

RESOLUTION 2012-08

A RESOLUTION AMENDING THE CITY OF ST. PETE BEACH INVESTMENT POLICY SECTION VI TO ALLOW FOR INVESTMENT IN ANY INVESTMENT POOL ORGANIZED PURSUANT TO SECTION 163.01 AND 218.415 OF THE FLORIDA STATUTES.

The Board of Commissioners of the City of St. Pete Beach, Pinellas County, Florida, at a regular meeting held Tuesday, August 14, 2012, resolves as follows:

WHEREAS, Sec. 163.01, Florida Statute, authorized the state, or any county municipality or political subdivision of the state to jointly exercise any power, privilege, or authority which such governmental entities share in common and which each might exercise separately, and further provides such authority is in addition to and not in limitation of those granted by any other general, local or special law; and

WHEREAS, from time to time new investment opportunities are formulated that meet the requirements of the above referenced statute; and

WHEREAS, the constitutional, statutory and judicial authorities in the State of Florida authorize municipalities and other agencies or political subdivisions in or of the state to join with other municipalities and other agencies or political subdivisions in or of the state for the purpose of investing and reinvesting surplus public funds.

NOW, THEREFORE, THE CITY COMMISSION OF THE CITY OF ST. PETE BEACH, FLORIDA, DOES HEREBY RESOLVE:

Section 1. Section VI of the City of St. Pete Beach Investment Policy be modified to allow for all types of securities empowered by Florida Statute 218.415 (16) which includes any intergovernmental investment pool authorized as provided in section 163.01 of the Florida Statutes.

Section 2. This Resolution shall take effect immediately upon its adoption.

Adopted this 14th day of August, 2012.



Steve McFarlin, Mayor

ATTEST:



Rebecca C. Haynes, City Clerk

CITY OF ST. PETE BEACH, FL
INVESTMENT POLICY

August 29, 2001

**CITY OF ST. PETE BEACH
INVESTMENT POLICY**

TABLE OF CONTENTS

<i>I.</i>	<i>POLICY</i>	<i>3</i>
<i>II.</i>	<i>SCOPE</i>	<i>3</i>
<i>III.</i>	<i>INVESTMENT OBJECTIVES</i>	<i>3</i>
<i>IV.</i>	<i>PERFORMANCE STANDARDS</i>	<i>4</i>
<i>V.</i>	<i>PRUDENCE & ETHICAL STANDARDS</i>	<i>4</i>
<i>VI.</i>	<i>AUTHORIZED & SUITABLE INVESTMENTS</i>	<i>5</i>
<i>VII.</i>	<i>MATURITY AND LIQUIDITY REQUIREMENTS</i>	<i>6</i>
<i>VIII.</i>	<i>PORTFOLIO COMPOSITION</i>	<i>7</i>
<i>IX.</i>	<i>RISK DIVERSIFICATION</i>	<i>7</i>
<i>X.</i>	<i>DELEGATION OF AUTHORITY</i>	<i>7</i>
<i>XI.</i>	<i>AUTHORIZED INVESTMENT INSTITUTIONS AND BROKERS</i>	<i>7</i>
<i>XII.</i>	<i>THIRD PARTY CUSTODIAL AGREEMENTS</i>	<i>8</i>
<i>XIII.</i>	<i>BID REQUIREMENTS</i>	<i>9</i>
<i>XIV.</i>	<i>INTERNAL CONTROLS</i>	<i>9</i>
<i>XV.</i>	<i>CONTINUING EDUCATION</i>	<i>9</i>
<i>XVI.</i>	<i>REPORTING</i>	<i>9</i>
<i>XVII.</i>	<i>INVESTMENT POLICY ADOPTION AND REVIEW</i>	<i>10</i>
<i>XVIII.</i>	<i>GLOSSARY</i>	<i>10</i>

SCHEDULES:

- 1. GLOSSARY OF CASH MANAGEMENT/INVESTMENTS*

CITY OF ST. PETE BEACH
INVESTMENT POLICY

I. POLICY:

It is the policy of the City of St. Pete Beach to manage and invest public funds in a manner that preserves principal over time while maintaining liquidity and generating income to meet the City's projected cash needs and conforming to all state statutes governing the investment of public funds.

