RESOLUTION NO. 13-1401

A RESOLUTION APPROVING THE INVESTMENT POLICY FOR FUNDS FOR THE CITY OF EULESS AND PROVIDING AN EFFECTIVE DATE.

WHEREAS, Chapter 2256 of the Texas Government Code, also known as the Public Funds Investment Act ("PFIA"), requires the governing body of an investing entity to adopt by rule, order, ordinance, or resolution, a written investment policy regarding the investment of its funds; and

WHEREAS, once an investment policy has been adopted, the PFIA also requires the governing body to review the investment policy and investment strategies annually; and

WHEREAS, the PFIA states that the governing body shall adopt a written instrument by rule, order, ordinance, or resolution stating that it has reviewed the investment policy and investment strategies: and

WHEREAS, the City's Investment committee has reviewed the current investment policy and recommends approval with no changes at this time; and

WHEREAS, the City Council desires to approve the Investment Policy;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF EULESS, TEXAS:

SECTION 1.

THAT the City Council has reviewed the attached Investment Policy for the City of Euless and the policies and strategies contained therein (**Attachment "A"**).

SECTION 2.

THAT the City Council hereby adopts the attached Investment Policy as the City's Investment Policy,

SECTION 3.

THAT all resolutions, or parts of resolutions in force with provisions relating to this resolution, which are inconsistent or in conflict with the terms or provisions contained herein, are hereby repealed to the extent of any such conflict only. The non-conflicting sections, sentences, paragraphs, and phrases shall remain in full force and effect.

SECTION 4.

THAT this resolution shall become effective immediately upon its passage and approval.

APPROVED AND ADOPTED at a regular meeting of the Euless City Council on the 22nd day of January 2013, by a vote of _____ ayes, _____ nays, and _____ abstentions.

APPROVED:

_____
Mary Lib Saleh, Mayor

ATTEST:

_____
Kim Sutter, TRMC City Secretary

Attachment "A"

CITY OF EULESS
FISCAL POLICY

DATE: June 26, 1990
REV: January 25, 2012
RE: Investment Policy

PREPARED BY: Finance Department
REVIEWED BY: City Manager
APPROVED BY: City Council

I. SCOPE

This investment policy applies to the investment activities of the Government of the City of Euless, Texas. This policy serves to satisfy the statutory requirements of defining and adopting a formal investment policy. The policy and strategy shall be reviewed annually by the Investment Committee and any modifications must be approved by the Investment Committee and forwarded to City Council for final approval. The City Council must adopt a written instrument by rule, order, ordinance, or resolution stating that it has reviewed the investment policy and investment strategies. Any changes made to either the policy or strategies will be recorded in this written instrument. This Investment Policy, as approved, is in compliance with Chapter 2256 of the Texas Government Code, also known as "The Public Funds Investment Act".

A. FUNDS INCLUDED All financial assets of all funds, including the General Fund and any other accounts of the City not specifically excluded in these policy guidelines are included. These funds, as well as funds that may be created from time-to-time, shall be administered in accordance with the provisions of these policies. All funds will be pooled for investment purposes. The strategy developed for this pooled fund group will address the varying needs, goals, and objectives of each fund.

B. FUNDS EXCLUDED None.

II. OBJECTIVES AND STRATEGY

A. COMPLIANCE The City must adopt rules, designate staff to manage local funds, and submit related reports as outlined by Chapter 2256 of the Texas Government Code, also known as the Public Funds Investment Act ("PFIA"). All investments made on behalf of the City must comply with the Public Funds Investment Act and all federal, state, and local statutes, rules, or regulations. In conjunction with the comprehensive annual financial audit and report, the City will perform, or have performed, a compliance audit of management controls on investments and adherence to the City's approved investment policy.

B. SAFETY OF PRINCIPAL The primary objective of the City's investment activity is the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

1. Credit Risk – The City of Euless will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:

   a. Limiting investments to the types of securities listed in Section V of this investment policy.

b. Pre-qualifying the financial institutions, broker/dealers and advisors with whom the City of Euless will do business.

c. Diversifying the investment portfolio so that the impact of potential losses from any type of security or from any one issuer will be minimized.

