

FLAMINGO ISLES MUNICIPAL UTILITY DISTRICT  
OF GALVESTON COUNTY, TEXAS

SECTION 1. *Purpose.* The purpose of this Investment Policy is to adopt rules and regulations which clearly set forth the District's investment strategy for the accounts under its control, emphasize safety of principal and liquidity, address investment diversification, investment limitations, and the quality and capability of investment management, to specify the scope of authority of those officers or employees of the District designated to invest District Funds (defined herein as those funds in the custody of the District that the District has the legal authority to invest), to designate one or more officers or employees of the District to be responsible for the investment of such District Funds, and to provide for periodic review of the investment of District Funds.

SECTION 2. *Investment Rules.* The Board of Directors of the District adopts the rules attached to this Policy as Exhibits 1 through 6 to govern the investment of District Funds and to specify the scope of authority of those officers and employees of the District designated to invest District Funds, which rules shall supersede any investment rules previously adopted by the District. The Board of Directors of the District hereby designates its Bookkeeper, Mark Burton and Ghia Lewis of Municipal Accounts & Consulting, L.P., as the District's Investment Officers. The Board of Directors directs that the Bookkeeper and the Tax Assessor/Collector for the District maintain all investments of the District in a manner consistent with those rules and regulations, and with the Public Funds Investment Act, Chapter 2256, Government Code.

SECTION 3. *Review of District Investments.* The Bookkeeper for the District will report to the Board of Directors of the District at each of their regular meetings concerning the status of District investments.

SECTION 4. *Review of Policy.* The Board shall review this Investment Policy and its investment strategies at least on an annual basis. In conjunction with its annual financial audit, the Board shall cause to be performed a compliance audit of management controls on investments and adherence to the District's established investment policies.

## EXHIBIT I

### General.

The following rules shall apply to those funds in the custody of the District that the District has the legal authority to invest ("District Funds").

#### A. General Principles.

The investment policy of the District is to invest District Funds only in instruments which maintain the principal and liquidity of District Funds, to the extent necessary for District activities. Yield earned on District Funds is a secondary consideration compared to safety of principal and liquidity; however, if safety of principal and liquidity needs are met, the District will invest in instruments which give it the highest yield.

#### B. Diversification.

The District will continuously attempt to diversify its portfolio to reduce risk. The District recognizes that by investing District Funds in investment pools, it can diversify its portfolio because each participant in the pool has a pro rata share of a number of instruments, such as repurchase agreements with various providers.

#### C. Maturity.

The District will not invest in an obligation which matures more than two years from the date of purchase.

#### D. Quality and Capability of Investment Management.

The District will employ a Bookkeeper who is experienced in investing public funds and will consult with the Bookkeeper on investment opportunities. The District will consult with its financial adviser before investing in any investments which are new to it. The Board also recognizes that it may take advantage of professional investment advice by investing in investment pools.

#### E. Depositories.

All uninvested District Funds shall be deposited in the District's depository bank or banks unless otherwise required by orders or resolutions authorizing the issuance of the District's bonds. To the extent such District Funds in the depository bank or banks are not insured by the Federal Deposit Insurance Corporation, they shall be secured in the manner provided by law for the security of District funds and each depository shall report the market value of such collateral on its reports to the District, which shall equal at least 105% of the principal and accrued interest on the District's deposit. The District shall enter into a depository pledge agreement meeting the standards of the Financial Institutions Reform and Recovery Act with each of its depositories in which it invests more than the Federal Deposit Insurance Corporation insured amount.

#### F. Disbursements.

Any transfer of District Funds for the benefit of a third person shall, after approval by the Board, be made by a draft executed by at least three directors or by wire transfer pursuant to the District's Wire Transfer Agreement with its depository bank.

#### G. Amendment.

In the event State law changes and the District cannot invest in the investments described in this policy, this policy shall automatically be conformed to existing law.

