

**CITY OF COCONUT CREEK  
INVESTMENT POLICY**

<b>Title: INVESTMENT POLICY</b>	<b>Effective Date:</b>
<b>Originating Dept: FINANCE</b>	<b>Authority Ordinance No. 2017-040</b>

**I. PURPOSE**

The intent of this policy is to provide the Chief Financial Officer and designated staff with sufficient authority to effectively manage the City of Coconut Creek's financial assets so as to 1) ensure the preservation of principal, 2) maintain sufficient cash flow to enable the City to meet its obligations, and 3) maximize the return on assets with an acceptably low exposure to risk.

**II. SCOPE**

In accordance with Section 218.415, Florida Statutes, this Investment Policy shall apply to all financial assets held by the City on behalf of the residents of the City of Coconut Creek with the exception of funds whose uses are restricted by debt covenants; prior contracts; or legal, regulatory or other constraints.

All financial assets held or controlled by the City, not otherwise classified as restricted assets requiring separate investing, shall be identified as "general operating funds" of the City for the purpose of this policy, and shall be invested under the guidelines as herein set forth. The guidelines, provided herein, are the general operating procedures. General operating funds include: General Funds, Special Revenue Funds, Debt Service Funds, Capital Projects, Enterprise Funds, Internal Service Funds, Trust and Agency Funds, and any new funds created by the governing body, unless specifically exempt.

**III. DEFINITIONS**

See Glossary Section: Appendix A

**IV. OBJECTIVES**

The following investment objectives will be applied in the management of City funds:

**A. Safety of Principal**

Ensuring the preservation of principal is the primary objective of the City's investment activities. Each investment transaction shall be executed to insure that capital losses are avoided whether from market value fluctuations or credit erosion. This objective includes mitigation of credit risk and interest rate risk.

## INVESTMENT POLICY

### IV. OBJECTIVES

#### A. **Safety of Principal, continued**

(1) Credit Risk

The City will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:

- Limiting investment to the types of securities listed in Section VII of this Investment Policy
- Pre-qualifying the financial institutions, broker/dealers, intermediaries and advisers with which the City will do business in accordance with Section VI
- Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized

(2) Interest Rate Risk

The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity
- Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy (see Section IX)

#### B. **Maintenance of Liquidity**

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This will be 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 will consist largely of securities with active secondary markets.

#### C. **Return on Investment**

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 risk constraints and liquidity needs. Return on investment shall not have as much weight in comparison to safety and liquidity objectives. The core of investments will be limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

## INVESTMENT POLICY

### **IV. OBJECTIVES**

#### **C. Return on Investment, continued**

Securities may not be sold prior to maturity with the following exceptions: a declining credit security could be sold early to minimize loss of principal; a security swap that would improve the quality, yield or target duration in the portfolio; or liquidity needs of the portfolio require that the security be sold.

#### **D. Transparency**

The City shall operate its portfolio in a transparent manner, making its periodic reports both available for public inspection and designed in a manner which communicates clearly and fully information about the portfolio.

### **V. STANDARD OF CARE**

#### **A. Prudence**

The standard of prudence to be applied by the Chief Financial Officer or designee shall be the “Prudent Person Rule” which 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 derived from the investment.” The “Prudent Person Rule” shall be applied in the context of managing the overall portfolio.

#### **B. Ethics and Conflicts of Interest**

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict or appear to conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Officers and employees shall be prohibited from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the entity.

## INVESTMENT POLICY

### **V. STANDARD OF CARE, continued**

#### **C. Delegation of Authority**

Responsibility for the operation of the investment program is granted to the Chief Financial Officer, who shall carry out established written procedures and internal controls for the operation of the investment program consistent with this investment policy adopted by Ordinance and any amendments thereof. Procedures include: safekeeping, delivery vs. payment, investment accounting, wire transfer agreements, collateral/depository agreements and banking services contracts. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Chief Financial Officer. The Chief Financial Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. These include but are not limited to:

- (1) The Chief Financial Officer, and/or other staff as may be designated by the Chief Financial Officer, shall have the authority to execute trades and to otherwise conduct business within the scope of the City's Investment Policy.
- (2) The Chief Financial Officer shall prepare or cause to be prepared a month-end report (See Section X).

