CITY OF HEATH

The City of Heath is seeking applications from eligible institutions to be the banking services depository. This includes the basic services of receiving deposits, paying items, wiring funds out, receiving funds wired in, stop payments, and other normal business banking activities. This agreement will not cover any investment transaction activities other than safekeeping services to include receiving and delivering securities, coupon collections, and maturity collections.

CITY OF HEATH
REQUEST FOR PROPOSAL
FOR BANKING SERVICES

I. INTRODUCTION

The City of Heath, the City of Heath Economic Development Corporation, and the City of Heath Municipal Benefits Corporation (collectively described as the "City") pursuant to Chapter 105, Texas Local Government Code are requesting proposals from eligible and qualified financial institutions to provide the City the banking services contract to be awarded March 22nd, 2016. Services to begin May 1st, 2016 and extend through April 30th, 2021. Through this contract the City intends to minimize banking costs, improve operational efficiency, and maximize investment capabilities. This Request for Proposal (RFP) represents the cash management goals, specifies all banks; required qualifications, the banking services required, the estimated activity volumes on all accounts, the method and terms of compensation, submission instructions and the contract award provisions.

II. PROPOSAL INSTRUCTIONS AND QUALIFICATIONS

MINIMUM QUALIFICATIONS

To assure a close working relationship, to facilitate available services, and to support local business, the entity may give priority to those banks with full service capabilities within the City limits. Proposers shall be treated fairly and equally with respect to any opportunity for discussion and revision of proposals. The proposal submitted will become part of the final contract.

PROPOSAL SUBMISSION INSTRUCTIONS

Proposal Format

In order to fully and equitably evaluate each bank's ability to meet the banking services needs of the City, a standard reply format is required. Each proposal must include a response to each item in the RFP in the order given. Only proposals submitted in the prescribed format and using the exhibit forms provided will be evaluated for contract award. When submitting the proposal, please provide (2) copies and (1) electronic copy on a flash drive.

Submission Requirements

Sealed Proposal: Responses to this request will be submitted in a sealed envelope received until 2:00 p.m. local time on March 2nd, 2016 clearly identified as:

PROPOSAL BANKING SERVICES

and mailed to:	Laurie Mays City of Heath 200 Laurence Drive Heath, TX 75032
or delivered to:	Laurie Mays City of Heath 200 Laurence Drive Heath, TX 75032

No bid shall be received after 2:00 p.m. local time and shall be returned unopened.

An optional bidder's conference to review the RFP and answer questions will be held at 11:00 a.m. February 18th, 2016, in the City Council Chambers at 200 Laurence Drive, Heath, TX 75032.

After the expiration of the time and date above sealed proposals will be opened in the City Council Chambers at 200 Laurence Drive, Heath, TX 75032 and at the time said proposals will be publicly accepted.

Specifications and proposal forms may be inspected at City Hall, 200 Laurence Drive, Heath, TX 75032, by telephoning (972) 961-4869, or via website at www.heathtx.com/departments/finance/.

Until the final award, the City reserves the right to reject any or all proposals, to waive technicalities, to re-advertise, or to proceed otherwise in the best interest of the City.

RFP QUESTIONS

Questions regarding this RFP of the service requested will be accepted in written format (electronic included) at the address below on or before 5:00 p.m. February 16th, 2016. Responses to all material questions submitted will be communicated to each prospective bidder at the bidder conference. Prospective bidders not attending the conference may receive an electronic response to questions by emailing their request to lmays@heathtx.com on or before 11:00 a.m. February 18th, 2016.

Laurie Mays, Finance Director
City of Heath, TX
200 Laurence Drive
Heath, TX 75032
lmays@heathtx.com

REQUEST FOR PROPOSAL AMENDMENTS

Modifications or additions may be made as a result of questions submitted. Written notification of any such change will be made in writing to all known bidders.

SELECTION CRITERIA

Evaluation of proposals will be made on the basis of the following objectives:

At a minimum the proposing institution must be able to:

- Meet the legal qualifications and terms of the conditions specified in the RFP,
- Provide sufficient collateral for deposits, and
- Provide information regarding the financial condition of the Institution submitting this proposal.

The following areas will be weighted as follows:

- Ability of the proposer to perform the requested services in the RFP and completeness of bid form and submission of required information (25%),
- Cost of proposed banking services of conversion and implementation of banking services and effective rates paid on City's bank account(s) (25%),
- Quality of reports requested (10%)
- Securities clearance and safekeeping procedures (10%),
- Ability to provide the City with effective and innovative cash management services (20%), and
- Experience and success in providing banking services to municipal governments in Texas (10%).

AWARD OF BID AND SERVICE INITIATION

The contract is to be awarded by City Council at its meeting on March 22nd, 2016. The contract period will be five (5) years beginning the earliest date the agreement is implemented, and thereafter until the successor depository shall have been duly selected and qualified according to state laws. The depository contract shall provide that the City reserves the right to cancel any agreement, at any time, upon sixty (60) days prior written notice of its intent to terminate any agreement.

III. REQUIRED FINANCIAL INSTITUTION INFORMATION

All banks must provide, as part of the proposal:

- Audited financial statements for the most recent fiscal year,
- A copy of the current call report, and
- A statement regarding any recent foreseen merger or acquisition.

IV. REQUIRED BANKING SERVICES

This section lists all the services to be provided by the bank under this agreement. Attachment A lists each of these services. The bank should use the Attachment to provide the specific price for each service.

Consolidated Account Structure

The bank is to provide a master consolidation account and zero balance account from which daily balance and detail reporting is available. The City's current account structure contains the following accounts:

- City of Heath, Operating Account
- City of Heath, General Subsidiary Account
- City of Heath, Interest & Sinking Account
- City of Heath, Cove Ridge Interest & Sinking Account
- City of Heath, Candlelite Account
- City of Heath, 4A EDC Account
- City of Heath, 4B MBC Account
- City of Heath, 2007 Bond Account
- City of Heath, 2013 Bond Account
- City of Heath, 2014 Bond Account
- City of Heath, Operating High Yield Account

Wire Transfer/ACH Services

The City currently generates approximately 50 incoming and 15 outgoing wires/ACH each month. A standard wire transfer agreement will be executed with the bank. This proposal should include a copy of your standard transfer procedures and wire transfer agreement. The City required adequate security provisions and procedures. If the wire transfers requests are available on line, full information should be submitted detailing the use.

Automated Daily Balance Reporting

The City required an automated PC-based reporting system for access to the closing leger and available balances. Stipulate the time at which the access is available and describe the system to be used. Reporting should include balance and detail reporting. Samples of the reports are to be included in the proposal.