2. Interest Rate Risk – The City of Euless will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates by:

a. Structuring the portfolio so that securities mature to meet cash requirements for ongoing operations, avoiding the need to sell securities prior to maturity.

b. Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

C. LIQUIDITY The City's investment portfolio will remain sufficiently liquid to enable the City to meet operating requirements that might be reasonably anticipated. Liquidity shall be achieved by matching investment maturities with forecasted cash flow requirements and by investing in securities with active secondary markets. In addition, all or a portion of the portfolio may be invested in money market mutual funds or local government investment pools which offer same day liquidity for short-term funds.

D. YIELD The City's cash management portfolio shall be designed with the objective of regularly exceeding the average rate of return on three-month U.S. Treasury Bills, or the average Federal Reserve Discount whichever is higher. The investment program shall seek to augment returns above this threshold consistent with risk limitations identified herein and prudent investment principles.

Funds held for future capital projects shall be invested in securities that reasonably can be expected to produce enough income to offset inflationary construction cost increases.

E. RISK OF LOSS All participants in the investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction that might impair public confidence in the City's ability to govern effectively.

F. STRATEGY The strategy for all pooled funds is to assure that cash flows are matched with projected needs and assume adequate liquidity and safety. This may be accomplished by purchasing high quality securities in a laddered structure or utilizing an investment pool. Furthermore the following purposes are also considered when investing:

1. Funds for Capital Improvement Projects or special purposes should allow for flexibility and unanticipated project outlays by having a portion of their investments in highly liquid securities. The stated final maturity dates of securities held should not exceed the estimated project completion date. A weighted average maturity of 365 days or less will be maintained and calculated by using the stated final maturity of each security.

2. Funds for Debt Service should assure liquidity adequate to cover the debt service obligation on the required payment date. Surplus funds outside the debt service dates will remain within the investment and fiscal policies.

3. Debt Service Reserves, Operating Reserves, Emergency and Contingency funds will have the ability to generate a dependable revenue stream to the appropriate fund from securities with a low degree of volatility. Such securities will tend to hold their value during economic cycles. The stated final maturity dates of securities held should not exceed five years.

4. Operating funds will be structured in such a way as to minimize volatility during economic cycles. This may be accomplished by purchasing high quality short-term securities which will compliment each other in a laddered maturity schedule. The weighted average maturity on these funds will remain within the 6 to 9 month range and calculated by using the stated final maturity date of each security.

III. INVESTMENT COMMITTEE

A. MEMBERS There is hereby created an Investment Committee, consisting of the City Manager and/or his designee, the Deputy City Manager, the Director of Finance, and the Mayor or Mayor's designee. The Investment Committee shall meet at least quarterly to determine general strategies and to monitor results and shall call a special meeting of the Investment Committee within 24 hours of notification of any significant events related to the City's portfolio including a downgrade in the investment rating. All prudent measures will be taken to liquidate an investment whose rating has been downgraded to less than the required minimum rating. The Investment Committee shall be authorized to invite advisors to the meetings as needed including, but not limited to, the City Attorney, the City Council, or outside advisors.

B. SCOPE The Investment Committee shall include in its deliberations such topics as: performance reports, economic outlook, portfolio diversification, maturity structure, potential risk to the City's funds, authorized brokers and dealers, and the target rate of return on the investment portfolio.

C. PROCEDURES The Investment Committee shall provide for minutes of its meetings. Any two members of the Investment Committee may request a special meeting, and three members shall constitute a quorum. The Investment Committee shall establish its own rules of procedures.

IV. RESPONSIBILITY AND CONTROL

A. DELEGATION Management responsibility for the Investment Program is hereby delegated to the Director of Finance, who shall establish written procedures and internal controls for the operation of the investment program, consistent with this Investment Policy. Such procedures shall include, but not be limited to, account management procedures, cash flow procedures, investment transaction procedures, authorized dealer selection process, investment portfolio reporting requirements, and explicit delegation of authority to persons responsible for investment transactions. No person shall engage in an investment transaction except as provided under the terms of this policy and the procedures

established by the Director of Finance. The Director of Finance shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of the Authorized Investment Officers and subordinate officials.

