**RESOLUTION NO. 1364**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF DAYTON, WASHINGTON, APPROVING INVESTMENT POLICIES.**

**WHEREAS,** it is in the City's best interest to invest public funds in a manner which will provide maximum security with the highest investment return while meeting the daily cash flow demands of the City and conforming to all state and local statutes governing the investment of public funds; and

**WHEREAS,** on September 5, 2018, the Finance Committee received a copy of the Investment Policy, as proposed in Exhibit "A", for review and comment; and

**WHEREAS,** there were no comments received from the Finance Committee on the City of Dayton Investment Policy dated 09/05/2018; and

**WHEREAS,** it is in the City's best interest to formalize its investment policies in writing.

**NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF DAYTON DOES HEREBY RESOLVE AS FOLLOWS:**

**Section 1.** The City of Dayton hereby adopts the City of Dayton Investment Policy attached hereto as Exhibit "A."

**Section 2.** The Mayor or designee is hereby authorized to implement such administrative procedures as may be necessary to carry out the directions of this legislation.

**Section 3.** This resolution shall take effect and be in full force January 1, 2019.

Approved and signed this 19TH day of DECEMBER, 2018.

CITY OF DAYTON

Craig George

Craig George, Mayor

Attest:

Trina Cole

Trina Cole, City Clerk-Treasurer

Approved as to Form:

Quinn Plant, City Attorney

Exhibit "A"
Resolution No. 1364
12/19/2018

# CITY OF DAYTON

# INVESTMENT POLICY

## ~~08/31/2018~~

## 09/05/2018

## Approved 12/19/2018

# Contents

# 1. Purpose

The purpose of this document is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment policy and to organize and formalize investment -related activities.

This policy outlines investments scope, objectives, delegation of authority, reporting requirements, internal control, investment limitations, safeguarding requirements, liquidity, performance expectation, quality, and maturity.

The goal of this policy is 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 and conforming to all Washington Statutes governing the investment of public funds.

# 2. Scope

It shall be the general policy of the City of Dayton to pool all available cash into a common investment portfolio as authorized by RCW 35A.40.050.

The investment policy applies to all financial assets of the City of Dayton ("City"). These funds are accounted for in the City's Financial Reports and include all funds:

- General (Current Expense) Fund
- Special Revenue Funds
- Capital Project Funds
- Enterprise Funds
- Permanent Funds
- Investment Trust Funds
- Any new funds created by Council

# 3. Objectives

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

3.1 Safety

Safety of principal is the foremost objective to the City. It is the primary duty and responsibility of the City Treasurer to protect, preserve, and maintain cash and investments placed in his/her trust on behalf of the citizens of Dayton.

Investment shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To obtain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

3.1 Liquidity

The City's investment portfolio shall remain sufficiently liquid to enable the City to meet all cash requirements which might be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity).

3.2 Return on Investment (Yield)

Yield should become a consideration only after the objectives of safety and liquidity have been met as described above. The City's investment portfolio shall be managed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. The core of investments is limited to relatively low risk securities in anticipation of earning a fair rate of return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

a. A security with declining credit may be sold early to minimize loss of principal.

b. A security swap would improve the quality, yield, or target duration in the portfolio.

c. Liquidity needs of the portfolio require that the security be sold.

# 4. Prudence

The standard of prudence to be applied by investment officials shall be the "prudent investor" rule, which states " ... investments shall be made with judgement 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."

The investment officer, acting in accordance with written procedures and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectation are reported to the Finance Committee in a timely fashion and appropriate action is taken to control adverse development.

# 5. Delegation

Authority for investment decisions shall be granted to the City Treasurer ("Treasurer"). The Treasurer is deemed an investment officer for the City and authorized to sign necessary agreements and documents for the purpose of carrying out this policy which does not obligate the City for the expenditure of funds.

Management responsibility for the investment program is hereby delegated to the Treasurer.

The Treasurer shall be responsible for managing the day-to-day operation of the portfolio. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer and adopted by the City Council.

Procedures should include reference to: Safekeeping, delivery vs payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinates.