### **VI. SAFEKEEPING AND CUSTODY**

#### **A. Authorized Investment Institutions and Dealers**

The Chief Financial Officer or designee shall maintain a list of qualified financial institutions authorized to provide investment services. In addition, a list will be maintained of approved security brokers/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).

In accordance with Chapter 280 of the Florida Statutes, no public deposits shall be made except in a qualified public depository. The selected depository acts as a custodian for the City with the respect to such certificates of deposit issued for such account. A qualified depository is the custodian of City funds, not the actual certificate of deposit. Chapter 280 insures the City against investment principal

## INVESTMENT POLICY

### **VI. SAFEKEEPING AND CUSTODY**

#### **A. Authorized Investment Institutions and Dealers, continued**

loss on certificates of deposits and demand deposits in excess of FDIC limitations. A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the City invests. Other securities shall be purchased only 1) through the financial institutions which provide the services of a securities dealer that are state qualified public depositories, or 2) through a “primary government securities dealer” as designated by the Federal Reserve Bank. These institutions, dealers and issuers must meet capital adequacy guidelines as determined by their respective regulatory agencies and certify that no material adverse events have occurred since the issuance of their most recent financial statement. They must also agree to notify the City in a timely manner in the event of material adverse events affecting their capital adequacy. All securities purchased shall be only those securities of authorized issuers of the various security types. Lists of these authorized institutions, dealers and issuers of the various security types will be maintained by the Chief Financial Officer or designee. Criteria for additions or deletions from the lists will be based on the following: 1) in accordance with State Law, City Ordinance or Resolution, or investment policy requirements; 2) financial condition; 3) consistent lack of competitiveness; 4) experience or familiarity of the account representative in providing service to large institutional accounts; and/or 5) when deemed in the best interest of the City.

Before engaging in investment transactions with an institution, the Chief Financial Officer shall receive a signed certification form (as illustrated in Exhibit A) attesting that the individual responsible for the City’s account with that firm has reviewed the City’s investment policy and that they agree to undertake necessary and appropriate efforts to preclude imprudent transactions involving City funds.

#### **B. Internal Controls**

The Chief Financial Officer or designee is responsible for establishing and maintaining an internal control structure to ensure that the assets of the entity are protected from loss, theft or misuse. No person may engage in an investment transaction except as authorized under this policy. 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.

**VI. SAFEKEEPING AND CUSTODY****B. Internal Controls, continued**

## 1. Establishment of Internal Controls

The internal controls shall address the following points:

- a. Control of collusion  
Collusion is a situation where two or more employees are working in conjunction to defraud.
- b. Separation of functions  
By separating key functions and having different people perform each function, each person can perform a "check and balance" review of the other people in the same area.
- c. Separation of transaction authority from accounting and recordkeeping  
By separating the person who authorizes or performs the transaction, from the people who record or otherwise account for the transaction, a good separation of duties is achieved.
- d. Custodial Safekeeping  
All securities, with the exception of Certificates of Deposit, purchased from any bank or dealer, including appropriate collateral, should be placed into a third party bank trust division.
- e. Prohibition of bearer-form securities  
Bearer-form of securities are much easier to convert to personal use, than are securities registered in the name of the City of Coconut Creek.
- f. Avoidance of physical delivery securities  
Book entry securities are much easier to transfer and account for, since actual delivery is never taken. Physical delivery securities must be properly safeguarded as are any valuable documents. The potential for fraud and loss increases with physical delivery securities.
- g. Clear delegation of authority to subordinate staff members  
Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid any improper actions. Clear delegation of authority also preserves the internal control structure that is built around the various staff positions and their respective responsibilities.

## INVESTMENT POLICY

### VI. SAFEKEEPING AND CUSTODY

#### B. Internal Controls, continued

- h. Specific limitations regarding securities losses and remedial action  
Securities losses may be necessary to adhere to the Investment Policy. These losses should be restricted to specified purposes and include proper documentation.
- i. Written confirmation of electronically initiated transactions for investments and wire transfers  
Due to the potential for error and improprieties arising from telephone or other electronically initiated transactions, all such transactions must be supported by written communications and approved by the appropriate person.
- j. Documentation of transactions and strategies  
All transactions and the strategies that may have been used to develop the transactions must be documented in writing and approved by the appropriate person.
- k. Development of a wire transfer agreement with the concentration bank  
This agreement with the concentration bank shall outline the various controls and security provisions for making and receiving wire transfers.