B. SUBORDINATES The Director of Finance will serve as the city's chief investment officer. The Assistant Director of Finance, and the accountant responsible for cash and debt analysis are hereby designated as Authorized Investment Officers, responsible for the investment of the city's funds, pursuant to the Public Funds Investment Act Section 2256.005 Subsection F. Authority granted to a person to invest the funds on behalf of the City shall remain in effect until rescinded by the City or until the person resigns from or is terminated by the City. All authorized investment officers shall receive not less than 10 hours of investment training relating to their investment responsibilities, as described by Section 2256.008 of the Public Funds Investment Act not less than once in a two-year period that begins on the first day of the city's fiscal year and consists of the two consecutive fiscal years after that date. This training must be provided by an independent source which has been approved by the investment committee. At least one training session must be completed by the investment officer within twelve months of assuming their duties. The training must include, but is not limited to, education in investment controls, security risks, strategy risks, market risks, diversification, and compliance with the Public Funds Investment Act.

C. QUARTERLY REPORTS The Director of Finance shall prepare and submit an investment report, at least quarterly, that summarizes recent market conditions, economic developments and anticipated investment conditions to management and City Council. If the city invests in other than money market mutual funds, investment pools, or accounts offered by its depository bank in the form of certificates of deposit, or money market accounts, or similar accounts, the reports prepared by the investment officers shall be formally reviewed, at least annually, by an independent auditor, and the result of this review shall be reported to the City Council by that auditor. The report shall be in compliance with the Public Funds Investment Act and must:

1. describe in detail the investment position of the city on the date of the report;

2. be prepared jointly by all investment officers of the city;

3. be signed by each investment officer of the city;

4. contain a summary statement of each pooled fund group that states:

    a. the beginning market value for the reporting period,
    b. the ending market value for the period, and
    c. the fully accrued interest for the reporting period;

5. state the book value, market value and maturity date for each separately invested asset at the end of the reporting period by type of asset and fund type invested;

6. state the account or fund or pooled group fund in the city for which the individual investment was acquired;

7. state the compliance of the City's investment portfolio as it relates to the City's investment strategies and the Public Funds Investment Act;

8. explain the quarter's total investment return and compare the return with budgetary expectations; and

9. include an appendix that discloses all transactions during the past quarter.

D. ANNUAL REPORTS Within 120 days of the end of the fiscal year, the Director of Finance shall present a comprehensive annual report on the investment program and investment activity. The annual report shall include twelve-month and quarterly comparison returns, and shall suggest improvements that might be made in the investment program.

E. MONITORING OF MARKET PRICE OF INVESTMENTS The investment officer shall determine the market value of each investment at least quarterly and at a time as close as practicable to the closing of the reporting period for investments. Such values shall be included on the investment reports. The following methods shall be used:

1. Certificates of deposits shall be valued at their face value plus any accrued but unpaid interest.

2. Shares in money market mutual funds and investment pools shall be valued at par plus any accrued but unpaid interest.

3. Other investment securities may be valued in any of the following ways:

   a. the lower of two bids obtained from securities broker/dealers for such security;

   b. the average of the bid and asked prices for such investment security as published in the Wall Street Journal;

   c. the bid price published by any nationally recognized security pricing service.

F. PRUDENCE The standard of prudence to be used by the investment officers shall be "prudent person" standard and shall be applied in the context of managing an overall portfolio. The "prudent person" standard states that, "Investments shall be made with judgement and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived." Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

G. ETHICS AND CONFLICTS OF INTEREST Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution and management of the investment program, or that could impair their ability to make impartial investment decisions. Employees and investment officers shall

disclose any material interests in financial institutions with which they conduct business. 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 the City of Euless.

An investment officer who has a personal business relationship with a business organization offering to engage in an investment transaction with the city shall file a statement disclosing that personal business interest. Investment officers who are related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the City shall also disclose such relationship. A statement required under this section must be filed with the Texas Ethics Commission and the City Council. For the purpose of this section, an investment officer has personal business relationship with a business organization if:

1. The investment officer owns 10 percent or more of the voting stock or shares of the business organization or owns $5,000 or more of the fair market value of the business organization;

2. Funds received by the investment officer from the business organization exceed 10 percent of the investment officer's gross income for the previous year; or

3. The investment officer has acquired from the business organization during the previous year investments with a book value of $2,500 or more for the personal account of the investment officer.

