

## RESOLUTION NO. 02-12

### A RESOLUTION OF THE CITY OF LAKE ALFRED, FLORIDA, DESIGNATING AUTHORIZED SIGNATORIES FOR VARIOUS FINANCIAL INSTITUTIONS AND TRANSACTIONS; PROVIDING FOR CONFLICTS, SEVERABILITY AND AN EFFECTIVE DATE.

**WHEREAS**, the designation of authorized signatories for the various financial institutions, requires a Certified Copy of a Resolution of the City of Lake Alfred, which sets forth the authorized signers on all accounts; and

**WHEREAS**, the City opens and maintains accounts of various types with multiple financial institutions, pursuant to the City of Lake Alfred's Investment Policy which is attached hereto as Exhibit "A"; and

**WHEREAS**, Financial Institutions often require documentation in the form of a certified copy of a resolution, citing who the authorized signers are for the purpose of opening the account (making an initial transaction); and

**WHEREAS**, funds deposited in the City of Lake Alfred's various accounts may be withdrawn, transferred or paid upon check, draft, note, electronic or written payment or withdrawal order by any one of the persons listed herein; and

**WHEREAS**, personnel changes have made it necessary to update who are the designated authorized signatories.

**NOW, THEREFORE**, be it resolved by the City Commission of the City of Lake Alfred, Florida in session duly and regularly assembled:

**Section 1:** That any two of the following persons may open a deposit account and make financial transactions with the Financial Institutions on behalf of the City of Lake Alfred: the City Manager/Interim City Manager and the Finance Director. In the absence of either the City Manager/Interim City Manager or the Finance Director then the Mayor or Vice Mayor may sign as one of the two required signatories.

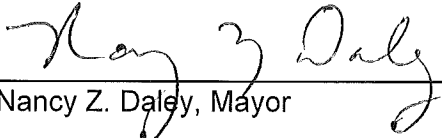
**Section 2:** All Resolutions or parts of Resolutions in conflict with any of the provisions of this Resolution are hereby repealed.

**Section 3:** Severability. If any section or portion of a section of this Resolution proves not to be valid, unlawful or unconstitutional, it shall not be held to invalidate or impair the validity, force or effect of any other section or part of this Resolution.

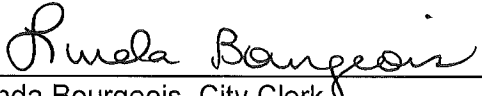
**Section 4:** Effective Date. This Resolution shall become effective immediately upon passage and adoption.

**PASSED AND ADOPTED** by the City Commission of the City of Lake Alfred, Florida, in session duly and regularly assembled, this 6<sup>th</sup> day of February, 2012.

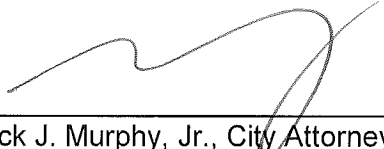
**CITY OF LAKE ALFRED, FLORIDA**

  
\_\_\_\_\_  
Nancy Z. Daley, Mayor

**ATTEST:**

  
\_\_\_\_\_  
Linda Bourgeois, City Clerk

**APPROVED AS TO FORM:**

  
\_\_\_\_\_  
Frederick J. Murphy, Jr., City Attorney.

CITY OF LAKE ALFRED  
OFFICIAL POLICY

INVESTMENT POLICY

**1. Policy:**

It is the policy of the City of Lake Alfred ("City") to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the entity and conforming to all state and local laws governing the investment of public funds.

**2. Scope:**

This investment policy applies to all financial assets of the City, except as noted. Below. These funds are accounted for in the City's Comprehensive Annual Financial Report and include:

- a. General Fund
- b. Special Revenue Funds
- c. Debt Service Funds
- d. Capital Project Funds
- e. Permanent Funds
- f. Enterprise Funds
- g. Internal Service Funds
- h. Private Purpose Trust Funds
- i. Agency Funds
- j. Any new fund created by the City Commission, unless specifically exempted.

Exception: This investment policy shall not apply to pension funds or funds related to the issuance of debt where there are other existing policies or indentures in effect for such funds. F.S. 218.415(1).

