INVESTMENT

POLICY

BEXAR COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT # 10
8601 Midcrown Drive
Windcrest, Texas 78239

APPROVED: February 16, 2012

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

8601 MIDCROWN
WINDCREST, TEXAS 78239

INVESTMENT POLICY

I. INVESTMENT AUTHORITY AND SCOPE OF POLICY

GENERAL STATEMENT

It is the policy of Bexar County Water Control and Improvement District Number 10 (the District) to invest public funds in a manner that provides maximum security of principle, produces the highest return, meets the cash flow demands of the District and conforms to state and local statutes governing the investment of public funds. This policy implements the statutory requirement of the Public Funds Investment Act, as amended, Texas Government Code Chapter 2256 (the "Act"), to define and adopt a formal written investment policy for the District.

DELEGATION OF AUTHORITY

Management responsibility for the investment program is delegated to the investment officer and assistant investment officer (General Manager) who shall be responsibility for all transactions taken after approval of the Board.

FUNDS INCLUDED

This investment policy applies to all financial assets of all funds of the District and any funds to be created in the future. At present, the District has two funds, an operating fund and an investment fund. This written investment policy applies to the investment fund. However, because the investment fund generally receives its assets from the operating fund, it is essential that management be cognizant of the status of the operating fund and any trends that effect that account. In the event that the District borrows money, a separate restricted fund will be established and will be governed by this policy with particular attention to matching maturities to meet cash flow and bonded debt cash requirements.

II. GLOSSARY OF TERM: See Appendix I.

III. STANDARDS OF CONDUCT

PRUDENCE

Investments shall be made with judgment and care which persons of prudence and intelligence exercise in the management of their own affairs. Investment decisions will not be for speculation, but will consider the safety of capital as well as probable income to be received. The standard of prudence to be used by the investment officers shall be the "prudent person" standard and shall be applied to managing the entire portfolio. Investment officers acting in accordance with written procedures and this policy while exercising due diligence shall be relieved of personal responsibility for a security's credit risk or market price changes provided deviations from expectations are reported timely and appropriate action is taken to control adverse developments.

ETHICS AND CONFLICS OF INTEREST

Investment officers, board members, and the employees involved in the investment process shall refrain from any business activities that could conflict with proper execution of the investment program.

IV. EDUCATION AND TRAINING

GENERAL STATEMENT
The investment officer and assistant investment officer shall attend at least one training session, relating to the investment responsibilities as outlined in this policy within 12 months after taking office or assuming duties of the office and every 2 years thereafter. This training shall include education in the investment controls, security risks, strategy risks, market risk and compliance with the provision of the investment policy.

V. INVESTMENT OBJECTIVES

GENERAL STATEMENT
Funds of the District will be invested in accordance with federal and state laws, this investment policy and written administrative procedures. The District will invest according to investment strategies for each fund.

SAFETY OF PRINCIPAL
The District is concerned about the safety of its principal investment, therefore, the primary objective in any investment decision will be safety of principal.

MAINTAINING SUFFICIENT LIQUIDITY
The District's investment portfolio must be structured in conformance with an asset/liability management plan which provides for liquidity necessary to pay obligations as they become due.

DIVERSIFY INVESTMENTS
It will be the policy of the District to diversify its portfolio to eliminate the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer, or a specific class of investments.

RATE OF RETURN
It will be the objective of the District to earn the maximum rate of return allowed on it investments consistent within the policies imposed by the safety and liquidity objectives, investment strategies for each fund, and state laws governing investment of public funds.

MATURITIES
It will be the District's policy to structure the investment maturities to meet its daily cash flow requirements. The District will follow a strategy of "laddering" its investments, i.e., making investments to mature periodically and equally over a period of five years. This enables the District to invest or reinvest in investments maturing up to five years in the future. Typically, this strategy will provide a greater yield than a shorter term investment. In pursuing this investment strategy, the Board will assess its cash requirements to insure that current cash flow needs are met. The District can then either reinvest part or all of its excess cash into the plan, with knowledge that in each of the succeeding years, a maturing investment will be available to meet planned objectives or contingencies.

PORTFOLIO MANAGEMENT TECHNIQUES
The District shall provide training required by the Act through courses and seminars offered by professional organizations and association in order to insure the quality and capability of the investment officer in making investment decisions.

VI. AUTHORIZED INVESTMENTS

GENERAL STATEMENT
The District shall use any or all of the following investment instruments consistent with governing law.

a. Obligations of the United States or its agencies and instrumentalities. Total investments in this category shall not exceed 80% of the District's total investment portfolio.
b. Certificates of Deposits issued by a state or national bank or a savings and loan association domiciled in Texas and insured by the Federal Deposit Insurance Corporation (FDIC); or a federal credit union insured by the National Credit Union Administration (NCUA). Total investments in this category shall not exceed 80% of the District's total investment portfolio.
c. Local government investment pools, i.e., TexPool, or any other public funds investment pool created under the Interlocal Cooperation Act ( ) and provided the investment pool or other public funds pool maintains a continuous rating of no lower that AAA, AAAm, or equivalent by a least one nationally recognized rating service. Total investments in this category shall not exceed 80% of the District's total investment portfolio.
d. No-Load Money Market Mutual Funds. The fund or funds shall be registered with and regulated by the Securities and Exchange Commission. Total investments in this category shall not exceed 15% of the District's average monthly fund balance and no more that 10% of district's average monthly fund balance shall be invested in any single fund.