V. AUTHORIZED AND SUITABLE INVESTMENT SECURITIES

A. ACTIVE PORTFOLIO MANAGEMENT The City intends to pursue an active versus a passive portfolio management philosophy. That is, securities may be sold before they mature if market conditions present an opportunity for the City to benefit from the trade.

B. ELIGIBLE INVESTMENTS The following investments will be permitted by this policy as defined by state and local law where applicable:

1. Obligation of the United States or its agencies and instrumentalities (except for mortgage pass-through securities);

2. Fully insured or collateralized* certificates of deposits issued by a broker or depository institution that has its main office or branch in the State of Texas and is:

   a. guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor;

   b. secured by obligations that are described in the Tex. Gov't. Code Sec. 2256.009(a) that has a market vaue of not less that the principal amount of the certificates but excluding those mortgage backed securities as described by Tex. Gov't Code Sec. 2256.009(b); or

c. secured in any other manner and amount provided by law for deposits of the City of Euless

3. Fully collateralized* repurchase agreements having a defined termination date. (Repurchase agreement" means a simultaneous agreement to buy, hold for a specified time, and sell back at a future date obligations described by Section V. A. of this Policy, at a market value at the time the funds are disbursed of not less than the principal amount of the funds disbursed. The term refers to direct security repurchase agreement and a reverse security repurchase agreement.) These investments must be in accordance with a master repurchase agreement approved by the Investment Committee;*(see definition of collateral, Section VII).

4. Investment Pools with a weighted average maturity of 90 days or less. The pool must enter into a contract approved (by resolution) by the City Council to provide services to the city. The pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service. A public funds investment pool created to function as a money market mutual fund must mark its portfolio to market daily and, to the extent reasonably possible, stabilize at a $1 net asset value. In addition, a public funds investment pool created to function as a money market mutual fund shall report yield to its investors in accordance with regulations of the Federal Securities and Exchange Commission. The pool must provide to the investment officer or authorized representative of the entity an offering circular or other similar disclosure instrument that contains, at a minimum, the following information:

   a. the types and percentage breakdown of securities in which the pool is invested;
   b. the maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool;
   c. the maximum stated maturity date any investment security within the portfolio has;
   d. the objectives of the pool;
   e. the size of the pool;
   f. the names of the members of the advisory board of the pool and the dates their terms expire;
   g. the custodian bank that will safekeep the pool's assets;
   h. whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market price fluctuation;
   i. whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secodary source of payment;
   j. the name and address of the independent auditor of the pool;
   k. the requirements to be satisfied for an entity to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the entity to invest funds in and withdraw funds from the pool; and
   l. the performance history of the pool, including yield, average dollar weighted maturities, and expense ratios.

   To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must furnish to the investment officer or other authorized representative of the entity:

a. investment transaction confirmations; and
b. a monthly report that contains, at a minimum, the following information:

1. the types and percentage breakdown of securities in which the pool is invested;
2. the current average dollar-weighted maturity, based on the stated maturity date, of the pool;
3. the current percentage of the pool's portfolio in investments that have stated maturites of more than one year;
4. the book value versus the market value of the pool's portfolio, using amortized cost valuation;
5. the size of the pool;
6. the number of participants in the pool;
7. the custodian bank that is safekeeping the assets of the pool;
8. a listing of daily transaction activity of the entity participating in the pool
9. the yield and expense ratio of the pool, including a statement regarding how yield is calculated;
10. the portfolio managers of the pool; and
11. any changes or addenda to the offering circular.

5. No load money market mutual fund, registered with and regulated by the Securities Exchange Commission, which has a dollar weighted average portfolio maturity of 90 days or less whose assets consist exclusively of the assets described in section A-C and whose investment objectives includes the maintenance of a stable net asset value of $1 for each share. Each fund must provide the City with a prospectus and other information required by the Securites Exchange Act of 1934 or the Investment Advisor Act of 1940.

6. Other such securities or obligations as approved by City Council upon recommendation of the Investment Committee. No securities will be purchased which have a potential for price volatility that is inappropriate for the City and incompatible with its investment strategies. This includes, but is not limited to, certain collateralized* mortgage obligations, such as principal and interest only securities, inverse floaters, capped and mismatched floaters, and structures notes and range notes.

C. <u>LENGTH OF INVESTMENTS</u> Except for monies of Reserve funds, Emergency funds, Contingency funds and construction funds, the City of Euless shall invest in instruments whose maturities do not exceed two (2) years at the time of purchase.