Sweep Account Provisions

If the City chooses, the bank will be responsible for automatically sweeping the balances in all accounts daily to an investment option (money market fund, repo, etc.). Describe the sweep options and, if a money market fund is used, provide a prospectus. The accounts will be swept to the compensating balance.

Reconciliation

Bank statements on all accounts shall be available online for viewing within three (3) business days of the end of the month. The statement shall include debits and credits made on the last day of the period. A debit and credit downloadable file for reconciliation import into the Incode Financial system is a requirement.

Positive Pay

The City requires the continued use of Positive Pay and Payee Positive Pay as a protection and prevention of check fraud.

Remote Deposit

The City requires the continued use of Remote Deposit: approximately 5 deposits are made daily, Monday – Friday, by 6:00 p.m. local time.

Investment Activities

Direct Investment Alternative: The City's direct investment activities may take place in City accounts. The City shall have the right, at its sole discretion, to direct investment of its funds. The successful bank will be required to provide clearing and safekeeping services for City investment activity. The *City of Heath Investment Policy* outlines the City's options for investing any and all funds. The Investment Policy is subject to annual review and revision by the City Council and Board of Directors.

Certificates of Deposit: Certificates of Deposit (CD) purchased for the City shall be non-negotiable and shall be registered in the name of the City. The CD's must be fully insured by F.D.I.C. or collateralized in accordance with the RFP requirements. Proof of collateral must be supplied to the City prior to CD purchase.

- Interest Calculations: Interest on all CD's shall be computed on an actual day basis, and the interest shall be paid to the City on the maturity date. Payment shall be made by crediting the account from which the CD was purchased.

- Extension of CD's: The successful bank agrees to honor and continue any CD made during the term of the Bank Depository Agreement that will mature after the expiration date of the Agreement at the same rate established before the expiration of the contract.

Transfers

The City requires continued use of electronic transfers between the various listed accounts above.

Standard Deposit Services

The bank must guarantee immediate credit on all incoming wire transfers and U.S. treasury checks upon receipt and all other checks based on the bank's published availability schedule. The bank should specify in their proposal their deposit requirements and commercial and retail deposit locations, including night deposit services and procedures.

Reporting and Account Analysis

Monthly account analysis reports must be provided by the bank on a timely basis for each account and on a total account basis. A sample account analysis format must be provided as part of the proposal. Samples of monthly statements should also be provided. The monthly statements are to be received within ten business days of the next month.

Account Executive

An account executive must be assigned to the account to coordinate the account services and expedite the solution of any problem. A trained and competent backup for the account executive, familiar with the account, should be assigned in the proposal. Stipulate the name and a brief biography of the account executive to be assigned to the City's account.

Direct Deposit

Describe the requirements and deadlines for computer tap for ACH transactions. The proposal should indicate when funds will be available in participating banks.

Daylight Overdraft Provisions

Every effort will be made to eliminate daylight overdraft situations on the account. However, in case this situation does arise, the proposal should include any and all bank policies regarding daylight overdraft charges or handling procedures.

Stop Payments

The proposal must include a statement on the proposed stop payment process on an automated or manual basis.

Collateralization of Deposits

All City funds on deposit must be collateralized at all times according to the terms in the attached *City of Heath Investment Policy*, page 11. Collateralization levels vary with debt service payments and optional money market accounts from $1,000,000 to $12,000,000. Monthly reports detailing the adequacy of collateral must be supplied by the bank within five (5) business days of the close of the month via email or mail. Detail any exception to this requirement in the Comments section, question #5 *Exhibit A-Questionnaire*.

- As security for the deposits of the City, the successful bank shall pledge securities, equal to 102% of their market value of the largest total balances the City maintains in the bank, less the amount provided by F.D.I.C. The securities so pledges shall satisfy the requirements of the Public Funds Collateral Act, Chapter 2257, Texas Local Government Code, and the Investment Policy.

- The securities pledged shall be held in safekeeping at an independent financial institution acceptable to both the City and the successful bank. An original copy of all security receipts shall be filed with the Director of Finance.

- The successful bank and the custodial bank shall provide to the City a report of securities pledged at the end of each month or at any time requested by the City. The report should reflect the total pledged securities itemized by: Name, Type/Description, CUSIP, Par Value, Market Value, Maturity Date, Rating by Moody’s or Standard & Poor’s.

- Any substitution of the securities or reductions in the total amount pledged shall be made only by and with the proper written authorization of an authorized City signatory. The City shall approve all securities pledged. In the case of reduction requests, the bank shall provide in writing that collateral shall be available when needed to meet normal balance increases throughout the year.

- The Board of Directors or designated committee of the successful bank will be required to provide a resolution of certification approving the commitment and delivery of the collateral to the safekeeping institution no later the five (5) days before the commencement of the contract period.

Additional Services

If new services become available and are provided during the period of this contract, they will be charged at the banks then published rate.

V. OTHER SERVICES

The City is interested in obtaining service and cost information on additional services for possible use during the contract period. These services are not required but will be evaluated in terms of availability, feasibility, service levels, service providers and cost. If the service is accepted later in the contract period the services and charges stipulated in the proposal will be applied.

Merchant Processing

The City may choose to utilize Merchant Processing services for credit, debit, and e-check payment acceptance. Merchant Processing services included both “card present” and “Card non-present” transactions. Merchant Processing services could include a standard POS terminal, online environment, and/or IVR phone transactions. Provide a full description of the service.

VI. BANK COMPENSATION

Any net settlement on compensating balances will be made annually. If fees are chosen as the payment methodology, fees will be paid monthly after receipt of the account analysis.

VII. CALENDAR OF EVENTS

Day	Date/Time	Event
Friday	January 29, 2016	Request for Proposal distributed.
Tuesday	February 16, 2016 by 5:00 p.m.	Submit questions in writing to be discussed at bidder’s conference.
Thursday	February 18, 2016 11:00 a.m.	Optional bidder’s conference to review RFP and answer questions.
Wednesday	March 2, 2016 2:00 p.m.	Receive and open proposals from interested banks.
Friday	March 4, 2016	Finance Department review of proposals
Tuesday	March 22, 2016	Present recommendation to Council and award contract.

ATTACHMENT A – BANKING SERVICES CHARGES

Any and all anticipated service charges must be shown on this form to be applicable under the agreement.