# 6. Ethics and Conflict of Interest

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

6.1 Employees and investment officials authorize to place or approve investments shall not personally, nor through a close relative, maintain any accounts, interest, or private dealings with any firm with which the City places investments, except for regular savings accounts, checking accounts, money market accounts, or other similar transactions which are offered on a non-negotiable basis to the general public.

6.2 All persons authorized or approved for investments shall disclose to the Treasurer any material financial interest in financial institutions that conduct business within this jurisdiction.

6.3 All personnel involved in the investment function shall adhere closely to the City's Code of Ethics.

6.4 The portfolio is subject to public review and evaluation. The overall program will be designed and managed with a degree of professionalism that is worthy of the public trust.

# 7. Authorized Financial Dealers and Institutions

7.1 Selection of a primary bank for the City for general banking services shall be made by the Mayor.

7.2 Authorized broker/dealers and financial institutions will be limited to those that meet one or more of the following:

- Financial institutions approved by the Washington Public Deposit Protection Commission; or
- Primary dealers recognized by the Federal Reserve Bank; or
- Non-primary dealers or institutions qualified under U.S. Securities and Exchange Commission Rule 15c3-1, the Uniform Net Capital Rule, and a certified member of the National Association of Securities Dealers.

7.2 As required by the Public Deposit Protection Commission (PDPC) all authorized public depositories will be located in the State of Washington (RCW 39.58.080). Annually, the Treasurer will adopt the eligibility list proved by the PDPC as the approved depositary list.

7.3 In selecting financial institutions for the deposit or investment of City funds, the Treasurer shall continue to monitor the financial institutions' credit characteristics and financial history throughout the period in which City funds are deposited or invested.

7.4 The maximum amount placed with any one depositary will not exceed the net worth of the institution as determined by the PDPC.

7.5 All brokers/dealers and financial institutions who desire to do business with the City shall supply the Treasurer with the following:

- Annual audited financial statements.
- Proof of FINRA (Financial Industry Regulatory Authority) certification.
- Proof of registration with the State of Washington.
- A completed broker/dealer questionnaire and certification of having read the City's Investment Policy.

# 8. Authorized Investments

All municipal corporations in Washington State, including the City, are empowered by statute to invest in the following types of securities. Eligible investments are only those securities and deposits authorized by State statute as defined in Chapters 39.58 and 39.59 RCW.

For the City of Dayton, the following securities are authorized investments:

8.1 U.S. Treasury Obligations (Bills, Notes, Bonds)

8.2 Obligations of U.S. government agencies, corporations wholly owned by the U.S. government or any Government Sponsored Enterprise (GSEs), such as: Federal Instrumentality Securities which includes, but is not limited to the Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Banks (FHLB), and, Federal Farm Credit Bureau (FFCB). Other issuers may qualify if they meet the above criteria.

8.3 State of Washington Local Government Investment Pool (LGIP) managed by the Washington State Treasury office.

8.4 Time deposits and Savings accounts issued by PDPC approved banks.

8.5 Non-negotiable Certificates of Deposit (CDs) of financial institutions which are qualified public depositories as defined by RCW 39.58.010(2) and in accordance with the restrictions therein.

8.6 Municipal Debt Obligations - Bonds of the State of Washington and any local government in the State of Washington; at the time of investment the bonds must have one of the following ratings: one of the three highest ratings of a national rating agency at the time of investment.

8.7 Bankers' acceptances purchased on secondary market.

8.8 Commercial Paper purchased in the secondary market and having received the highest rating by at least two (2) Nationally recognized Statistical Rating Organizations (NRSROs) at the time of purchase and adhering to the investment policies and procedures adopted by the State Investment Board.

# 9. Safekeeping and Custody

The City recognizes that investment risks can result from issuer defaults, market price changes, or various technical complications leading t temporary illiquidity. To decrease the risk of default, the City Treasurer shall periodically establish guidelines and strategies for investment.

In addition to general policy consideration, the following specific policies shall be implemented.