II. SCOPE:

This investment policy applies to all funds held by the City of St. Pete Beach in excess of those required to meet current expenditures. The investment policy shall not apply to pension funds, including those funds in Chapter 175 and 185; trust funds; or funds related to the issuance of debt where there are other existing policies or indentures in effect for such funds. The investment plan funds are disclosed in detail in the City's quarterly investment reports and annual financial report and include;

- A. General Fund*
- B. Special Revenue Funds*
- C. Capital Project Fund*
- D. Agency Funds*
- F. Any new fund created by the City, unless specifically exempted by City Commission.*

III. INVESTMENT OBJECTIVES:

The following investment objectives, in priority order, of the City of St. Pete Beach's investment activities shall be:

- A. Safety: Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner, which seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk. To attain this objective, diversification is required in order that potential losses of individual securities do not exceed the income generated from the remainder of the portfolio.*
- B. 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 securities mature concurrent with cash needs to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets. A portion of the portfolio also may be placed in money market funds or local government investment pools, which offer same-day liquidity for short-term funds.*
- C. 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*

CITY OF ST. PETE BEACH
INVESTMENT POLICY

risk constraints and liquidity needs. Return on investments is a secondary importance compared to the safety and liquidity objectives. The core investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

IV. PERFORMANCE STANDARDS:

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.

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 six-month U.S. Treasury Bill and the Average Fed Funds rate.

V. PRUDENCE AND EHTICAL STANDARDS:

The standard of prudence to be used by investment officials shall be the "Prudent Person ", and will be applied in the context of managing the overall portfolio. The Prudent Investor Rule States:

"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." (F.S. 218.415(4))

The investment officials, acting in accordance with written procedures, 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.

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair the ability to make impartial decisions. Employees and investment officials shall disclose to the City Manager any material interests in financial institutions with which they conduct business.

CITY OF ST. PETE BEACH
INVESTMENT POLICY

VI. AUTHORIZED & SUITABLE INVESTMENTS:

The City is empowered by Florida Statute 218.415 (16) and Code of Ordinances to invest in the following types of securities.

- A. The State of Florida Local Government Surplus Funds Trust Fund (SBA: State Board of Administration)*
- B. Florida Municipal Investment Trust Funds (FMIvT)*
- C. Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.*
- D. Interest-bearing time deposits or savings accounts in qualified public depositories.*
- E. Direct obligations of the U. S. Government Treasury*
- F. Certificates, notes, bonds, or bills of the United States, or other obligations of the United States or its Agencies. Agencies are backed by the full faith and credit of the US and include but not limited to:*
 - 1. Government National Mortgage Association (GNMA)*
 - 2. Farmers Home Administration (FHA)*
 - 3. Small Business Association (SBA)*
 - 4. General Services Administration (GSA)*
 - 5. Federal Housing Administration*
 - 6. Housing & Urban Development (HUD)*
- G. Obligation of government-sponsored corporations (Instrumentalities) which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve. Instrumentalities are usually "AAA" rated, but have no explicit government guarantee and include, but are not limited to:*
 - 1. Federal National Mortgage Association (FNMA)*
 - 2. Federal Farm Credit Banks (FFCB)*
 - 3. Federal Home Loan Banks (FHLB)*
 - 4. Federal Home Loan Mortgage Corporation (FHLMC)*
 - 5. Student Loan Marketing Association (SLMA)*
 - 6. Tennessee Valley Authority (TVA)*
- H. Collateralized Mortgage Obligations (CMO) with very accurately defined maturities issued by Federal Agencies and Instrumentalities. Only the following three CMO's products will be considered: 1) VATM/Accretion Directed, 2) PAC-1 (Planned*

**CITY OF ST. PETE BEACH
INVESTMENT POLICY**

Amortization Class, and 3) Sequential Bonds. CMO's are usually rated "AAA" due to the credit pass-thru of the issuing Agency or Instrumentality.