Service Unit	Bank Bid Rate	Estimated Annual Cost	Comments
Account Maintenance			
Zero Balanced Accounts			
Financial Management (Sweep)			
Money Market Account			
Monthly Statement Fee			
DEPOSITS, RETURNS, COIN & CURRENCY			
Coin/Currency Deposit			
Remote Deposit (Check Conversion)			
Commercial Check Cashing (Petty Cash)			
Returned Items			
Redeposited Items			
DISBURSEMENTS & RECONCILIATION			
Paid Items – Checks			
Paid Items – EFT			
Stop Payments			
Debit Reconciliation – Full			
Debit Reconciliation – Partial			
Positive Pay – Per Item			
Positive Pay – Exceptions			
Check Image Capture – Per Item			
Check Image Management Software			
Debit/Credit Transmission File			
Transmission File Setup			
ONLINE SERVICES & REPORTS			
Online Software			
Online Software Maintenance Fee			
Stop Payment Online			
Check Inquiry Online			
Image Retrieval Online			
Return Report Online Per Item			
Transaction Detail			
ACH TRANSACTIONS			
ACH PPD Debit			
ACH Payroll			
ACH PPD Credit			
ACH PPD Credit (Credit Card)			
Direct Deposit Fee			
ACH Returned Items			

Service Unit	Bank Bid Rate	Estimated Annual Cost	Comments
ACH Data Transmission			
ACH Online			
ACH Reversal			
ACH Software Authorized ID (5)			
ACH Return Online/E-mail			
WIRE TRANSFERS			
Online Repetitive Wire			
Online Non-repetitive Wire			
Wire & ACH Setup			
Wire Template Change			
Wire Software Maintenance			
Wire Authorized ID (2)			
SECURITY CLEARANCE/SAFEKEEPING/SWEEP			
Security Clearance Charges/Trade			
Security Clearance Charges/Trade Fed			
Security Clearance Charges/Trade DTC			
Safekeeping Charges Per Month			
Safekeeping Charges/Security/Month Fed			
Safekeeping Charges/Security/Month DTC			
Sweep Account Formula			
Sweep Account Current Rate			
Estimated Earnings Credit Per Month			
COLLATERAL			
Collateral Fee (Max Balances)			
Collateral Account Maintenance			
CREDIT/DEBIT CARD PAYMENTS			
Monthly Maintenance Fee			
Transactions			
Online Transactions			
Swiped Transactions			
COLLECTED BALANCES/EARNINGS			
Formula			
Current Rate			
Average Collected Balance			
Less Reserve Requirement			
Investable Balance			
Estimated Earnings Credit Per Month			

ATTACHMENT B

CITY OF HEATH, TEXAS

INVESTMENT POLICY

Revised and Approved:
09/08/2015

Table of Contents

I. INVESTMENT POLICY

It is the policy of the City of Heath, Texas, the Heath Economic Development Corporation, and the Heath Municipal Benefits Corporation (collectively herein referred to as CITY) that after allowing for the anticipated cash flow requirements of the CITY and giving due consideration to the safety and risk of investment, all available funds shall be invested in conformance with these legal and administrative guidelines, seeking to optimize interest earnings to the maximum extent possible.

Effective cash management is recognized as essential to good fiscal management. Investment interest is a source of revenue to CITY funds. The CITY's investment portfolio shall be designed and managed in a manner designed to optimize this revenue source, to be responsive to public trust, and to be in compliance with legal requirements and limitations.

Investments shall be made with the primary objectives of:

* Safety and preservation of principal;
* Maintenance of sufficient liquidity to meet operating needs;
* Public trust from prudent investment activities; and
* Attain a rate of return commensurate with risk constraints and cash flow requirements.

II. PURPOSE

The purpose of this Investment Policy is to comply with local ordinances, charter provisions and in accordance with Chapter 2256, Texas Government Code, The Public Funds Investment Act (PFIA) which requires each entity to adopt a written investment policy regarding the investment of its funds and funds under its control. The Investment Policy addresses the methods, procedures and practices that must be exercised to ensure effective and judicious fiscal management of the CITY's funds.

III. SCOPE

This Investment Policy shall govern the investment of all financial assets of the CITY. These funds are accounted for in the CITY's Comprehensive Annual Financial Report (the "CAFR") and include:

- General Fund;
- Special Revenue Funds;
- Capital Projects Funds;
- Enterprise Funds;
- 4-A Funds (Heath Economic Development Corporation);
- 4-B Funds (Heath Municipal Benefits Corporation);
- Trust and Agency Funds, to the extent not required by law or contract to be kept segregated and managed separately;
- Debt Service Funds, including reserves and sinking funds, to the extent not required by law or contract to be kept segregated and managed separately; and
- Any new fund created by the CITY, unless specifically exempted from this Policy by the CITY or by law.

Except for cash in certain restricted and special funds, The CITY will consolidate cash balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

This Investment Policy shall apply to all transactions involving the financial assets and related activity for all the foregoing funds. However, this Policy does not apply to the assets administered for the benefit of the CITY by outside agencies under deferred compensation programs.

IV. INVESTMENT OBJECTIVES

The CITY shall manage and invest its cash with four primary objectives, listed in order of priority: safety, liquidity, public trust, and yield, expressed as optimization of interest earnings within risk constraints and cash flow requirements. The safety of the principal invested always remains the primary objective. All investments shall be designed and managed in a manner responsive to the public trust and consistent with state and local law.

The CITY shall maintain a comprehensive cash management program, which includes collection of account receivables, vendor payments in accordance with invoice terms, and prudent investment of available cash. Cash management is defined as the process of managing monies in order to ensure maximum cash availability and maximum earnings on short-term investment of idle cash.

1. Safety

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit and interest rate risk.

a. Credit Risk – The CITY will minimize credit risk, the risk of loss due to the failure of the issuer or backer of the investment, by:

- Limiting investments to the safest types of investments;
- Pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the CITY will do business; and
- Diversifying the investment portfolio so that potential losses on individual issuers will be minimized.

b. Interest Rate Risk – the CITY will minimize the risk that the interest earnings and the market value of investments in the portfolio will fall due to changes in general interest rates, by:

- Structuring the investment portfolio so that investments mature to meet cash requirements for ongoing operations, thereby avoiding the need to liquidate investments prior to maturity;
- Investing operating funds primarily in certificates of deposit, shorter-term securities, money market mutual funds, or local government investment pools functioning as money market mutual funds; and
- Diversifying maturities and staggering purchase dates to minimize the impact of market movements over time.

2. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that investments mature concurrent with cash needs to meet anticipated demands. Because all possible cash demands cannot be anticipated, a portion of the portfolio will be invested in shares of money market mutual funds or local government investment pools functioning as money market mutual funds that offer same-day liquidity.