1. For the General Fund, Water & Sewer Utility Fund, and any other operating funds, the weighted average maturity of each fund's portfolio will remain within the 6 to 9 month range.Assets held from bond proceeds may be invested in maturities with a final stated maturity greater than (2) years based on estimated project completion dates.

2. Assets held in the General Obligation Interest & Sinking Fund may be invested in maturities which provide liquidity adequate to cover the debt service payment dates.

3. Assets held in the General Emergency, General Contigency, Water & Sewer Emergency, and the Short-term Motor Vehicle Reserve Funds may be invested in maturities not exceeding five (5) years.

4. An average remaining maturity of 365 days or less shall be maintained on bond proceeds subject to arbitrage rebate restrictions, and the total portfolio average remaining shall not exceed one year.

D. DIVERSIFICATION It is the policy of the City of Euless to diversify its investment portfolios. Assets held in the common investment portfolio shall be diversified to eliminate the risk of loss resulting from one concentration of assets in a specific maturity, a specific issuer or a specific class of securities. Diversification strategies shall be determined and revised periodically by the Investment Committee. In establishing specific diversification strategies, the following general policies and constraints shall apply:

1. Portfolio maturities shall be staggered in a way that protects interest income from the volatility of interest rates that avoids undue concentration of assets in a specific maturity sector.

2. Securities shall be selected which provide for stability of income and reasonable liquidity. In addition, the city will invest a portion of the city's portfolio in readily available funds such as local government investment pools and money market funds to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

3. The Investment Committee shall establish strategies and guidelines for the percentage of the total portfolio that may be invested in securities other than repurchase agreements, treasury bills, or insured and collateralized* certificates of deposit.

4. The Investment Committee shall conduct a quarterly review of these guidelines, and shall evaluate the probability of market and default risk in various investment sectors as part of its considerations. *(see definition of collateral, Section VII)

5. The investment officer will obtain at least three competitive bids from approved brokers on our broker/dealer list before making an investment transaction. In the event of a tie, the choice will be made by a cumulative and objective manner.

E. ARBITRAGE Although steps have been taken to distribute bond issuance annually in amounts not to exceed $5 million dollar increments, if this process does not occur, the City of Euless will fall under arbitrage regulations.

The Tax Reform Act of 1986 provided limitations restricting the City's investing of tax-exempt General Obligation Bond proceeds and debt service income. New arbitrage rebate provisions require that the City compute earnings on investment from each issue of bonds on an annual basis to determine if a rebate is required. To determine the City's arbitrage position, the City is required to perform specific calculations relative to the actual yield earned on the investment of the funds and the yield that could have been earned if the funds had been invested at a rate equal to the yield on the bonds sold by the City. The rebate provision states that periodically (not less than once every five years, and not later than sixty days after maturity of the bonds), the City is required to pay the U.S. Treasury a

rebate of excess earnings based on the City being in a positive arbitrage position. The Tax Reform restrictions require extreme precision in the monitoring and recording facets of investments as a whole, and particularly as relates to yields and computations so as to insure compliance. Failure to comply can dictate that the bonds become taxable, retroactively from the date of issuance.

The City's investment position relative to the new arbitrage restrictions is the continued pursuit of maximizing yield on applicable investments while insuring the safety of capital and liquidity. It is a fiscally sound position to continue maximization of yield and rebate excess earnings, if necessary.

VI. SELECTION OF BANKS AND DEALERS

A. BIDDING PROCESS Periodically, a Depository shall be selected through the City's banking services procurement process, which shall include a formal request for proposal (RFP) issued in compliance with applicable State law. The contract can be extended as per the RFP specifications. In selecting depositories, the credit worthiness of institutions shall be considered, and the Director of Finance shall conduct a comprehensive review of prospective depositories credit characteristics and financial history.

B. INSURABILITY Banks and Savings & Loan Associations seeking to establish eligibility for the City's competitive investment program, shall submit financial statements, evidence of federal insurance and other information as required by the Director of Finance.