- I. Bankers Acceptance (BA) guaranteed by banking institutions with bank rating of "AA" on its long-term debt. All bankers' acceptances must be inventory based.*
- J. Commercial Paper having received an A1/P1 or higher rating by a nationally recognized rating agency, such as Moody's, Standard and Poors, or Fitch.*
- K. Non-negotiable Certificates of Deposit and Bank Investment Contracts (BIC), which can be insured, collateralized at the Federal Reserve or qualify as state qualified public deposits, as defined by the Fl. Statutes.*
- L. Taxable or Tax-Exempt Government bonds, notes or other obligations of investment grade quality (as established by a nationally recognized rating agency), municipal corporation, special district, and authority or political subdivision thereof.*
- M. Repurchase Agreements with primary dealers with the City's primary state certified qualified public depository. The repurchase agreement for overnight sweep cash investments is collateralized by State Law with the State Comptroller's office. The City must have a Master Repurchase Agreement to engage in this investment option.*

VII. MATURITY AND LIQUIDITY REQUIREMENTS:

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. The City may invest sufficient liquid funds in overnight investment securities to meet projected cash requirements.

Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding five (5) years if the maturity of such investments are made to coincide as nearly as practical with the expected use of the funds.

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

**CITY OF ST. PETE BEACH
INVESTMENT POLICY**

VIII. PORTFOLIO COMPOSITION:

The investment policy establishes guidelines for investments and limits on security issues, issuers and maturities. These will be reviewed periodically to correspond with the economic conditions or changes in the City's liquidity requirements.

IX. RISK DIVERSIFICATION:

It is the policy of the City of St. Pete Beach to diversify its investment portfolio. Assets held shall be diversified to control risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific instrument and/or class of instruments. This will be accomplished by limiting investments to avoid over concentration from a specific issuer or business sector. Limiting investments in securities that have higher credit risks, investing in securities with varying maturities, and continuously investing a portion of the portfolio in readily available funds such as the State Board, demand and saving accounts, money market funds and overnight repurchase agreements to ensure that the appropriate liquidity is maintained in order to meet ongoing obligations.

X. DELEGATION OF AUTHORITY:

Management responsibility for the investment program is hereby delegated to the Finance Director who shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

XI. AUTHORIZED INVESTMENT INSTITUTIONS AND BROKERS

The City will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers who are authorized to provide investment services. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- *Audited financial statements*
- *Proof of National Association of Securities Dealers (NASD) certification.*
- *Proof of state registration*
- *Completed broker/dealer questionnaire*

CITY OF ST. PETE BEACH INVESTMENT POLICY

- *Certification of having read, understanding and agreement to comply with the City's investment policy.*

Repurchase Agreements will only be conducted through and negotiated with "primary securities" dealers or Qualified Public Depository financial institutions. A written Master Repurchase Agreement will be negotiated with any institution that is approved and authorized by the City, through the Finance Director with City Manager's approval.

XII. THIRD PARTY CUSTODIAL AGREEMENTS

The City, through the Finance Director, will execute a Third-Party Custodial Safekeeping Agreement with a commercial bank's trust department which is separately chartered by the United States Government or the State of Florida or a securities firm properly registered with the New York Stock Exchange and complying with all regulations of the U. S. Securities and Exchange Commission. An independent third-party custodian provides the strongest assurance and control that the securities have been properly segregated on behalf of the local jurisdiction.

The Third-party Custodial Safekeeping Agreement shall include letters of authority from the City, details as to the responsibilities of each party; notification of security purchases, sales, delivery, repurchase agreements, wire transfers, safekeeping and transaction costs; and procedures in case of wire failure or other unforeseen mishaps, including liability of each party.

All securities purchased and/or collateral obtained by the City shall be properly designated as an asset of the City and held in safekeeping by the Trust Department and no withdrawal of such securities, in whole or in part, shall be made from safekeeping except as designated in the Internal Control Policy.