3. Public Trust

All participants in the CITY's investment process shall seek to act responsibly as custodians of the public trust. Investment Officers shall avoid any transaction that might impair public confidence in the CITY's ability to govern effectively.

4. Yield

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

V. RESPONSIBILITY AND CONTROL

1. Delegation of Authority

In accordance with the PFIA, the CITY designates the City of Heath Finance Director and Senior Accountant as the CITY's Investment Officers. The Investment Officers are authorized to execute investment transactions on behalf of the CITY. No person may engage in an investment transaction or the management of CITY funds except as provided under the terms of this Investment Policy as approved by the CITY. The investment authority granted to the Investment Officers is effective until rescinded by the CITY.

2. Quality and Capability of Investment Management

The CITY shall provide periodic training in investments for the designated Investment Officers and other investment personnel through courses and seminars offered by professional organizations, associations, and other independent sources in order to ensure the quality and capability of investment management in compliance with the PFIA.

a. Training Requirement

In accordance with the PFIA, the designated Investment Officers shall attend an investment training session no less than once every two years and shall receive no less than 8 hours of instruction. A newly appointed Investment Officer must attend a training session of at least 10 hours of instruction within twelve months of the date the officer took office or assumed the officer's duties. If a City does not invest city funds or only deposits city funds in an interest-bearing deposit account or certificates of deposit the finance or investment officer is only required to take the initial 10 hour training. Training must include education in investment controls, security risks, strategy risks, market risks and compliance with the Public Funds Investment Act.

The investment training session shall be provided by an independent source approved by the CITY. For purposes of this Policy, an "independent source" from which investment training shall be obtained shall include a professional organization, an institution of higher education or any other sponsor other than a business organization with whom the CITY may engage in an investment transaction. The Texas Municipal League (TML), the Government Finance Officers Association of Texas (GFOAT), the Government Treasurer's Association of Texas (GTOT), the University of North Texas (UNT), North Texas Council of Governments (NTCOG), American Institute of Certified Public Accountants (AICPA), and the Government Finance Officers Association (GFOA) are approved independent training sources.

3. Internal Controls

The City of Heath Finance Director or his/her designee is responsible for establishing and maintaining an internal control structure designed to ensure that the financial assets of the CITY are protected from loss, theft, or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Accordingly, the City of Heath Finance Director or his/her designee shall establish a process for annual independent review by an external auditor in conjunction with the annual audit to assure compliance with policies and procedures. The internal controls shall address the following points:

- Control of collusion;
- Separation of transactions authority from accounting and record keeping;
- Custodial safekeeping;
- Avoidance of physical delivery securities;
- Clear delegation of authority to subordinate staff members;
- Written confirmation for telephone (voice) transactions for investments and wire transfers;
- Dual authorizations of wire transfers; and
- Development of a wire transfer agreement with the lead bank and third-party custodian.

4. Prudence

The standard of prudence to be applied by the Investment Officer shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this 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 the liquidity and appropriate action is taken to control adverse developments.

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

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

- The investment of all fund(s) under the CITY's control over which the Officer has responsibility rather than the prudence of a single investment, and
- Whether the investment decision was consistent with the written approved Investment Policy of the CITY.

While the standard of prudence to be used by investment officials who are officers or employees is the "prudent person" standard, any person or firm hired or retained to invest, monitor, or advise concerning these assets shall be held to the higher standard of "prudent expert." The standard shall be that in investing and reinvesting money and in acquiring, retaining, managing, and disposing of investments of these funds, the contractor shall exercise: the judgment, care, skill, prudence, and diligence under the circumstances then prevailing, which persons of prudence, discretion, and intelligence, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims by diversifying the investments of the funds, so as to minimize the risk, considering the probable income as well as the probable safety of their capital.

5. Ethics and Conflicts of Interest

Investment Officers involved in the investment process shall refrain from personal business activity that would conflict with the proper execution and management of the investment program, or that would impair their ability to make impartial decisions. Investment Officers shall disclose any material interests owned or held by them, or by any person within their first degree of consanguinity or affinity, in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions, or financial/investment positions or any person within their first degree of consanguinity or affinity, that could be related to the performance of the investment portfolio. Investment Officers shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of the CITY.

An Investment Officer of the CITY who has a personal business relationship with a person or an organization seeking to sell an investment to the CITY shall file a statement disclosing that personal business interest.

An Investment Officer or employee involved in the investment process has a *personal business relationship* with a person or an organization if:

a) The Investment Officer or employee, or any person who is related to them within the second degree of consanguinity or affinity, 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;

b) Funds received by the Investment Officer or employee, or any person who is related to them within the second degree of consanguinity or affinity, from the business organization exceed 10 percent of his/her gross income for the previous year; or

c) The Investment Officer or employee, or any person who is related to them within the second degree of consanguinity or affinity, has acquired from the business organization during the previous year investments with a book value of $2,500 or more for his/her personal account.

An Investment Officer or employee who is related within the second degree by consanguinity or affinity to an individual seeking to sell an investment to the CITY shall also file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the CITY.

VI. SUITABLE AND AUTHORIZED INVESTMENTS

1. Portfolio Management

The CITY currently has a "buy and hold" portfolio strategy. Maturity dates are matched with cash flow requirements and investments are purchased with the intent to be held until maturity. However, investments may be liquidated prior to maturity for the following reasons:

- An investment with declining credit may be liquidated early to minimize loss of principal, and
- Cash flow needs of the CITY require that the investment be liquidated.

2. Investments

CITY funds governed by this Investment Policy may be invested in the instruments described below, all of which are authorized by the PFIA. Investment of CITY funds in any instrument or security not authorized for investment under the Investment Policy is prohibited. The CITY will not be required to liquidate an investment that becomes unauthorized subsequent to its purchase.

a. Authorized

1. Obligations of the United States of America, its agencies and instrumentalities.

2. Certificates of Deposit issued by a bank organized under Texas law, the laws of another state, or federal law, that has its main office or a branch office in Texas, or by a savings and loan association or a savings bank organized under Texas law, the laws of another state, or federal law, that has its main office or a branch office in Texas and that is guaranteed or insured by the Federal Deposit Insurance or its successor or secured by obligations in a manner and amount provided by law for deposits of the CITY.