#### 2. Training and Education

It is the policy of the City to provide periodic training in investments for the appropriate Finance Department staff through courses and seminars offered by the Government Finance Officers Association, Municipal Treasurers Association and/or other qualified and pertinent organizations. The Chief Financial Officer and/or designee must complete eight (8) hours of continuing education annually in subjects and courses of study related to investment practices and products, in compliance with Florida Statutes as may be amended.

#### C. Third-Party Custody Agreements

The City will execute a Third Party Custody Agreement with a commercial bank's trust department which is separately chartered by the United States Government and the State of Florida. 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 by authorized City staff

**VI. SAFEKEEPING AND CUSTODY**

**C. Third-Party Custody Agreements, continued**

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

Internal controls shall include details of delivery vs. payment procedures and trust receipt documentation. Such controls and procedures shall be reviewed, as requested, by the External Auditor.

1. Delivery Versus Payment

All Securities purchased or sold will be transferred when possible only under the “delivery versus payment” (D.V.P.) method to insure that funds or securities are not released until all criteria relating to the specific transactions are met.

2. Trust Receipt and Confirmation

The Chief Financial Officer or designee is authorized to accept, on the behalf of and in the name of the City of Coconut Creek, bank trust receipts or confirmations in return for investment of temporarily idle funds as evidence of actual delivery of the obligations or securities. Any such trust receipt or confirmation shall fully describe the various obligations or securities held, together with the specific identification number of each obligation or security held, and that they are held for the City of Coconut Creek. The actual obligations or securities on which trust receipts or confirmations are issued may be held by a third party custodial bank and/or institution or a designated corresponding bank or custodian institution which as a correspondent relationship to the City’s third party custodian or its correspondent institution who is acting on behalf of and under the same obligation as the City’s third party custodian. The above shall apply to all investments with the exception of securities underlying overnight repurchase agreements; the custodial relationship for these instruments is described in Third Party Agreements.



## INVESTMENT POLICY

### **VII. AUTHORIZED AND SUITABLE INVESTMENTS**

#### **A. Investment Types**

The following are the authorities for investments and limits on security issues, issuers and maturities as established within this policy. The Chief Financial Officer or designee shall have the option to further restrict investment in selected instruments, to conform to then-present market conditions. Investments not included in the Florida Statutes or this policy are prohibited.

In accordance with Section 218.415, Florida Statutes, authorized investments include:

1. The Florida Local Government Surplus Trust Fund (Administered by the State Board of Administration and commonly referred as the “SBA”).
2. The United States Treasury and Agency Securities – Securities that are issued by the United States Treasury or those for which the full faith and credit of the United States Government guarantees fully all principal and interest payments. This shall include securities issued under the Temporary Liquidity Guarantee Program or similar program under which the FDIC guarantees the full and timely payment of principal and interest on qualified securities
3. Government Sponsored Enterprises (GSE) – Senior debentures, bonds or notes issued by the Federal Farm Credit Bank (FFCB), the Federal Home Loan Mortgage Corporation (FHLMC), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), Government National Mortgage Association (GNMA) or Federal Agricultural Mortgage Corporation (FAMC)
4. Qualified Deposits – Deposit of funds in a bank, savings bank or savings association and for which the bank, savings bank or savings association is doing business and situated in the State of Florida, provided that any such deposits are secured by the Florida Security for Public Deposits Act, Chapter 280, Florida Statutes. This includes, but is not limited to, time deposit accounts, and nonnegotiable certificates of deposit. Moneys in deposit notes and other non-deposit accounts such as repurchase or reverse repurchase operations are not public deposits. Securities, mutual funds, and similar types of investments are not considered public deposits.
5. Intergovernmental Investment Pools or Local Government Investment Pools (LGIP) that are authorized pursuant to the Florida Interlocal Cooperation Act, as provided in Chapter 163.01, Florida Statutes.
6. Repurchase Agreements – Term Repurchase Agreements collateralized by U.S. Treasury Securities and marked to market. All approved institutions and dealers transacting repurchase agreements shall execute and perform transactions in accordance with, a master repurchase agreement in substantially the same form as the master repurchase agreement approved

## INVESTMENT POLICY

### **VII. AUTHORIZED AND SUITABLE INVESTMENTS**

#### **A. Investment Types, continued**

by the Public Securities Association. Overnight (sweep) Repurchase Agreements shall be collateralized by the full faith or general faith and credit obligations of the U.S. Government or U.S. Government Agency securities. In order to anticipate market changes and provide a level of security for all funds, collateralization will be required at a minimum of 102.0%.