All security transactions between authorized security dealers/brokers, financial institutions and the custodian involving purchases or sale of securities by transfer of money or securities must be made on a "delivery vs. payment" (DVP) basis. Simultaneous with the release of City funds to purchase a security, there will be a delivery of the securities purchased. Accordingly, for any sale of securities, there will be a simultaneous transfer of money to the City before the release of the securities. This policy ensures that the City neither transfers money or securities before receiving the other portion of the transaction. Rather, both transfers will happen simultaneously through the custodial bank authorized to conduct transactions for the City.

Certificates of deposit and other time deposits do not need to be placed with a third-party custodian, since they are collateralized through Chapter 280 of the Florida Statutes.

The Local Government Surplus Funds Trust (State Board of Administration – SBA) and Local Municipal Investment Trusts (FMIVT) are exempt from collateralization and third-party agreements.

CITY OF ST. PETE BEACH
INVESTMENT POLICY

XIII. BID REQUIREMENTS:

After the Finance Director determines the approximate maturity date based on the cash-flow needs and market conditions and has analyzed and selected one or more optimal types of investments, the security in question shall, when feasible and appropriate, be competitively bid

XIV. INTERNAL CONTROLS:

The Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse. The internal controls structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of controls does not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management. In this regard, the Finance Director will develop and regularly update standard investment internal control procedures.

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.*

Accordingly, the Finance Director shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures as part of the annual financial audit required by Florida Statutes.

XV. CONTINUING EDUCATION:

Periodic training and education opportunities will be provided to those staff members responsible for the investment function of the City of St. Pete Beach. Those City Officials responsible for making investment decisions must complete no less than eight (8) hours of continuing education in subjects or courses of study related to investment practices and products on an annual basis.

XVI. REPORTING:

- *The Finance Director shall prepare an investment report at least annually, which will include a management summary and provide an analysis of the status of the current investment portfolio and transactions made over the past year. This management summary*

CITY OF ST. PETE BEACH
INVESTMENT POLICY

will be prepared in a manner that will allow the City to ascertain whether investment activities during the period have conformed to the investment policy.

XVII. INVESTMENT POLICY ADOPTION AND REVIEW:

The City's investment policy shall be adopted by resolution by the City Commission. The Finance Director shall review the policy annually and recommend any modifications to the City Commission.

XVII: GLOSSARY:

See Glossary of Cash Management and Investment Terms - Schedule 1

Glossary of Cash Management/Investment Terms

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

Asked – The price at which securities are offered.

Auction Rate Securities (Dutch Auctions) – A security designed to preserve capital while realizing higher rates than money market accounts while mirroring the market. The name is derived from the mechanism in which the security is reset between seven and 49 days through investors and potential shareholders competitively bidding (Dutch auction) for securities on the next reset period.

Bankers' Acceptance (BA) – Short-term credit arrangements to enable businesses to obtain funds to finance commercial transactions. They are time drafts drawn on a bank by an exporter or importer to obtain funds to pay for specific merchandise. By its acceptance, the bank becomes primarily liable for the payment of the draft at its maturity. An acceptance is a high-grade negotiable instrument. Acceptances are purchased in various denominations for 30, 60, or 90 days, but no longer than 270 days. The interest is calculated on a 360-day discount basis similar to treasury bills.

Bank Investment Contracts (BIC) – Similar to certificates of deposits. An arrangement with a Bank to purchase a security for a stated period of time at a specific interest rate.

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 Entry Securities – All U.S. Treasury and Federal Agencies as well as other corporate and municipal securities authorized under this plan are maintained on computerized records at the Federal Reserve now known as "wireable" securities.

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 paid by the initiator of the transaction or by both sides. In the money market, brokers are active in markets in which banks buy and sell money and in interdealers markets.

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.

Glossary of Cash Management/Investment Terms

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

Certificates of Deposit (Non-Negotiable) (CD) – A time deposit with a specific maturity evidenced by a certificate. The interest is calculated on a 360-day basis.

Collateral – Securities, evidence of deposit, or 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.

Commercial Paper – Short term unsecured promissory notes issued by large corporations with high credit ratings.