**3. Prudence:**

Prudent Person Rule – 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 from the investment. F.S. 218.415(4)

The standard of prudence to be used by investment officials shall be the *“prudent person rule”* and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

#### 4. Investment Objectives:

The primary objectives, in priority order, of the City’s investment activities shall be:

- 4.1 **Safety:** Safety of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the City will diversify its investments by investing funds among a variety of securities offering independent returns and financial institutions.
- 4.2 **Liquidity:** The City’s investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements, which might be reasonably anticipated.
- 4.3 **Return on Investments:** The City’s investment portfolio shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, commensurate with the City’s investment risk constraints and the portfolio’s cash flow characteristics.

#### 5 Delegation of Authority:

Authority to manage the City’s investment program is granted to the Finance Director with oversight by the City Manager and derived from Resolution \_\_\_\_\_.

Responsibility for the operation of the investment program is hereby delegated to the Finance Director, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy.

The Finance Director shall be responsible for all transactions undertaken and shall establish a system of internal controls to regulate the activities of subordinate staff, and their procedures in the absence of the Director of Finance.

- 5.1 **Investment Procedures:** The Finance Director shall establish written investment policy procedures (to include a system of internal controls) for the operation of the investment program consistent with this policy.

These procedures shall address cash review, selection, procurement, settlement, and disposal. The procedures should also include reference to: safekeeping, repurchase agreements, wire transfer agreements, banking service contracts, and collateral/depository agreement.

Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director.

**5.2 Investment Reporting:** The Finance Director shall establish procedures for reporting investment status on a monthly basis to the City Manager and City Commission. Report should include: beginning balance, investment activity (deposits, withdrawals, interest receipts, and any early withdrawal penalties), interest rates versus current market rates, and ending balance.

## **6. Ethics and Conflicts of Interest:**

Officers and employees involved in the investment process shall refrain from activities that could conflict with proper execution and management of the investment program, or which could impair their ability to make impartial investment decisions.

Officers and employees involved in the investment process shall disclose to the City Manager any material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal financial/ investment positions that could be related to the performance of the City.

Officers and employees involved in the City's investment decisions shall refrain from undertaking personal transactions with the same individual with whom business is conducted on behalf of the City.

## **7. Authorized Financial Dealers and Institutions:**

The Finance Director will maintain a list of financial institutions authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment services in the State of Florida. These may include "*primary*" dealers or regional dealers that qualify under *Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule)*.

No public deposit shall be made except in an "*Active Qualified Public Depository*" authorized to hold Florida public deposit accounts.

Security dealers shall be aware and disclose reasonably foreseeable risks of market price loss, illiquidity, nonmarketability, or default of investment instruments before they are purchased.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Finance Director with the following:

- a. Audited financial statements
- b. Proof of National Association of Security Dealers certification
- c. Proof of State of Florida registration
- d. Completed broker/dealer questionnaire, and
- e. Certification of having read and understood and agreeing to comply with the City's Investment Policy.

An annual review of the financial condition and registrations of qualified bidders will be conducted by the Finance Director.

A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the City invests.

#### **8. Eligible and Suitable Investments:**

The City is empowered by Florida Statute and local law to invest in the following types of securities:

- a. Direct Obligations of the United States but not limited to:
  1. U.S. Treasury Bills
  2. U.S. Treasury Notes
  3. U.S. Treasury Bonds
  4. Federal Agencies
    - (a) Small Business Administration
    - (b) Government National Mortgage Association (GNMA)
    - (c) Veteran's Administration (VA)
    - (d) Federal Housing Administration (FHA)
- b. Federally-Supported Agencies and Instrumentalities, but not limited to:
  1. Federal Home Loan Bank (FHLB)
  2. Federal Farm Credit Bank (FFCB)
  3. Federal National Mortgage Association (FNMA)
  4. Federal Home Loan Mortgage Association (FHLMC)
  5. Student Loan Marketing Association (SLMA)
  6. Financial Assistant Corporation
  7. Federal Agriculture Mortgage Corporation