7. Money Market Mutual Funds – Shares of any money market mutual fund that is registered as an investment company under the federal “Investment Company Act of 1940”, as amended, which stipulates that a money market fund must have an average weighted maturity of 90 days or less.
8. Commercial Paper and Bankers’ Acceptances that carry at least two short term credit ratings of A1+ from Standard & Poor’s, P1 from Moody’s or F1+ from Fitch. If the commercial paper is backed by a letter of credit (“LOC”), the long term debt of the LOC provider must be rated “a” or better by at least two nationally recognized rating agencies.
9. Other investments as authorized by ordinance of the City of Coconut Creek.

#### **B. Compliance with City’s Bond Covenants**

Certain surplus funds available for investment represent capital project funds generated through the issuance of long term bonded indebtedness, or represent debt service funds created for the repayment of outstanding principal and interest on such bonded indebtedness. Whenever ordinances and/or resolutions adopted by the City Commission which authorize the issuance of such bonded indebtedness contain specific provisions relative to the investment of funds, the investment of such funds shall comply with the provision of the applicable bond ordinance and/or resolution, the requirement contained in this policy, and applicable statutory or administrative law.

### **VIII. INVESTMENT INSTRUMENTS NOT AUTHORIZED**

Types of securities that are non-authorized and not suitable for investment (and in accordance with Section VII of this policy) include the following as examples:

#### **A. Derivatives**

Investment in any derivative product, not listed in Section VII, is specifically prohibited by this investment policy. A “derivative” is defined as a financial instrument the value of which depends on, or is derived from, the value of one or more underlying assets or indices or asset values.

## INVESTMENT POLICY

### **IX. INVESTMENT PARAMETERS**

#### **A. Diversification**

It is the policy of the City of Coconut Creek to diversify its investment portfolios. Assets held shall be diversified to control the risk of loss resulting from an over-concentration of assets in a specific maturity, a specific issuer, a specific instrument, or class of instruments. Diversification strategies within the established guidelines shall be reviewed and revised periodically as necessary by the appropriate management staff and approved by the Chief Financial Officer (See Table 1).

#### **B. Maximum Maturities**

The investment portfolio shall be structured in such manner as to provide sufficient liquidity to pay obligations as they come due by matching investment maturities with known cash needs and anticipated cash flow requirements.

**Table 1**  
**Investment Parameters**

<b>Authorized Investments</b>	<b>Maximum Maturity Range</b>	<b>Credit Rating S&amp;P/Moody's/Fitch</b>	<b>Maximum Portfolio %</b>
State Board of Administration (SBA)	N/A	AAAm/Aaa/AAA	80%
Repurchase Agreement	N/A	N/A	50%
U.S. Treasury And Agency Securities	10 years	At least one AAA/Aaa/AAA	100%
Government Sponsored Enterprises (GSE)	10 years	At least one AAA/Aaa/AAA	100%
Certificates of Deposit, Money Markets and Savings Accounts	5 years on certificates	QPD	80%
Money Market Mutual Funds	N/A	AAAm/Aaa/AAA	40%
Commercial Paper & Bankers' Acceptances	270 days	At least two A1+/P1/F1	30%
Intergovernmental Investment Pools (Other than the SBA)	N/A	AAAm/Aaa/AAA	80%

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### **IX. INVESTMENT PARAMETERS**

#### **C. Security Selection**

When purchasing or selling securities, the Chief Financial Officer or designee shall select the security which provides the highest rate of return within the parameters of this policy (see Investment Objectives), given the current objectives and needs of the City's portfolio. These selections shall be made utilizing one of the following methods:

- Competitive bids, wherein the City solicits quotes from a minimum of three firms.
- Comparison to the current market price as indicated by one of the market pricing resources available to the City (such as the City's investment advisors, Bloomberg Information Systems, the Wall Street Journal or a comparable nationally recognized financial publication providing daily market pricing).

