle risk will be reduced by diversifying the appropriate maturity structure out through 3 months.

6. Yield

Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling three-month Treasury bill portfolio shall be the minimum yield objective.

F. RESERVE FOR MAINTENANCE FUNDS

1. Suitability

Any investment eligible in the Investment Policy is suitable for the Reserve for Maintenance Funds.

2. Safety of Principal

All investments shall be of high quality securities with no perceived default risk. Market price fluctuations will however occur. By managing the weighted average days to maturity of the Reserve for Maintenance Fund's portfolio to less than 180 days and restricting the maximum allowable maturity to 3 months, the price volatility of the overall portfolio will be minimized.

3. Liquidity

The Reserve for Maintenance Funds require the greatest short-term liquidity of any of the fund types. Repurchase agreements and short-term investment pools shall provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

4. Marketability

Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market.

5. Diversification

Investment maturities shall be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of NTMWD. Market cycle risk will be reduced by diversifying the appropriate maturity structure out through 3 months.

6. Yield

Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling three-month Treasury bill portfolio shall be the minimum yield objective.

G. RATE STABILIZATION FUNDS

1. Suitability

Any investment eligible in the Investment Policy is suitable for the Rate Stabilization Funds.

2. Safety of Principal

All investments shall be of high quality securities with no perceived default risk. Market price fluctuations will however occur. By managing the weighted average days to maturity of the Rate Stabilization Fund's portfolio to less than 180 days and

restricting the maximum allowable maturity to 3 months, the price volatility of the overall portfolio will be minimized.

3. Liquidity

The Rate Stabilization Funds require the greatest short-term liquidity of any of the fund types. Repurchase agreements and short-term investment pools shall provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

4. Marketability

Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market.

5. Diversification

Investment maturities shall be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of NTMWD. Market cycle risk will be reduced by diversifying the appropriate maturity structure out through 3 months.

6. Yield

Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling three-month Treasury bill portfolio shall be the minimum yield objective.

EXHIBIT B

AUTHORIZED INVESTMENT TRAINING SOURCES

Government Finance Officers Association
Government Finance Officers Association of Texas
University of North Texas Center for Public Management
Government Treasurer's Organization of Texas
Hilltop Securities
Texas CLASS
Alliance of Texas Treasury Associations
Texas Treasury Management Association
Texas Municipal League
Texas Association of Counties
Texas Association of School Boards
Texas Water Conservation Association

EXHIBIT C

AUTHORIZED INVESTMENT ADVISORS

Hilltop Securities Asset Management, LLC.

AUTHORIZED BROKERS

Hilltop Securities, Inc.
Multi-Bank Securities, Inc.
FTN Financial Capital Markets