3. Fully collateralized direct repurchase agreements with a defined termination date secured by obligations of the United States or its agencies and instrumentalities. These shall be pledged to the CITY, held in the CITY's name, and deposited at the time the investment is made with the CITY or with a third party selected and approved by the CITY. Repurchase agreements must be purchased through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in Texas. A Master Repurchase Agreement must be signed by the bank/dealer prior to investment in a repurchase agreement. All repurchase agreement transactions will be on a delivery vs. payment (DVP) basis. Securities received for repurchase agreements must have a market value greater than or equal to 102 percent at the time funds are disbursed.

4. Money Market Mutual Funds that are 1) registered and regulated by the Securities and Exchange Commission, 2) have a dollar weighted average stated maturity of 90 days or less, 3) rated AAAm, or its equivalent, by a least one nationally recognized rating service, 4) seek to maintain a net asset value of $1.00 per share, and 5) qualify as a "government" money market mutual fund.

5. State and local government investment pools organized under the Interlocal Cooperation Act that 1) meet the requirements of the PFIA , 2) are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service, 3) seek to maintain a $1.00 net asset value, or maintain a maximum average dollar weighted maturity of 365 or 366 days and provide a fixed interest rate and fixed maturity for each pool position, 4) qualify as a "government" pool, and 5) are authorized by resolution or ordinance by the CITY's governing bodies.

All prudent measures will be taken to liquidate an investment that is downgraded to less than the required minimum rating.

b. Not Authorized

Investments including interest-only or principal-only strips of obligations with underlying mortgage-backed security collateral, or collateralized mortgage obligations with an inverse floating interest rate and/or a maturity date of over 10 years are strictly prohibited.

With respect to authorized investments, this Policy is more restrictive than the PFIA.

VII. INVESTMENT PARAMETERS

1. Maximum Maturities

The longer the maturity of investments the greater their price volatility. Therefore, it is the CITY's policy to concentrate its investment portfolio in shorter-term securities in order to limit principal risk caused by changes in interest rates.

The CITY attempts to match its investments with anticipated cash flow requirements. The CITY will not directly invest in securities maturing more than limits established in the *VIII Investment Strategies* from the date of purchase; however, as applicable, authorized investments may be collateralized using longer dated investments.

2. Diversification

The CITY recognizes that investment risks can result from issuer defaults, market price changes, or various technical complications leading to temporary illiquidity. Risk is controlled through portfolio diversification that shall be achieved by the following general guidelines:

- Limiting investments to avoid over concentration in investments from a specific issuer or business sector (excluding U.S. Treasury securities and financial institution deposits that are fully insured and collateralized in accordance with state and federal law);
- Limiting investment in investments that have higher credit risks;
- Investing in investments with varying maturities; and
- Continuously investing a portion of the portfolio in readily available funds such as bank deposits, constant dollar local government investment pools, money market mutual funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

VIII. INVESTMENT STRATEGIES

Investment Strategies by Fund Type

General Operating Funds: These funds shall have as their primary objectives: safety, investment liquidity, and maturity sufficient to meet anticipated cash flow requirements.

1. **Suitability:** Any investment eligible in the Investment Policy is suitable.

2. **Safety:** All investments shall be of high quality securities with no perceived default risk. Market price fluctuations will occur. Managing the weighted average days to maturity for the General Operating Fund's portfolio to less than 365 days and restricting the maximum allowable maturity to two years will minimize the price volatility of the overall portfolio.

3. **Liquidity:** The General Operating Fund requires the greatest short-term liquidity. Short-term investment pools and money market mutual funds will 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 flow requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a ten basis points will define an efficient secondary market.

5. **Diversification:** Investment maturities should be staggered throughout the cash flow cycle. Diversifying the appropriate maturity structure out through two years will reduce market cycle risk.

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 U.S. Treasury Bill portfolio will be the minimum yield objective.

Debt Service Funds: Investment strategies for debt service shall have as their objective sufficient investment liquidity to timely meet debt service payment obligations in accordance with provisions in the bond documents.

1. **Suitability:** Any investment eligible in the Investment Policy is suitable.

2. **Safety:** All investments shall be of high quality securities with no perceived default risk. Market price fluctuations will occur. However, by managing Debt Service Funds to not exceed the debt service payment schedule the market risk of the overall portfolio will be minimized.

3. **Liquidity:** Debt Service Funds have predictable payment schedules with reduced liquidity requirements. Investment maturities should not exceed the anticipated cash flow requirements. Investments pools and money market mutual funds may provide a competitive yield alternative for short term fixed maturity investments.

4. **Marketability:** Securities with active and efficient secondary markets are not necessary, as the event of an unanticipated cash flow requirement is not probable.

5. **Diversification:** Market conditions influence the attractiveness of fully extending maturity to the next "unfunded" payment date. 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 U.S. Treasury Bill portfolio will be the minimum yield objective.

Reserve Funds: Investment strategies of reserve funds shall have as their primary objective the generation of a dependable revenue stream from high quality securities in accordance with provisions in the bond documents.

1. **Suitability:** Any investment eligible in the Investment Policy is suitable.

2. **Safety:** All investments shall be of high quality securities with no perceived default risk. Market price fluctuations will occur. However, managing Debt Service Reserve Fund maturities to not exceed the call provisions of the borrowing reduces the investment's market risk if the debt is redeemed and the Reserve Fund liquidated. No stated final investment maturity shall exceed the final maturity of the borrowing.

3. **Liquidity:** Debt Service Reserve Funds have no anticipated expenditures. The Funds are deposited to provide annual debt service payment protection to the debt holders. Market conditions and arbitrage regulation compliance determine the advantage of security diversification and liquidity.

4. **Marketability:** Securities with less active and efficient secondary markets are acceptable.

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 borrowing cost is the desired objective. Debt Service Reserve Fund portfolio management shall at all times operate within the limits of the Investment Policy's risk constraints.

Capital Projects Funds: Investment strategies for capital project funds shall have as their primary objective sufficient investment liquidity to timely meet capital project obligations. If the CITY has funds from bond proceeds, they shall be invested in accordance with provisions in the bond documents.

1. **Suitability:** Any investment eligible in the Investment Policy is suitable.

2. **Safety:** All investments shall be of high quality securities with no perceived default risk. Market price fluctuations will occur. However, by managing Capital Project Funds to not exceed the anticipated expenditure schedule the market risk of the overall portfolio will be minimized.

3. **Liquidity:** Capital Project Funds programs have reasonably predictable draw schedules reducing liquidity requirements. Investment pools and money market mutual funds will provide readily available funds or a competitive yield alternative for short-term fixed maturity investments.

4. **Marketability:** Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash flow requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a ten basis points will define an efficient secondary market.