Selection by comparison to current market prices, as indicated above, shall be utilized when, in the judgment of the Chief Financial Officer, competitive bidding would inhibit the selection process. Examples of when this might occur are:

- When time constraints due to unusual circumstances preclude use of the competitive bidding process
- When the transaction involves new issues or issues in the "when issued" market
- When the securities offered by the City's approved security brokers/dealers are not the same

When using the competitive bid process, all bids shall become part of the record of the specific security involved. When the selection is made based on comparison to current market price, the following information shall become part of the record of the security involved:

- Reason for use of this method.
- Source of the current market value used.
- Price and/or interest rate quoted by said source.

The City also considers other factors when making a selection. For example, dollar value of investment, duration, and current portfolio. If for any reason the highest rate bid is not selected, then the reasons leading to that decision will be clearly indicated on the bidding schedule.

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### **IX. INVESTMENT PARAMETERS**

#### **D. Performance Standards**

This investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. Given this strategy, the basis used by the Chief Financial Officer to determine whether market yields are being achieved is the 90-Day Treasury Bill.

### **X. Reporting**

#### **A. Method**

The Chief Financial Officer shall generate a monthly report for the City Manager and City Commission. The report shall describe the portfolio in terms of investment securities, maturities, yield, and other features.

The Chief Financial Officer or designee shall provide other such reports and information as deemed reasonable, upon request from other internal and external sources.

### **XI. Policy**

#### **A. Exemption**

The Chief Financial Officer or designee may take a sufficient period of time to adjust the existing portfolio to the provisions of the policy so as not to require the premature liquidation of any investment.

#### **B. Amendment**

This policy shall be reviewed on a timely basis. Any material changes to the Investment Policy should be recommended by the Chief Financial Officer to the City Manager and approved by the City Commission.

#### **C. Effective Date**

This policy shall become effective immediately upon its adoption by the City Commission.

INVESTMENT POLICY

**EXHIBIT A**

**CITY OF COCONUT CREEK  
INVESTMENT FIRM CERTIFICATION FORM**

As an authorized representative of the undersigned firm, I hereby certify that said firm has in place reasonable procedures to monitor the activities of employees of this firm engaged in transactions between our firm and the City of Coconut Creek. All sales personnel of this firm dealing with the City of Coconut Creek have been informed and will be routinely informed of the City's investment objectives, policies, risk constraints and other pertinent factors, whenever we are so informed. This firm further pledges due diligence in informing the City of foreseeable risks associated with financial transactions connected with this firm.

\_\_\_\_\_  
(Firm)

Authorized Representative

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Title)

\_\_\_\_\_  
(Name-Printed)

\_\_\_\_\_  
(Date)

As account representative for the City of Coconut Creek on behalf of the above referenced firm, I hereby certify that I have personally read and understand the investment policies of the City of Coconut Creek, in such form as said policies were provided to me. I agree to use my best efforts to comply with the City's written policies and will not knowingly enter into any transaction with the City which appears to be in violation of the City's written policies.

Account Representative

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Title)

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**BANKING SERVICES AGREEMENT:** The purpose of the all-encompassing banking services agreement is to combine all facets of the total banking relationship into a single document. Depending on the nature and scope of the requesting banking services, the banking services agreement may include any number of provisions.

**BENCHMARK:** A market index used as a comparative basis for measuring the performance of an investment portfolio. A performance benchmark should represent a close correlation to investment guidelines, risk tolerance and duration of the actual portfolio's investments.

**CAPITAL ADEQUACY GUIDELINES:** One test of a dealer's financial solvency is the relationship between the firm's capital position and its risk exposure, known as capital adequacy. Losses that result from trading and credit risk reduce the capital of the firm. After capital is exhausted, further losses may fall on the firm's customers if the Broker/Dealer is holding the securities. Capital adequacy guidelines measure trading and credit risk to the available liquid capital.

**CAPITAL PROJECTS FUND:** Accounts for financial resources to be used for the acquisition or construction of major capital facilities.

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

**COLLATERAL:** Securities, evidence of deposit 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.

**CREDIT RISK:** Credit Risk is the risk of loss due to the failure of the security issuer or backer. Credit risk may be mitigated by: limiting investments to the safest types of securities; pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the City will do business and diversifying the investment portfolio so that potential losses on individual securities will be minimized.

**CUSTODY:** Safekeeping services offered by a bank, financial institution or trust company, referred to as the "custodian". Service normally includes the holding and reporting of the customer's securities, the collection and disbursement of income, securities settlement and market values.