- c. Local Government Investment Pools (LGIP's):
  - 1. Local Government Surplus Funds Trust Fund (State Board of Administration [SBA])
  - 2. Florida Local Government Investment Trust
  - 3. Florida Municipal Investment Trust
- d. Debt issued by the State of Florida or any political subdivisions thereof.
- e. Money Market Mutual Funds registered under the Federal Investment Company Act of 1940 and operate in accordance with 17 C.F.R. 270.2a-7, which stipulates money market funds must have an average weighted maturity of 90 days or less. These funds shall have a rating of at least Aam or Aam-G by Standard & Poors, or equivalent by another rating agency.
- f. Time deposits and savings accounts organized under the laws of Florida and/or in national banks organized under the laws of the United States and doing business and situated in Florida, provided that any such deposits are secured by the Florida Security for Public Deposits Act, F.S. Chapter 280.
- g. Securities of, or other interests in, any open-end or closed-end management-type investment company or investment trust registered under the Investment Company Act of 1940, 15 U.S.C. ss. 80a-1 seq., as amended from time to time, provided that the portfolio of such investment company or investment trust is limited to obligations of the United States Government or any agency or instrumentality thereof and to repurchase agreements fully collateralized by such United States Government obligations, and provided that such investment company or investment trust takes delivery of such collateral either directly or through the authorized custodian. The weighted average maturity of bond mutual funds shall not exceed five (5) years.
- h. Commercial paper issued by corporations organized and doing business in the United States having a rating of at least two of the following three ratings: A-1, P-1, and F-1 as rated by Standard & Poors, Moody's, and Fitch IBCA, respectively.
- i. Banker's Acceptances eligible for purchase by the Federal Reserve system with Maturities not exceeding 180 days from the date of trade settlement having a rating of at least the following: A-1 and P-1, as rated by Standard & Poors and Moody's, respectively.
- j. Overnight Repurchase Agreements collateralized 101% with direct obligations of the United States; said collateral to be held by the trust department of the bank or custodian bank.

The Finance Director will exercise extreme caution in the use of derivatives and will consider their use only after developing a sufficient understanding of the products and after having obtained the expertise to manage them.

**9. Master Repurchase Agreement:**

Institutions and dealers transacting repurchase agreements shall execute and perform as stated in the Master Repurchase Agreement. All repurchase agreements must be in written form using the Bond Market Association's Master Repurchase Agreement as a guide. Agreements shall conform materially to the recommendations of the Government Finance Officers Association (GFOA).

**10. Local Government Investment Pools:**

A thorough investigation of the pool/fund is required prior to investing, and on a continual basis. There shall be a questionnaire developed which will answer the following general questions:

- a. A description of eligible investment securities, and a written statement of investment policy and objectives.
- b. A description of interest calculations and how it is distributed, and how gains and losses are treated.
- c. A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
- d. A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
- e. A schedule for receiving statements and portfolio listings.
- f. Are reserves, retained earnings, etc. utilized by the pool/fund?
- g. A fee schedule. and when and how it is assessed.
- h. Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

**11. Collateralization:**

Collateralization will be required on two types of investments: non-negotiable interest bearing time certificates of deposit and overnight repurchase agreements. Collateralization for both investment types is provided with each investment type.

The City chooses to limit collateral to Direct Obligations of the United States.

The right of collateral substitution is granted.

**12. Bid Requirements:**

City staff shall determine the approximate maturity date based on cash-flow needs and market conditions, analyze and select one or more optimal types of investment, and competitively bid the security in question when feasible and appropriate. Except as otherwise required by law, the bid deemed to best meet the investment objectives specified in Section 4 must be selected.

**13. Safekeeping and Custody:**

All security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a *delivery-versus-payment (DVP)* basis. Securities will be held by a third party custodian and evidenced by safekeeping receipts.

All securities purchased by, and all collateral obtained by, the City should be properly designated as an asset of the City of Lake Alfred. Withdrawal of securities from safekeeping, in whole or in part, shall not be made except by an authorized staff member of the City.

**14. Diversification:**

The City will diversify its investments by security type, security and financial institution. The City shall not exceed the following limits by security type:

U.S. Treasuries	95%
Federal Agencies	50%
Federally-sponsored agencies and Instrumentalities	65%
Local Government Investment Pool	100%
Florida State and Local Debt	20%
Money Market Mutual Funds	25%
Certificates of Deposit	40%
Bond Mutual Funds (see par 8 (g))	10%
Commercial Paper	20%
Bankers Acceptances	20%
Overnight Repurchase Agreements	10%

No more than 5% will be invested in a single security (issue). No more than 50% of the City's total investment portfolio will be invested with a single financial institution (or broker/dealer), excluding the Local Government Investment Pool.

Compliance with the percentage limitations above shall be determined when the security is purchased.

## **15. Maximum Maturities:**

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than five (5) years from the date of purchase. However, the City may collateralize its repurchase agreements using longer-dated investments not to exceed 10 years to maturity.