9.1 All security transactions shall be conducted in a delivery-versus-payment (DVP) basis. Securities purchased by the entity will be delivered against payment and held in a custodial safekeeping account with the trust department of a bank. The trust department of a bank, a third-party custodian, will be designated by the Treasurer and all transactions will be evidenced by safekeeping records.

9.2 To protect against potential fraud and embezzlement, bearer instruments shall be secured through third-party custody and safekeeping procedures provided by a financial institution designated as primary agent. The primary agent shall issue a safekeeping receipt to the City listing the specific instrument, rate, maturity and all other pertinent information.

9.3 For purchasing certificates of deposit (CDs) the City's investments should be limited to 85% of net worth of such institution. The Institution's status shall be reviewed and accepted by the Public Deposit Protection Commission (PDPC) or properly collateralized as required by the state for amounts exceeding FDIC and FSLIC coverage.

9.4 CDs issued by banks do not need to be held by a safekeeping agent. Original certificate documents shall be held by the Treasurer.

# 10. Diversification

It is the policy of the City to diversify its investment portfolios. To reduce overall risk of loss while attaining market average rates of return, all cash and cash equivalent assets in all funds shall be diversified by maturity, issuer and by the class of security. Diversification strategies shall be reviewed and revised periodically by the Finance Committee and Treasurer for all funds. In establishing specific diversification strategies, the following investment allocation constraints shall apply:

Investment Allocations

| Security | Max. % of Portfolio |
|---|---|
| US Treasury Obligations (Notes, Bonds, Bills) | 100% |
| US Government Agencies<br><br>WA State LGIP | 75%<br><br>100% |
| Certificate of Deposits | 40% |
| State and Local Government Securities | 20% |
| Municipal Investment Accounts | 40% |

## 11. Maturities

To the extent possible and preclude sales of securities that could result in a loss, investment will be made to coincide with anticipated cash flow requirements. 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 LGIP and money market funds to ensure that appropriate liquidity is maintained to meet ongoing obligations.

11.1 To this extent, a minimum of 10% of the portfolio, at the time of investment, will comprise of investments maturing within a year.

11.2 Satisfying this requirement, remaining funds may b invested in authorized securities not to exceed five years in maturity, except when compatible with a specific fund's investment needs. Maturities longer than five years must have the prior approval by majority of the Finance Committee.

11.3 To ensure additional liquidity and provide for ongoing market opportunity, the weighted average maturity of the total portfolio less the amount invested in the LGIP, shall not exceed two (2) years. The maximum is established to limit the portfolio to excessive market exposure.

## 12. Selection of Investment Instruments

The Treasurer will obtain telephone, faxed or emailed quotes before purchasing or selling an investment. The Treasurer will select the quote which best satisfies the investment objectives of the investment portfolio within the parameters of this policy. The Treasurer will maintain a written record of each bidding process including the name and prices offered by each participating financial institution.

## 13. Internal Control

The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation of third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City.

Training should be provided to staff in investments, and personnel should keep current financial development by participating in GFOA and other continuing education opportunities in investment management.

Controls deemed most important include:

- Control of collusion:
- The use of third party custody and safekeeping;
- The execution of all securities transactions on a delivery-versus-payment basis;
- The clear delegation of investment authority;
- The separation of transaction authority from record keeping;
- The use of objective criteria in selecting financial institutions and dealers authorized to provide investment services to the state;
- The use of objective criteria in awarding investment purchases and sales to authorized financial institutions and dealers; and
- Written documentation of transactions and strategies.

Appendix "A" shows the internal control strategy.

# 14. Performance Standards

The investment portfolio shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints, the cash flow characteristics of the portfolio, and State and local laws and ordinances that restrict investments.

## 14.1 Market Yield

The basis used by the City Treasurer to determine whether market yields are being achieved shall be the 12-month moving average of the two-year Treasury.

# 15. Reporting

The City Treasurer is charged with the responsibility of preparing a report on investment activity.

## 15.1 Quarterly Reports

The City Treasurer shall submit quarterly investment report to the City Council. The report shall include, but not be limited to:

- A listing of individual securities held at the end of the reporting period.
- Average life and final maturity of all investments listed.
- Coupon, discount or earning rate.
- Par Value, amortized book value and market value.
- Percentage of the portfolio in each investment category
- A list of transactions for the period.