**DEBT SERVICE FUNDS:** Accounts for the accumulation of resources for, and the payment of, general long term debt principal and interest.

**DELIVERY VERSUS PAYMENT:** There are two methods of delivery of securities: delivery versus payment and delivery versus receipt (also called free). Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for securities.

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

**ENTERPRISE FUNDS:** Accounts for operations (a) that are financed and operated in a manner similar to private business enterprises—where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered

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primarily through user charges; or (b) where the governing body has decided the periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, and other purposes.

**FEDERAL AGENCY SECURITY:** A debt instrument issued by one of the federal agencies. Federal agencies are considered second in credit quality and liquidity only to U.S. Treasuries.

**FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC):** Federal agency that insures deposits at commercial banks.

**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-à-vis member commercial banks.

**FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA):** FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development, 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 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 more than 8,000 commercial banks are members of the system.

**GENERAL FUND:** Accounts for all financial resources except those required to be accounted for in another fund.

**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 the full faith and credit of the U.S. Government. Ginnie Mae securities are backed by FHA, VA or FMHM mortgages. The term pass-through is often used to describe Ginnie Maes.

**INTEREST RATE RISK:** Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in the general interest rates. Interest rate risk may be mitigated by: structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity; and by investing operating funds primarily in shorter-term securities or by cash flow projections.

**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.



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**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 VALUE:** The fair market value of a security or commodity. The price at which investors would buy or sell a security at any given time.

**MATURITY DATE:** Date on which principal payment of a financial obligation is to be paid.

**PORTFOLIO:** Combined holding of more than one stock, bond, commodity, real estate investment, cash equivalent, or other asset by an individual or institutional investor. The purpose of a portfolio is to reduce risk by diversification.

**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. Primary dealers can buy and sell directly with the Federal Reserve Bank.

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

**QUALIFIED PUBLIC DEPOSITORY:** A financial institution that has been designated

by Florida's Chief Financial officer to accept deposits from governmental units in the state of Florida.

**(MARKET) 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.

**REPURCHASE AGREEMENT (REPO OR RP)** 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 is, increasing bank reserves.

**SAFEKEEPING:** A service to customers rendered by financial institutions for a fee whereby securities and valuables of all types and descriptions are held in their vaults for protection. Safekeeping is a component of custody services.

**SAFETY:** Relates to the volatility of the principal of the investment. Complete safety means no increase or decrease in nominal value. The original sum invested is returnable to the investor either at the investor's option or at the end of some short contractual period.

**SECONDARY MARKET:** Exchanges and over-the-counter markets for the purchase and sale of any previously issued financial instruments. Proceeds of secondary market sales accrue to the selling dealers and investors, not to the companies that originally issued the securities. Market in which money market instruments are traded among investors.

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## APPENDIX A

### GLOSSARY

**SECURITIES & EXCHANGE COMMISSION (SEC):** Agency created by Congress to protect investors in securities transactions by administering securities legislation.

**SPECIAL REVENUE FUNDS:** Accounts for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

**THIRD PARTY CUSTODIAN:** Any bank depository chartered by, the Federal Government, the State of Florida, or any other state or territory of the United States which has a branch or principal place of business in the State of Florida as defined in Section 658.12, Florida Statutes, or by a natural association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in the State of Florida.

**TREASURY BILLS (T-BILLS):** Short term direct obligations of the U.S. Government issued with an original term of one year or less. Treasury Bills are a non-interest bearing discount security issued to finance the national debt.

**TREASURY BONDS:** Long term interest bearing debt securities backed by the U.S. Government and issued with maturities of more than ten years by the U.S. Dept. of Treasury.

**TREASURY NOTES:** Intermediate interest-bearing debt securities backed by the U.S. Government and issued with maturities ranging from one to ten years by the U.S. Department of Treasury.

**TRUST AND AGENCY FUNDS:** Accounts for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other trust funds.

**UNIFORM NET CAPITAL RULE:** Securities and Exchange Commission regulation (15C3-1) requires 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.

**WIRE TRANSFER AGREEMENTS:** Many banks require an executed Wire Transfer Agreement from their commercial customers – those who utilize the Fedwire system as a means for transferring large amounts of funds on a regular basis.

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