5. **Diversification:** Market conditions and arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for Capital Project Funds. Generally, when investment rates exceed the applicable cost of borrowing, the CITY is best served by locking in most investments. If the cost of borrowing 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. 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.

6. **Yield:** Achieving a positive spread to the applicable borrowing cost is the desired objective. Capital Project Fund portfolio management shall at all times operate within the limits of the Investment Policy's risk constraints.

IX. SELECTION OF DEPOSITORY BANK, BROKER/DEALERS, AND INVESTMENT ADVISORS

1. Depository Bank

At least every five (5) years a Depository shall be selected through the CITY's banking services procurement process, which shall include a formal request for proposal (RFP). The selection of a depository will be determined by competitive bid and evaluation of bids will be based on the following selection criteria:

- The ability to qualify as a depository for public funds in accordance with state law;
- The ability to provide requested information or financial statements for the periods specified;
- The ability to meet all requirements in the banking RFP;
- Complete response to all required items in the banking RFP;
- "Best value" net banking service cost, consistent with the ability to provide an appropriate level of service; and
- The credit worthiness and financial stability of the bank;
- Consideration for financial institutions outside Heath's city limits is permitted in accordance with Texas Local Government Code Chapter 105, Depositories for Municipal Funds.

All depository deposits shall be insured or collateralized in compliance with applicable State law. The CITY reserves the right, in its sole discretion, to accept or reject any form of insurance or collateralization pledged towards depository deposits. Depositories will be required to sign a Depository Agreement with the CITY. The collateralized deposit portion of the Agreement shall define the CITY'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, including:

- The Agreement must be in writing;
- The Agreement must be approved by the Board of Directors or Designated Committee of the Depository and a copy of the meeting minutes must be delivered to the CITY; and
- The Agreement must be part of the Depository's "official record" continuously since its execution.

2. Broker/Dealers

The CITY shall, at least annually, review, revise, and adopt a list of qualified broker/dealers and financial institutions authorized to engage in securities transactions with the CITY. Those firms that request to become qualified bidders for securities transactions will be required to provide a completed broker/dealer questionnaire that provides information regarding creditworthiness, experience and reputation.

Authorized firms include primary dealers or secondary dealers that meet the following criteria:

- Regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule);
- Registered to sell securities in Texas;
- The firm and assigned broker have been engaged in the business of effecting transactions in U.S. government and agency obligations for at least five (5) consecutive years;

All investment providers (including financial institutions, banks, money market mutual funds, and local government investment pools) shall be provided current copies of the CITY's Investment Policy and must sign the Texas Public Funds Act Acknowledgement and Certification acknowledging that reasonable procedures and controls have been implemented to preclude investment transactions that are not authorized by the CITY's Policy.

3. Competitive Bids

It is the policy of the CITY to provide a competitive environment for all individual security purchases and sales, and money market mutual fund and local government investment pool selection. After the Investment Officers and/or the CITY's Investment Consultant/Advisor(s) has determined the approximate maturity date based on cash flow needs and market conditions and has analyzed and selected one or more optimal types of investments, a minimum of three (3) qualified banks and/or approved broker/dealers must be contacted and asked to provide bids/offers on securities in questions. Bids will be held in confidence until the bid deemed to best meet the investment objectives is determined and selected.

Overnight sweep investment instruments will not be bid, but may be placed with the CITY's depository bank relating to the demand account for which the investment instrument was purchased.

4. Delivery vs. Payment

Securities shall be purchased using the delivery vs. payment (DVP) method with the exception of investment pools and mutual funds. Funds will be released after notification that the purchased security has been received.

5. Investment Advisors

Investment Advisors shall adhere to the spirit, philosophy and specific terms of this Policy and shall advise within the standard of "prudent expert". Selected Investment Advisors must be registered under the Investment Advisors Act of 1940 or with the State Securities Board. A contract with an Investment Advisor may not be for a term longer than two years and must be approved by the City Council, including any renewals or extensions.

X. SAFEKEEPING OF SECURITIES AND COLLATERAL

1. Safekeeping and Custodian Agreements

The CITY shall contract with a bank or banks for the safekeeping of securities either owned by the CITY as part of its investment portfolio or held as collateral to secure financial institution deposits.

Securities owned by the CITY shall be held in the CITY's name as evidenced by safekeeping receipts of the institution holding the securities. Safekeeping institutions shall be independent from the parties involved in the investment transaction.

Collateral for deposits will be held by a third party custodian designated by the CITY and pledged to the CITY as evidenced by safekeeping receipts of the institution with which the collateral is deposited. Original safekeeping receipts shall be obtained. Collateral may be held by a Federal Reserve Bank or branch of a Federal Reserve Bank, a Federal Home Loan Bank, or a third party bank approved by the CITY and eligible under state law.

2. Collateral Policy

Consistent with the requirements of the PFIA, it is the policy of the CITY to require full collateralization of all CITY funds on deposit with a depository bank. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest on the deposits less any amount insured by the FDIC. At its discretion, the CITY may require a higher level of collateralization for certain investment securities. Securities pledged as collateral shall be held by an independent third party with whom the CITY has a current custodial agreement. The City of Heath Finance Director or his/her designee is responsible for entering into collateralization agreements with third party custodians in compliance with this Investment Policy. The agreements are to specify the acceptable investment securities for collateral, including provisions relating to possession of the collateral, the substitution or release of investment securities, ownership of securities, and the method of valuation of securities. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the CITY. Collateral shall be reviewed at least monthly to assure that the market value of the pledged securities is adequate.

Collateral Defined

The CITY shall accept only the following types of collateral:

- Obligations of the United States or its agencies and instrumentalities;
- Direct obligations of the state of Texas or its agencies and instrumentalities;
- Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States;
- Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized rating firm not less than A or its equivalent with a remaining maturity of ten (10) years or less;
- A surety bond issued by an insurance company rated as to investment quality by a nationally recognized rating firm not less than A, or its equivalent; and
- A letter of credit issued to the CITY by the Federal Home Loan Bank.

Subject to Audit

All collateral shall be subject to inspection and audit by the CITY's designated financial officer or the CITY's independent auditors.

XI. PERFORMANCE

1. Performance Standards

The CITY's investment portfolio will be managed in accordance with the parameters specified within this Investment Policy. The portfolio shall be designed with the objective of obtaining a rate of return through budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow requirements of the CITY.

2. Performance Benchmark

It is the policy of the CITY to purchase investments with maturity dates coinciding with cash flow needs. Through this strategy, the CITY shall seek to optimize interest earnings utilizing allowable investments available on the market at that time. Weighted average yield to maturity shall be the portfolio performance measurement.