Comprehensive Annual Financial Report (CAFR) – The official annual report for all governmental units. It includes five combined statements and basic financial statements for each individual fund and account group prepared in conformity with General Accepted Accounting Principle (GAAP). It also includes supporting schedules necessary to demonstrate compliance with finance-related, legal and contractual provisions, extensive introductory material and a detailed “Statistical Section”.

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.

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.

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

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

Glossary of Cash Management/Investment Terms

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 Credit Agencies – Backed by the full faith and credit of the United States Government. Most are not considered money-market instruments. They usually provide slightly higher yields than regular Treasury issues with all of the same advantages. Examples include:

- *Governmental 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. Ginnie Mae securities are backed by FHA, VA or FMHA mortgages. The term "pass-through" is often used to describe Ginnie Mae.
- *Other Federal agencies debt issues include Farmers Home Administrative (FMHA), Small Business Association (SBA), General Services Administration (GSA), Federal Housing Administration (FHA) and Housing and Urban Development (HUD).*

Federal Credit Instrumentalities – Also referred to as Agencies, although there is no explicit governmental guarantee, there is an implied governmental support. They usually provide significantly higher yields than regular Treasury issues. Examples include:

- *Federal Intermediate Credit Bank Debentures (FICB's)* – Loans to lending institutions used to finance the short-term and intermediate needs of farmers, such as seasonal production. They are usually issued monthly in minimum denominations of \$3,000 with a 9-month maturity. Interest is payable at maturity and is calculated on a 360-day, 30-day month basis.
- *Federal Farm Credit Bank (FFCB's)* – Debt instruments used to finance the short and intermediate term needs of farmers and the national agricultural industry. They are issued monthly with three-and-six-month maturities. The FFCB issues larger issues (one to ten years) on a periodic basis. The issues are highly liquid.
- *Federal Land Bank Bonds (FLB's)* – Long-term mortgage credit provided to farmers by Federal Land banks. These bonds are issued at irregular times for various maturities ranging from a few months to ten years. The minimum denomination is \$1,000. They carry semi-annual coupons. Interest is calculated on a 360-day, 30-day month basis.
- *Federal Home Loan Bank Notes and Bonds (FHLB's)* – Issued by the Federal Home Loan Bank System to help finance the housing industry. The notes and bonds provide liquidity and home mortgage credit to savings and loan associations, mutual savings banks, cooperative banks, insurance companies and mortgage-lending institutions. They

Glossary of Cash Management/Investment Terms

are issued irregularly for various maturities. The minimum denomination is \$5,000. The notes are issued with maturities of less than one year and interest is paid at maturity. The bonds are issued with various maturities and carry semi-annual coupons. Interest is calculated on a 360-day, 30-day month basis.

- *Federal National Mortgage Association (FNMA's)* – Used to assist the home mortgage market by purchasing mortgages insured by the Federal Housing Administration and the Farmers Home Administration, as well as those guaranteed by the Veterans Administration. They are issued about four times a year for maturities ranging from a few months to eight years. They are issued in minimum denominations of \$10,000. They carry semi-annual coupons. Interest is computed on a 360-day, 30-day month basis.
- *Other Federal Instrumentalities include the Tennessee Valley Authority (TVA's), Student Loan Association (SALLIE-MAE) and Federal Home Loan Mortgage Corporation (FHLMC).*

Federal Deposit Insurance Corporation (FDIC) – A federal agency that insures financial institutions' deposits, currently up to \$100,000 per deposit.

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 Home Loan Banks (FHLB) – The institution that formerly regulated and lent to savings and loans associations. The Federal Home Loan Banks played a role similar to that played by the Federal Reserve Banks for its member commercial banks. However, the Office of the Thrift Supervision and the FDIC has assumed those responsibilities.

Federal Home Loan Mortgage Corporation (FHLMC) – A U.S. Corporation and Instrumentality of the U.S. Government. Through its purchases of conventional mortgages, it provides liquidity to the mortgage markets, much like FNMA. FHLMC's Securities are highly liquid and widely accepted. FHLMC assumes and guarantees that all security holders will receive timely payment of principal and interest.