C. AUTHORIZED BROKER/DEALERS A list will be maintained of "primary" dealears and regional dealers that qualify under the Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule). All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the audited financial statements, proof of state registration, and a completed broker/dealer questionnaire: All brokers and dealers must be authorized by the Investment Committee, as analyzed by this Broker Questionnaire. Investment Officers shall not conduct business with any firm with whom public entities have sustained losses on investments or whose name has been removed from an approved list by the Investment Committee. At least annually, the investment committee will review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

D. COMPLIANCE A written copy of the investment policy will be presented to any investment pool or business organization offering to engage in an investment transaction with the City. A qualified representative (as described by section 2256.002, subdivision 10 of the Texas Government Code) of such business organization shall execute a written instrument, in a form acceptable to both the city and the organization, certifying that they have received and reviewed a written copy of the City's investment policy. The firm must acknowledge that it has implemented reasonable internal procedures and controls in an effort to preclude investment transactions conducted between the City and the organization that are not authorized by the City's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards. The investment officer of the City may not acquire or otherwise obtain any authorized investment described in the City's investment policy from a person who has not delivered such instrument. This instrument

does not, at any time, relieve the City of the responsibility of monitoring all investment transactions to determine if they are in compliance with this policy.

VII. SAFEKEEPING AND CUSTODY

A. INSURANCE OR COLLATERAL All deposits and investments of City funds other than direct purchases of U.S. Treasuries or U.S. Agencies shall be secured by pledged collateral with a market value equal to no less than 105% of the deposits or investments less any amount insured by the FDIC or FSLIC. Evidence of the pledged collateral shall be maintained by the Director of Finance or a third party financial institution. Repurchase agreements shall be documented by a specific agreement noting the collateral pledged in each agreement. Collateral shall be reviewed monthly to assure the market value of the securities pledged equals or exceeds the related bank balances.

B. SAFEKEEPING AGREEMENT All safekeeping arrangements shall be in accordance with a Safekeeping Agreement approved by the Investment Committee which clearly defines the procedural steps for gaining access to the collateral should the City of Euless determine that the City's funds are in jeopardy. The safekeeping institution, or Trustee, shall be the Federal Reserve Bank or an institution not affiliated with the firm pledging the collateral. The safekeeping agreement shall include the signatures of the City of Euless, the firm pledging the collateral, and the Trustee.

C. COLLATERAL DEFINED The City of Euless shall accept only the following securities as collateral:

1. FDIC and FSLIC insurance coverage.

2. United States Treasuries & Agencies.

3. Texas State, City, County, School, or Road District bonds with a remaining maturity of ten (10) years or less with an investment grade bond rating from Moody's Investors Services (Baa and above) and Standard & Poor's Corporation (BBB and above).

4. Other securities as approved by the Investment Committee.

D. SUBJECT TO AUDIT All collateral shall be subject to inspection and audit by the Director of Finance, or designee, as well as, the City's independent auditors.

E. DELIVERY VS. PAYMENT Treasury Bills, Notes & Bonds and Government Agencies' Securities, and all other investment transactions, except investment pools and mutual funds, shall be purchased using the delivery versus payment method. That is, funds shall not be wired or paid until verification has been made that the collateral was received by the Trustee. The collateral shall be held in the name of the City or held on behalf of the City. The Trustee's records shall assure the notation of the City's ownership of or explicit claim on the securities. The original copy of all safekeeping receipts shall be delivered to the City.

VIII. MANAGEMENT AND INTERNAL CONTROLS

The Director of Finance, or designee, shall establish a system of internal controls which shall be reviewed by an independent auditor. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees or Investment Officers of the City.

Controls and managerial emphasis deemed most important that shall be employed where practical are:

A. Control of collusion

B. Separation of duties

C. Separation of transaction authority from Accounting and Record-keeping

D. Custodian safekeeping receipts records management

E. Avoidance of physical delivery securities

F. Clear delegation of authority

G. Documentation of investment bidding events

H. Written confirmation of transactions for investments and wire transfers

I. Reconcilements and comparisons of security receipts with the investment subsidiary records

J. Compliance with investment policies

K. Accurate and timely reports

L. Validation of investment maturity decisions with supporting cash flow data.

M. Adequate training and development of Investment Officials

N. Verification of all interest income and security purchase and sell computations

O. Review of financial conditions of all brokers, dealers, and depository institutions

P. Staying informed about market conditions, changes and trends that require adjustments in investment strategies