XII. REPORTING

1. Methods

In accordance with the PFIA, the Investment Officers shall prepare an investment report on a quarterly basis that summarizes investment strategies employed in the most recent quarter and describes the portfolio in terms of investment securities, maturities, and shall explain the total investment return for the quarter.

The quarterly investment report shall be prepared in a manner that will allow the CITY to ascertain whether investment activities during the reporting period have conformed to the Investment Policy. The report will be provided to the CITY. The report, in addition to the above stated requirements, will include the following:

- A listing of individual securities held at the end of the reporting period;
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the beginning and ending book and market value of securities for the period;
- Additions and changes to the market value during the period;
- Average weighted yield to maturity of portfolio as compared to applicable benchmark;

- Listing of investments by maturity date;
- Fully accrued interest for the reporting period;
- The percentage of the total portfolio that each type of investment represents;
- Statement of compliance of the CITY's investment portfolio with state law and the investment strategy and policy approved by the CITY; and
- Be signed by the Investment Officers.

The CITY shall, in conjunction with its annual financial audit, perform a compliance audit of management controls on investments and adherence to the CITY's Investment Policy. The CITY's independent auditor shall report the results to the CITY's governing bodies.

2. Monitoring Market Value

Market value of all collateral, pools and securities will be monitored periodically, and be obtained from a reputable and independent source.

XIII. INVESTMENT POLICY ADOPTION

The CITY's Investment Policy shall be adopted by resolution of the appropriate CITY governing bodies. It is the CITY's intent to comply with state laws and regulations. The CITY's Investment Policy shall be subject to revisions consistent with changing laws, regulations, and needs of the CITY. The appropriate CITY governing body shall adopt a resolution stating that it has reviewed the Policy and investment strategies annually, approving any changes or modifications.

APPENDIX A

GLOSSARY OF COMMON TREASURY TERMINOLOGY

Accrued Interest: The accumulated interest due on a bond as of the last interest payment made by the issuer.

Agency: A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government. Federally sponsored agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee. An example of federal agency is the Government National Mortgage Association (GNMA). An example of a FSA is the Federal National Mortgage Association (FNMA).

Amortization: The systematic reduction of the amount owed on a debt issue through periodic payments of principal.

Asked: The price at which securities are offered.

Average Life: The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund features is expected to be outstanding.

Bankers' Acceptance (BA): A draft, bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

Basis Point: A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield. E.g., "1/4" of 1 percent is equal to 25 basis points.

Bid: The indicated price at which a buyer is willing to purchase a security or commodity.

Book Value: The value at which a security is carried on the inventory lists or other financial records of an investor. The book value may differ significantly from the security's current value in the market.

Broker: A broker brings buyers and sellers together for a commission.

Callable Bond: A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

Call Price: The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

Call Risk: The risk to a bondholder that a bond may be redeemed prior to maturity.

Cash Sale/Purchase: A transaction which calls for delivery and payment of securities on the same day that the transaction is initiated.

Certificate of Deposit (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

Collateralization: Process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.

Commercial Paper: An unsecured short-term promissory note issued by corporations, with maturities ranging from 2 to 270 days.

Comprehensive Annual Financial Report (CAFR): The official annual report for the City of Heath. It includes combined statements and basic financial statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provision, extensive introductory material, and a detailed statistical section.

Convexity: A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

Coupon Rate: The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as the "interest rate."

Credit Quality: The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

Credit Risk: The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

Current Yield (Current Return): A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

Dealer: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

Debenture: A bond secured only by the general credit of the issuer.

Delivery versus Payment (DVP): A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or his/her custodian.

Derivatives: For hedging purposes, common derivatives are options, futures, swaps and swap options. All Collateralized Mortgage Obligations (CMOs) are derivatives. (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

Derivative Security: Financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

Discount: The amount by which the par value of a security exceeds the price paid for the security.

Discount Securities: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g., U.S. Treasury Bills.

Diversification: A process of investing assets among a range of security types by sector, maturity, and quality rating.

Duration: A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

Fair Value: The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Federal Funds (Fed Funds): Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These depository institutions may lend fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed funds are considered to be immediately available funds.

Federal Funds Rate: Interest rate charged by one institution lending federal funds to the other.

Federal Credit Agencies: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g. S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

Federal Deposit Insurance Corporation (FDIC): A federal agency that insures bank deposits, currently up to $250,000 per deposit.

Federal Home Loan Banks (FHLB): Government sponsored wholesale banks (currently 12 regional banks) which lend funds and provide correspondent banking service to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

Federal National Mortgage Association (FNMA): FNMA, like GNMA, was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development, H.U.D. It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

Federal Open Market Committee (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open-market as a means of influencing the volume of bank credit and money.

Federal Reserve System: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

Government National Mortgage Association (GNMA or Ginnie Mae): Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by FHA, VA or FMHM mortgages. The term pass through is often used to describe Ginnie Maes.

Government Securities: An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. See "Treasury Bills, Notes, and Bonds."

Interest Rate: See "Coupon Rate."

Interest Rate Risk: The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.

Internal Controls: An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognized that 1) the cost of a control should not exceed the benefits likely to be derived and 2) the valuation of costs and benefits requires estimates and judgments by management. Internal controls should address the following points:

Control of collusion – Collusion is a situation where two or more employees are working in conjunction to defraud their employer.

Separation of transaction authority from accounting and record keeping –By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.

Custodial safekeeping – Securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.

Inverted Yield Curve: A chart formation that illustrates long-term securities having lower yields than short-term securities. This configuration usually occurs during periods of high inflation coupled with low levels of confidence in the economy and a restrictive monetary policy.

Investment-grade Obligations: An investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated BBB or higher by a rating agency.

Liquidity: An asset than can be converted easily and quickly into cash.

Local Government Investment Pool (LGIP): An investment by local governments in which their money is pooled as a method for managing local funds.

Mark-to-market: The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

Market Risk: The risk that the value of a security will rise or decline as a result of changes in market conditions.

Market Value: Current market price of a security.

Master Repurchase Agreement: To protect investors, many public investors will request that repurchase agreements be preceded by a master repurchase agreement between the investor and the financial institution or dealer. The master agreement should define the nature of the transaction, identify the relationship between the parties, establish normal practices regarding ownership and custody of the collateral securities during the term of the investment, provide remedies in the case of default by either party and clarify issues of ownership. The master repurchase agreement protects the investor by eliminating the uncertainty of ownership and hence, allowing investors to liquidate collateral if a bank or dealer defaults during the term of the agreement.