Reserve funds may be invested in securities exceeding five (5) years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds. The intent to invest in securities with longer maturities shall be disclosed in writing to the City Commission.

The portfolio's weighted average maturity shall not exceed 2.5 years.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as LGIPs, money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

## **16. Internal Control:**

The Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure City assets 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. The internal controls shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and record keeping
- Custodial safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers
- Development of a wire transfer agreement with the lead bank and Third-party custodian

The City's independent external auditors shall review internal controls of this investment policy and its related operating procedures on an annual basis. This review will provide internal control by assuring compliance with policies and procedures.

## **17. Performance Standards:**

A. The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

B. Market Yield (Benchmark): The City's investment strategy is passive. Given this strategy, the basis used by the Finance Director to determine whether market yields are being achieved shall be the Florida State Board of Administration's (SBA) monthly participant return.

## **18. Reporting:**

The Finance Director shall provide the City Commission quarterly investment reports, which provide a clear picture of the status of the current investment portfolio. The management report should include comments on the fixed income markets and economic conditions, discussions regarding restrictions on percentage of investment by categories, possible changes in the portfolio structure going forward and thoughts on investment strategies.

Schedules in the quarterly report should include the following:

- A listing of individual securities held at the end of the reporting period by authorized investment type
- Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks
- Average life and final maturity of all investment listed
- Coupon and earnings rate
- Par Value, Amortized Book Value and Market Value
- Percentage of the Portfolio represented by each investment type

Such reports shall be made available to the public.

## **19. Investment Policy Adoption:**

The City's investment policy shall be adopted by resolution of the City Commission. The City Manager shall review this policy annually and the City Commission must approve any modifications made thereto. Appendices to the Investment Policy may be modified by recommendation from the Finance Director and approved by the City Manager.

## **20. Glossary (Appendix A):**

This policy is to be available to various stakeholders (citizens, City Commission, City staff, investors, and brokers). The City has included a glossary, as part of this policy, of related terminology.

**21. Continuing Education:**

The City Manager, Finance Director, and any other City officials responsible for making investment decisions must annually complete eight (8) hours of continuing education in subjects or courses of study related to investment practices and products. {F.S. 218.415(14)}

**22. Policy Exceptions:**

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

## APPENDIX A

### GLOSSARY

**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.

**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.

**Basis Point:** A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1%, e.g. 1/4 of 1% equals 25 basis points.

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

**Benchmark:** A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

**Bid:** The price offered by a buyer of securities. (When you are selling securities, you are asking for a bid). See "Offer".

**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.

**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.

**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.

**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 audit report of the City. It includes: five combined statements for each individual fund and account group prepared in conformity with GAAP; supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions; extensive introductory material. and a 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.

**Credit Quality:** The measurement of the bond issuer's financial strength issued by one or more nationally recognized rating agencies. 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 Risk:** An investor's risk 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.

**Current Expenses:** Expenses to meet known cash needs and anticipated cash-flow requirements for the short term. {F.S. 218.403(2)}.

**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:** 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. (Note: *Delivery versus Receipt* is delivery of securities with an exchange of a signed receipt for the securities).

**Derivative Securities:** Financial instruments whose value depends on, or is derived from, the value of one or more underlying assets or index or asset values. F.S. 218.415(5).

**Discount:** The amount by which the par value of a security exceeds the price paid for the security, excluding accrued interest.

**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 possibly, quality rating.

**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 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 Federal Funds are traded. The Federal Reserve through open-market operations currently sets this rate.

**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 its members who must purchase stock in their district bank.

**Federal National Mortgage Association (FNMA or Fannie Mae):** FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal, private stockholder-owned corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. 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 volumes 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 influencing the volume of bank credit 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. The FHA, VA, or FmHA mortgages back Ginnie Mae securities. The term "pass-through" is often used to describe Ginnie Maes.

**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:** A structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse through addressing the following points:

1. **Control of Collusion** – Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
2. **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.
3. **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.
4. **Avoidance of physical delivery securities** – Book-entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
5. **Clear delegation of authority to subordinate staff members** – Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
6. **Written confirmation of transactions for investments and wire transfers** – Due to the potential for error and improprieties arising from telephone and electronic transactions, all transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and if the safekeeping institution has a list of authorized signatures.