# 16. Distribution of Income

Interest income received shall be distributed monthly from the common portfolio to all participating funds in the following order:

## 16.1 Payment to each fund

Payment to each fund of an amount based on the ending cash balance included in the common portfolio for the earning period.

# 17. Investment Policy Adoption

The City of Dayton's investment policy shall be adopted by resolution of the City Council. The policy shall be reviewed on an as-needed basis, but no less than bi-annually. The Mayor and Finance Committee will review the policy with the Treasurer and recommend to Council any appropriate changes.

# APPENDIX A
# INTERNAL CONTROLS

INTERNAL CONTROL STRATEGY

| Functions | Responsibility |
|---|---|
| 1. Authorization of investment transactions | |
| *Formal investment policy prepared by: | Treasurer |
| *Adopted by: | City Council |
| *Implemented by: | Treasurer |
| 2. Execution of investment transactions | Treasurer |
| 3. Timely recording of investment transactions | |
| *Recording of investment transactions in Treasurer Records | Deputy City Clerk |
| *Recording of investment transactions in accounting Records | Deputy City Clerk |
| 4. Verification of investment, i.e., match broker confirmation to Treasurer's records | Deputy Clerk |
| 5. Safeguarding of Assets and Records | Treasurer |
| *Reconciliation of Treasurer's records to accounting records | Accounting Staff |
| *Reconciliation of Treasurer's records to bank statement and safekeeping records | Dual Control - Treasurer/Deputy City Clerk |
| *Review of: | |
| a. Financial Institutions financial condition | Mayor/Finance Committee/Treasurer |
| b. Safety, liquidity, and yields of investments | Mayor/Finance Committee/Treasurer |
| *Maintaining complete and current financial institution and brokerage company files | Accounting Staff |
| *Periodic reviews of collateral | Treasurer |

| | |
|---|---|
| 6. Review of the investment portfolio in conformance to stated investment policy | |
| *Monthly | Mayor/Finance Committee |
| *Quarterly | Mayor/City Council |
| 7. Annual review of the Investment Policy and Investment Program | Mayor/Finance Committee/Treasurer |
| 8. Changes in Investment Policy | |
| *Prepared by: | Treasurer |
| *Adopted by: | City Council |

# APPENDIX B

# Glossary of Terms

### Glossary of Cash Management Terms

The following is a glossary of key investing terms, many of which appear in the City of Dayton Investment Policy.

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

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

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

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

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

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

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

**Broker** -A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; he does not position. In the money market, brokers are active in markets in which banks buy and sell money and in interdealer 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.

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

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

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

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

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

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

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

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

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

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

**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.

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

**Discount** - The difference between the cost price of security and its value at maturity when quoted at lower than face value. A security selling below original offering price shortly after sale is also considered to be at a discount.

**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 range of security types by sector, maturity, and quality rating.

**Duration** – A measure of timing of the cash flows, such as interest payment and principal repayment, to be received from a given fixed-income security. This calculation is based on a three variable: 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** -Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&Ls, 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 (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 institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-a-vis member commercial banks.

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

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

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

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

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

**Interest Rate** - See "Coupon Rate".

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

**Internal Controls** -An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance 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. Internal controls should address 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 also 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 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 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.

**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.

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

**Liquidity** -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 price 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.

**Market Risk** - The risk that the value of a security 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** - The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

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

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

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

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

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

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

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

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

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

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

**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.

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

**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 or 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 positions. Exception: When the Fed is said to be doing RP, it is lending money, that it, increasing bank reserves.

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

**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.

**Swap** - Trading one asset for another.

**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.

**Total Return** - The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period. (Price Appreciation) + (Dividends paid) + (Capital Gains) = Total Return.

**Treasury Bills** – Short-term US 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 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.

**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.

**Uniform Net Capital Rule** - SEC Rule 15C3-1 outlining capital requirements for broker/dealers.

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

**Yield Curve** - A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.

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

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

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