## EXHIBIT 2

### Authorized Investments.

District Funds may be invested in any category of investments authorized under the Public Funds Investment Act, which has been approved by the Board. The following categories are approved:

1. Obligations, including letters of credit, of the United States or its agencies and instrumentalities;
2. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States;
3. Certificates of deposit issued by a depository institution that has its main office or a branch in this state which are (1) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor, or (2) secured by (a) obligations described in subcaption 1 or 2, or (b) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent, or (c) secured in any other manner and amount provided by law for deposits of the District; provided such obligations are marked to market at least monthly, have a market value at least equal to the deposit and are pledged to the District only and held by a third-party custodian;
4. A local government investment pool that meets the requirements of the Public Funds Investment Act, including the maintenance of an AAA, AAA-m or an equivalent rating by at least one nationally recognized rating service;
5. Other investments authorized by law and approved by the Board by resolution or minute entry.

All transactions, except investments in investment pools and mutual funds (to the extent authorized), shall be settled on a delivery versus payment basis.

## EXHIBIT 3

### Investment Strategies.

The District's investment strategy for each of its accounts follows:

1. General Fund. The General Fund is used for all operations and maintenance needs of the District. The highest priority for this account is safety of principal and liquidity; when these objectives are met, yield is considered. An amount equal to two months of normal operational costs must be kept extremely liquid for normal uses (available for use within 30 days); the amount in excess of two months of normal operational costs should be kept in investments that may be liquidated easily if the need arises. The District's general guidelines for diversification and maturity apply to this account.

2. Debt Service Account. The Debt Service Account is used to pay the District's debt service. The highest priority for this account is safety of principal. Since the District knows the amount of its debt service and when it becomes due, investments for this account should be structured so that they match debt service needs. When safety of principal and liquidity to match debt service are assured, yield is considered. Since District Funds in this account may not be needed for a year or more, longer term instruments should be considered, within the general guideline for maturity set forth in this investment policy, to increase yield. Since the amount of District Funds in this account will probably be quite large, diversification of investments may be necessary and the District's general policy on diversification should be used.

3. Capital Projects Account. The Capital Projects Account is used to pay for capital projects of the District. The highest priority for this account is safety of principal. The District believes that it will know ahead of time when disbursements need to be made from this account. Therefore, investments in this account should be structured so they mature or can be liquidated on the dates disbursements must be made. When safety of principal and liquidity to match disbursement dates are assured, yield is considered. Since District Funds in this account may not be needed for a year or more, longer term instruments should be considered, within the general guideline for maturity set forth in the investment policy, to increase yield. Alternatively, bond proceeds which will reimburse the developer may only be in the account for a day or two; in this case, an investment pool should be utilized. Investment diversification for the large amount of District Funds that may be deposited to this account for a day or two can be achieved through use of an investment pool. In cases where the District has a large amount of District Funds in this account for longer periods, the District's general policy on diversification should be used.

## EXHIBIT 4

### Authority and Duties of Persons Investing District Funds.

The following rules shall apply to those persons designated by the District to invest District Funds.

1. No person may deposit, withdraw, invest, transfer, or otherwise manage District Funds without express written authority of the Board of Directors of the District (the “*Board*”).
2. The Bookkeeper for the District, under the supervision of the Board, shall invest and reinvest District Funds only in those investments authorized under this investment policy or by the Board.
3. The Bookkeeper for the District, under the supervision of the Board, shall prepare a written report concerning the District’s investment transactions for each quarter which describes in detail the investment position of the District as of the date of the report. The report shall contain a summary statement of each fund that states the beginning market value for the reporting period, ending market value for the period, and fully accrued interest for the reporting period. The report shall also state (a) the book value and market value of each separately invested asset at the end of the reporting period by the type of asset and fund type invested, (b) the maturity date of each separately invested asset that has a maturity date, (c) the account for which each individual investment was acquired, and (d) whether the investment portfolio complies with the investment strategy expressed in these investment policies and the Public Funds Investment Act. The report shall be presented to the Board at least quarterly within a reasonable time after the end of the period.
4. In the event District Funds are invested in certificates of deposit, the Bookkeeper shall solicit bids from at least two bidders. Bids may be obtained orally, in writing, electronically, or in any combination of those methods.
5. The Bookkeeper for the District shall secure an executed copy of the form attached as Exhibit 5 from any person selling an authorized investment to the District before the District purchases such authorized investment.