- 7. Development of a wire transfer agreement with the lead bank and third-party Custodian** – The designated official should ensure that an agreement will be entered into and will address the following points: controls, security provisions, and responsibilities of each party making and receiving wire transfers.

**Inverted Yield Curve:** A graphic representation illustrating short-term securities having higher yields than long-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 Company Act of 1940:** Federal legislation which sets the standards by which investment companies, such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

**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 all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

**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 a security's value will rise or decline as a result of changes in market conditions.

**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 establishes 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 Mutual Fund:** Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, repos and federal funds).

**Mutual Fund: (Refer to Paragraphs 8e and 8g):** 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 Investments Company Act of 1940 and must abide by the following Securities and Exchange Commission (SEC) disclosure guidelines:

1. Report standardized performance calculations.
2. Disseminate timely and accurate information regarding the fund's holdings, performance, management, and general investment policy.
3. Have the fund's investment policies and activities supervised by a board of trustees, which are independent of the adviser, administrator or other vendor of the fund.
4. Maintain the daily liquidity of the fund's shares.
5. Value their portfolios on a daily basis.
6. Have all individuals who sell SEC-registered products licensed with a self-regulating organization such as the National Association of Securities Dealers (NASD).
7. Have an investment policy governed by a prospectus, which is updated and filed with the SEC annually.

**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.

**Nationally Recognized Statistical Rating Organization (NRSRO):** Moody's, Standard and Poors (S&P), and FITCH IBCA. Additionally, Thompson BankWatch for financial institution ratings only.

**No Load 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:** The price asked by a seller of securities. (When you are buying securities, you ask for an offer). See Asked.

**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 flexible monetary policy tool.

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

**Positive (Normal) Yield Curve:** A graphic representation illustrating 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.

**Portfolio:** Collection of securities held by an investor.

**Primary Dealer:** A group of government securities dealers who submit weekly reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers and commercial, banking organizations subject to official supervision by the U.S. Federal Bank.

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

**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.

**Qualified Public Depositories:** A financial institution which does not claim exemption from the payment of any sales or 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 been approved by the Public Deposit Protection Commission to hold public deposits.

**Rate of Return:** The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond, the current income return.

**Reinvestment Risk:** The risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by that holding.

**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 RP, it is lending money that is, increasing bank reserves.

**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:** A service to customers rendered by financial institution for a fee whereby securities and valuables of all types and descriptions are held on the bank's vaults for protection.

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

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

**SEC Rule 15C3-1:** See Uniform Net Capital Rule.

**Short-Term:** A maximum of 6 months of operation. (F.S. 218.403(4)).

**Structured Notes:** Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations, which have imbedded options (e.g., call features, set-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.

**Surplus Funds:** Any funds in any general or special account or fund of a unit of local government, or funds held by an independent trustee on behalf of a unit of local government, which in reasonable contemplation will not be immediately needed for the purpose intended. (F.S. 218.403(5)).

**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.

**Treasury Bills:** Short-term U.S. government non-interest bearing discount securities with maturities of no longer than one year and issued in minimum denominations of \$10,000. Auctions of three- and six-month bills are weekly, while auctions of one-year bills are monthly. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.

**Treasury Bonds:** Long-term U.S. government securities with maturities of ten years (or longer) and issued on minimum denominations of \$1,000.

**Treasury Notes:** Intermediate U.S. government debt securities with maturities of one to ten years and issued in denominations ranging from \$1,000 to \$1 million or more.

**Uniform Net Capital Rule:** Securities & Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15:1; 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 assets and assets easily converted into cash.

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

**“Volatility Risk” Rating:** A rating system to clearly indicate the level of volatility and other non-credit risks associated with securities and certain bond funds. The rating for bond funds range from those that have extremely low sensitivity to changing market conditions and offer the greatest stability of the returns (“aaa” by S&P; “V-1” by Fitch) to those that are highly sensitive with currently identifiable market volatility risk (“ccc” by S&P; “V-10” by Fitch).

**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 security is actually issued.

**Yield:** The rate of annual income return on an investment, expressed as a percentage. *Income yield* is obtained by dividing the current dollar income by the current market price for the security.

**Yield-to-Call:** The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

**Yield-to-Maturity (Net Yield):** 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.

**Yield Curve:** A graphic representation depicting the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity.

**Zero-Coupon Securities:** Securities issued at a discount and make 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.