PROHIBITED INVESTMENTS
The investment officers are prohibited from using any of the following investment instruments, all of which are prohibited transactions by the Public Funds Investment Act, Section 2256.0009 (b).

a. Obligations whose payment represents the coupon payment on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal.
b. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest.
c. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years.
d. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in market index.

DISCLOSURE
The District shall execute with each depository a written depository agreement setting forth the terms under which funds shall be deposited and the security requirements for such funds. All investment transactions shall be executed on a delivery versus payment basis.

VII. INVESTMENT RESPONSIBILITY AND CONTROL

GENERAL STATEMENT
The District may invest funds with any institution or group consistent with federal and state and current depository bank contract.

INVESTMENT POLICY PRESENTATION
A written copy of the investment policy shall be presented to any person sought out or seeking to sell any authorized investment to the District. The registered principal of the business organizations seeking to sell investment shall execute a written instrument substantially to the effect that the registered principal has:

a. Received and thoroughly reviewed the investment policy of the District.
b. Acknowledged that the selling organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transaction conducted between the District and the organizations.
c. The investment officer of the District may not purchase a security from a person who has not delivered to the District a written instrument as outlined in subparagraph a and b in the above immediately preceding paragraphs.

VIII. INTERNAL CONTROLS

GENERAL STATEMENT
The District is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the District are protected from loss, theft or misuse.

SYSTEM OF INTERNAL CONTROLS
The internal controls of the District shall be documented in writing. They should be designed to prevent losses of public funds arising for fraud, employee error, and misrepresentation by third parties, unanticipated charges in financial markets, or imprudent actions by employees and officers of the District.

a. Internal Controls deemed most important:
    1. Separation of duties to prevent collusion.
    2. Separation of transactions authority from accounting and record keeping.
    3. Custodial safekeeping
    4. Avoidance of bearer form securities.
    5. Clear delegations of authority
    6. Written confirmation of telephone transactions.
    7. Documentation of transactions and strategies.
    8. All transactions must be approved by the Board.
b. The above controls shall be reviewed by the District's independent auditing firm with the knowledge that some of the above controls are not practical due to the small number of employees of the District who perform multiple duties.
c. The investment officer of the District shall be appointed by the Board on an annual basis. The board shall be informed by the investment officer that he has complied with the required training following 12 months after appointment to the position. The investment officer shall consult with the financial advisor to the District on a regular

basis to determine funds needed to meet sinking fund requirements for outstanding bond indebtedness.

IX. PORTFOLIO REPORTS

GENERAL STATEMENT
The Board shall be provided with proper and timely reports on the District's investments.

REPORTING
A monthly portfolio report, in writing, shall be prepared by the investment officer relating to investments of the District and appropriate collateral pledged for those investment instruments requiring security. A comprehensive report on the investment program and investment activity shall be presented annually to the governing body. The annual report shall include a review of the activities and yield return for the 12 months, suggested policies and improvement that might enhance the investment programs, include an investment plan for the ensuing fiscal year.

X. EFFECTIVE DATE

This Investment Policy is effective immediately after its passage. It was approved at the meeting of the Board of Directors of Bexar County Water Control and Improvement District #10 on the 19th day of February 2012, and adopted by the following called vote on a motion of the President.

Ayes:	5
Nays:	___
Abstaining:	___
Absent:	___

President: Melroy I Brandt
Melroy I Brandt

Attest: Inge R. Geiger
Inge R Geiger, Secretary

SEAL

APPENDIX I
GLOSSARY OF TERMS

AGENCIES: Federal agency securities and/or Government-Sponsored enterprises.

ASKED: The price at which securities are offered.

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

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

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

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

COLLATERAL: Securities evidence of deposit other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the District. It includes five combined 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 provisions, extensive introductory material, and detailed Statistical Section.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date. 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: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt.

Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of signed receipt for the securities.

DERIVATIVES: (1) Financial instruments whose return profile is linked to, or derived form 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 a underlying index or security (interest rates, foreign exchange rates, equities or commodities).

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower that face value. A security selling below orginal offering price shortly after sale also is considered to be a discount.

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

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

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 $100,000 per deposit.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks) which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of it members who must purchase stock in the 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 (HUB). It is the largest single provider of residential mortgage funds in the United States. Fanny 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 assures 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 President 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 seven 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 influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, saving 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 the FHA, VA or FmHa mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of al funds from political subdivisions that are placed in the custody of the State treasurer for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase—reverse repurchase agreements that establish each party's rights in the transactions. A master agreement will often specify among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

MATURITY: the date upon which the principal or stated value of an investment becomes due and payable.

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

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

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 opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PORTFOLIO: Collection of securities held by an investor.

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

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state- the so-called legal list. In other states the trustee may invest in a security if it is one which would be brought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales r compensating use or Ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has not been approved by the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: The yield obtained on a security based on its purchase price or it current market price. This may be the amortized yield to maturity on a bond the current income return.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their position. Exception: When the Fed is said to be doing RD, it is lending money, that is, increasing bank reserves.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

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.
SEC RULE 15C3-1: See Uniform Net capital Rule.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA,SLMA, etc.) and Corporations which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

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.

TREASURY BONDS: Long-term coupon-bearing U.S. Treasury securities issued as direst obligations of the U.S. Government and having initial maturities of more that 10 years.

TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio 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, one-reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD: The rate of annual income return on an investment expressed as a percentage. (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security. (b) **NET YIELD** or **YIELD TO MATURITY is** the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.