Maturity: The date on which payment of a financial obligation is due. The final stated maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder. See "Weighted Average maturity."

Money market: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

Money Market Mutual Fund: Mutual funds that invest solely in money market instruments.

Mutual Fund: An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940.

National Association of Securities Dealers (NASD): A self-regulatory organization (SRO) of brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

Net Asset Value: The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets which includes securities, cash, and any accrued earnings, subtracting this from the fund's liabilities and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio. (See below)

[(Total assets) – (Liabilities)]/(Number of shares outstanding)

No Load Mutual Fund: A mutual fund which does not levy a sales charge on the purchase of its shares.

Nominal Yield: the stated rate of interest that a bond pays its current owner, based on par value of the security. It is also known as the "coupon," coupon rate," or "interest rate."

Offer: An indicated price at which market participants are willing to sell a security or commodity. Also referred to as the "ask price."

Open Market Operations: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

Par: Face value or principal value of a bond, typically $1,000 per bond.

Portfolio: Collection of securities held by an investor.

Positive Yield Curve: A chart formation that illustrates short-term securities having lower yields than long-term securities.

Premium: The amount by which the price paid for a security exceeds the security's par value.

Prime Rate: A preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are keyed to this rate.

Primary Dealer: A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to it informal oversight. Primary dealers include Securities and Exchange Commission (SEC) registered securities broker-dealers, banks and a few unregulated firms.

Principal: The face value or par value of a debt instrument. Also may refer to the amount of capital invested in a given security.

Prospectus: A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC. This can include information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements.

Prudent Person Rule: An investment standard outlining the fiduciary responsibilities of public funds investors relating to investment practices.

Rate of Return: For fixed income securities (bonds and preferred stock), current yield, that is, the coupon or contractual dividend rate divided by the purchase price. For common stock, dividend yield, which is the annual dividend divided by the purchase price.

Repurchase Agreement (RP or REPO): An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date.

Reverse Repurchase Agreement (Reverse REPO): An agreement of one party to purchase securities at a specified price from a second party and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specified date.

Rule 2a-7 of the Investment Company Act: Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13-month maturity limit and a 90-day average maturity on investments, to help maintain a constant net asset value of one dollar ($1.00).

Safekeeping: Holding of assets (e.g. securities) by a financial institution.

SEC Rule 15C3-1: See uniform net capital rule.

Secondary Market: A market made for the purchase and sale of outstanding issues following the initial distribution.

Securities & Exchange Commission: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

Serial Bond: A bond issue, usually of a municipality, with various maturity dates scheduled at regular intervals until the entire issue is retired.

Sinking Fund: Money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.

Swap: Trading one asset for another.

Total Return: The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period. (See below)

(Price Appreciation)+(Dividends paid)+(Capital gains)=Total Return

Treasury Bills: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months or one year in minimum denominations of $10,000.00. The yields on bills are monitored closely in the money markets for signs of interest rate trends.

Treasury Bond: Long-term U.S. Treasury securities having initial maturities of more than ten years.

Treasury Notes: Intermediate term coupon bearing U.S. Treasury securities having initial maturities from one to ten years. Currently, the longest outstanding maturity for such securities is 30 years.

Uniform Net Capital Rule: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ration of indebtedness to liquid capital of 15 to 1: also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities. This is one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

Volatility: A degree of fluctuation in the price and valuation of securities.

Weighted Average Maturity (WAM): The average maturity of all the securities that comprise a portfolio. According to SEC rule 2a-7, the WAM for SEC registered money market mutual funds may not exceed 90 days and no one security may have a maturity that exceeds 397 days.

When Issued (WI): A conditional transaction in which an authorized new security has not been issued. All "when issued" transactions are settled when the actual security is issued.

Yield: The current rate of return on an investment security generally expressed as a percentage of the security's current price.

Yield Curve: A graph showing the relationship at a single point in time between the available maturities of a security or similar securities with essentially identical credit risk and the yields that can be earned for each of those available maturities. A graphical depiction of the term structure of interest rates at any given point in time. Yield curves may be constructed for different instruments.

Yield-to-call (YTC): The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date. Yield Curve-A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to a positive yield curve.

Yield-to-maturity: The rate of return yielded by a debt security held to maturity when both interest payments and the investor's potential capital gain or loss are included in the calculation of return.

Zero-coupon Securities: Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.

APPENDIX B

QUALIFIED BROKER/DEALERS AND FINANCIAL INSTITUTIONS

TEXPOOL
TexPool Participant Services
C/O Federated Investors Inc
1001 Texas Avenue, Suite 1400
Houston, Texas 77002
Phone: 1-866-839-7665 (1-866-TEX-POOL)
Voice Response Unit: 1-866-890-7665
www.texpool.com

TEXSTAR
TEXSTAR Participant Services
First Southwest Asset Management, Inc
325 North St Paul, Suite 800
Dallas, Texas, 75201
Phone: 214-953-8890
www.texstar.org

Alliance Bank
6130 S FM 549
Terrell, TX 75160
972-467-1133
No Charge Wire at maturity

American National Bank
102 West Moore Avenue Rockwall, 75032

www.anbtx.com

JPMorgan Chase
2994 Horizon Road
Rockwall, TX 75032
972-772-9319
www.chase.com/banking services/CDs
Full Service Broker
Cashiers Check at maturity to avoid wire charge

HomeBank
105 E. Ralph Hall Parkway
Rockwall, Texas 75032
972-287-0850
Wire Charge at maturity

MidSouth Bank
2435 Ridge Road, Suite 117
Rockwall, TX 75087
972-682-2552
Wire Charge at maturity

APPENDIX C

TEXAS PUBLIC FUNDS INVESTMENT ACT
ACKNOWLEDGEMENT AND CERTIFICATION

This Acknowledgment and Certification is executed on behalf of the City of Heath (the "Investing Entity" and ______________________________ (the "Dealer") pursuant to the Public Funds Investment Act, Chapter 2256.005(k), Government Code (the "Act"), in connections with investment transactions conducted between the City of Heath and ______________________________ (the "Dealer").

The undersigned qualified representative of the Dealer hereby certifies on behalf of the Dealer that:

i) The Dealer Qualified Representative is duly authorized to execute this Acknowledgment and Certification on behalf of the Dealer, and,

ii) The Qualified Representative has received and reviewed the investment policy provided by the City of Heath; and,

iii) The Dealer has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the City of Heath and the Dealer that are not authorized by the City of Heath'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.

QUALIFIED REPRESENTATIVE

____
Signature

____
Print Name

____
Title

____
Date