Federal National Mortgage Association (FNMA) – FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a Federal Corporation and Instrumentalities 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. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation.

Florida Municipal Investment Trust (FMIVT) – An investment vehicle that allows local municipalities to invest into one or more pooled portfolio's operated by professional asset management services at the lowest possible cost. This portfolio must be adopted by a Resolution and is operated by the Florida League of Cities – Department of Financial Services.

Glossary of Cash Management/Investment Terms

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 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 recognizes that 1) the cost of a control should not exceed the benefits likely to be deprived 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.
- **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.
- **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 also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
- **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.
- **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

Glossary of Cash Management/Investment Terms

and will address the following points: Controls, security provisions and responsibilities of each party making and receiving wire transfers.

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 Policy – A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

Liquidity – An asset that can be converted easily and quickly into cash.

Local Government Surplus Funds Trust – A special trust fund in the State Treasury run by the State Board of Administration under Florida Statute Section 215.44 to 215.53 and State Board of Administration Rules Chapter 19-7.

Market-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 (See Fair Value).

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.

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 – 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 and must abide by the following Securities and Exchange Commission (SEC) disclosure guidelines:

- Report standardized performance calculations
- Disseminate timely and accurate information regarding the fund's holdings, performance, management and general investment policy.
- Have the fund's investment policies and activities supervised by a board of trustees, which are independent of the advisor, administrator or other vendor of the fund.
- Maintain the daily liquidity of the fund's shares.

Glossary of Cash Management/Investment Terms

- *Value their portfolios on a daily basis.*
- *Have all individuals who sell SEC-registered products licensed with a self-regulating organization (SRO) such as the National Association of Securities Dealers (NASD).*
- *Have an investment policy governed by a prospectus, which is updated and filed by the SEC annually.*

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.*

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

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.*

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.*

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 repo is a short-term investment transaction. Financial Institutions buy temporarily idle funds from a customer by selling U.S. Government or other securities with a contractual agreement to repurchase the same securities on a future date. Repurchase agreements typically mature in one to ten days. The customer receives interest from the bank. The interest rate reflects both the prevailing demand for federal funds and the maturity of the repo. Some banks will execute repurchase agreements for a minimum of \$1,000,000.*

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).*

Glossary of Cash Management/Investment Terms

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 Governmental Securities Dealers – All firms not under the informal oversight of the Federal Reserve Bank of New York.

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

Student Loan Marketing Association (SLMA) – A U.S. Corporation and Instrumentality of the U.S. Government. Through its borrowings, funds are targeted for loans to students in higher education institutions. SLMA's securities are highly liquid and are widely accepted.

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

Settlement Date – The date on which a trade is cleared by delivery of securities against funds. This date may be the same as the trade date or later.

State Board of Administration (SBA): Represent a pooled investment account establish and governed by Florida Statute run by the Florida State Board of Administration. Designed to provide liquidity with the preservation of capital for the participants. Average maturity of the funds relatively short, not to exceed 90 days.

Term Bond – Bonds comprising a large part or all of a particular issue, which come due in a single maturity. The issuer usually agrees to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity.

Trade Date – The date on which a transaction is initiated or entered into by the buyer and seller.

Treasury Bills – Short-term U.S. Government non-interest bearing debt 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 Notes – Intermediate U.S. Government debt securities with maturities of one to 10 years and issued in denominations ranging from \$1,000 to \$1 million or more.

Treasury Bonds – Long-term U.S. Government debt securities with maturities of ten years or longer and issued in minimum denominations of \$1,000. Currently, the longest outstanding maturity for such securities is 30 years.

Glossary of Cash Management/Investment Terms

Uniform Net Capital Rule – Securities and Exchange Commission requirement that member firms as well as non-member 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.

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.

Yield – The rate of annual income return on an investment expressed as a percentage is 1) *Income Yield* is obtained by dividing the current dollar income by the current market price for the security and 2) *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.

Yield to Maturity – The rate of return yielded by a debt security held to maturity when both interest payments and the investor's capital gain or loss on the security is taken into account.