EXHIBIT 5

Acknowledgement of Receipt of Investment Policy

1. I am a qualified representative of \_\_\_\_\_ (the "Seller").
2. The Seller proposes to sell certain investments to \_\_\_\_\_ (the "Government").
3. I acknowledge that the Seller has received and reviewed the Government's investment policy.
4. I acknowledge that the Seller has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Government and the Seller that are not authorized by the Government's investment policy, except to the extent that this authorization is dependent on an analysis of the make up of the Government's entire portfolio or requires an interpretation of subjective investment standards.

Dated this \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_.

Title: \_\_\_\_\_

Business: \_\_\_\_\_

## EXHIBIT 6

### Monitoring Market Price and Ratings of Investments

The bookkeeper will monitor the market price of the District's investments at least quarterly and such information shall be included on each investment report. The following methods of monitoring investments shall be utilized:

1. Certificates of deposit may be valued at their face value plus any accrued but unpaid interest.
2. Shares in money market funds and investment pools may be valued at the current share price.
3. Other investment securities may be valued in any of the following ways, at the discretion of the bookkeeper:
  - a. the lower of two bids for such investment securities from securities dealers;
  - b. the average of the bid and asked prices for such investment securities as published in The Wall Street Journal or The New York Times;
  - c. the bid price published by a nationally recognized pricing service; or
  - d. such other method as may be approved by the Board.

The bookkeeper will monitor credit ratings of the District's investments and will take all prudent measures consistent with this Investment Policy to liquidate any of the District's investments that fail to meet the minimum required rating for such investment as set forth in the Public Funds Investment Act or Exhibit 2 hereof.



## APPROVED BROKERS

ABC Bank  
Allegiance Bank  
Amegy Bank of Texas, N.A.  
Bank of America N.A.  
Bank of Houston  
Bank of New York- Mellon  
Bank of Texas N.A.  
Bank of the West  
BBVA Compass Bank  
Capital Bank  
Capital Markets of Dallas  
Capital One  
Central Bank  
Chasewood Bank  
Citibank N.A.  
Comerica Bank  
Comerica Securities  
Commercial State Bank  
Community Bank  
Community State Bank  
Community State Bank Austin  
Coastal Securities  
Encore Bank  
Enterprise Bank  
First Bank of Conroe  
First Bank of Texas  
First Bank & Trust  
First Citizens Bank  
First Community Bank  
First National Bank of Texas  
First Texas Bank  
Frost National Bank  
Green Bank  
Herring National Bank  
United Bank of el Paso Del Norte  
Unity National Bank  
Icon Bank  
Independent Bank  
International Bank of Commerce  
Inter National Bank  
Ironstone Bank  
JP Morgan Chase  
Legacy Texas Bank  
Lone Star Bank  
Lone Star Investment Pool  
Memorial City Bank  
Metro Bank, N.A.

Mainland Bank of Texas City  
Moody National Bank  
New First National Bank  
North Houston Bank  
Omni Bank N.A.  
Plains Capital Bank  
Patriot Bank  
Plains State Bank  
Post Oak Bank  
Prosperity Bank  
Regions Bank  
Security State Bank  
Southwest Securities  
Sovereign Bank  
Spirit of Texas Bank  
State Bank of Texas  
State Street Bank & Trust Co.  
Sterling Bank  
Stifel Nicholas  
Tex Star Investment Pool  
Texas Capital Bank N.A.  
Texas Class  
Texas Citizens Bank  
Texas Community Bank  
Texas First Bank  
Texas Independent Bank  
Texas Savings Bank  
Texpool/Texpool Prime  
The Bank of River Oaks  
The Right Bank for Texas  
Tradition Bank  
Treaty Oak Bank  
Trustmark National Bank  
Hometown Bank, N.A.  
Houston Community Bank N.A.  
  
U. S. Bank  
Vista Bank  
Wells Fargo Bank, N.A.  
Wells Fargo Brokerage Services, LLC  
Wells Fargo Trust  
Westbound Bank  
Whitney National Bank  
Woodforest National Bank