CITY OF MONROVIA FILE NO. 2.35

ADMINISTRATIVE POLICY

SUBJECT: Investment Policy

EFFECTIVE DATE: December 20, 1994

REVISED DATE: December 20, 2022

I. Policy Objective:

To provide guidelines for the prudent investment of the City of Monrovia's (the City's) cash balances, and outline the policies for maximizing the efficiency of the City's cash management system.

II. Authority

Monrovia Municipal Code Chapter 2.28
City Council Resolution No. 2022-57 (Adopted December 6, 2022)

III. Assigned Responsibility

City Manager and the Administrative Services Director

IV. Applicability:

City Manager, Administrative Services Director, and Finance Department staff

V. General Policy:

The City Council has adopted this Investment Policy (the "Policy") in order to establish the investment scope, objectives, delegation of authority, standards of prudence, reporting requirements, internal controls, eligible investments and transactions, diversification requirements, risk tolerance, and safekeeping and custodial procedures for the investment of the City's funds. All City funds will be invested in accordance with this Policy and with applicable sections of the California Government Code.

A. Scope

This Policy shall cover all operating funds and investment activities under the direct authority of the City. These funds are described in the City's Annual Comprehensive Financial Report (ACFR), and include the following:

General Fund
Special Revenue Funds
Capital Projects Funds
Enterprise Funds
Internal Service Funds
Fiduciary Funds

This Policy applies to all transactions involving the financial assets and related activity of the above mentioned funds. This Policy does not apply to bond funds or other funds held by third-party trustees and or trusts (e.g., Deferred Compensation and Retiree Health Trust Funds). Any additional funds that may be created from time to time shall also be administered within the provisions of this Policy.

B. Objectives

The principal investment objectives of the City, in priority order, are:

1. Preservation of capital and protection of investment principal.
2. Maintenance of sufficient liquidity to meet anticipated cash flows.
3. Attainment of a market value rate of return.
4. Diversification to avoid incurring unreasonable market risks.
5. Compliance with the City's Municipal Code and with all applicable City resolutions, California statutes and Federal regulations.

C. Delegation of Authority

The management responsibility for the City's investment program is delegated annually by the City Council to the Treasurer pursuant to California Government Code Section 53607. The Treasurer has further delegated that responsibility to the City's Administrative Services Director, as established in Ordinance No. 1472. Authority to manage the City of Monrovia's investment program is derived from Resolution No.2022-57. The Administrative Services Director assumes full responsibility for the portfolio's management. The Administrative Services Director may delegate the ability to conduct investment transactions and to manage the operation of the investment portfolio to other specifically authorized staff members. The Administrative Services Director shall maintain a list of persons authorized to conduct investment transactions for the City. No person may engage in an investment transaction except as expressly provided under the terms of this Policy

The Administrative Services Director shall develop written administrative procedures and internal controls, consistent with this Policy, for the operation of the City's investment program. Such procedures shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of the City.

The City may engage the support services of outside investment advisors in regard to its investment program, so long as it can be clearly demonstrated that these services produce a net financial advantage or necessary financial protection of the City's financial resources as determined by the Administrative Services Director and approved by City Council as necessary.

D. Prudence

The standard of prudence to be used for managing the City's investments shall be California Government Code Section 53600.3, the prudent investor standard which states that "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency."

<u>Acknowledging Investment Risks & Potential Losses</u> The City's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The City recognizes that no investment is totally without risk and that the investment activities of the City are a matter of public record. Accordingly, the City recognizes that occasional measured losses may occur in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented and that the sale of a security is in the best long-term interest of the City.

<u>Notification of Investment Losses</u> The Administrative Services Director and authorized investment personnel 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 that deviations from expectations are reported to the City Council at the next scheduled City Council meeting and appropriate action is taken to control adverse developments. In addition, the Administrative Services Director shall promptly notify the City Council of any realized loss or deviation in the policy that causes investments to fall out of compliance at the next scheduled City Council meeting. Any modifications to the policy must be approved by the City Council.

E. Ethics and Conflicts of Interest

Elected officials and employees involved in the investment process shall refrain from material personal business activity that could conflict with proper execution and management of the investment program or could impair or create the appearance of an impairment of their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Manager any material business interests they have in financial institutions that conduct business with the City and they shall sell and/or avoid personal investment transactions that pose a conflict to those of the City. In addition, the City Manager, the Administrative Services Director and others with delegated investment authority shall (1) comply with the Gifts and Gratuities Administrative Policy No. 1.03, and the City's Code of Ethics, established via Resolution No. 92-92 and (2) file a Statement of Economic Interests each year pursuant to California Government Code Section 87203 and regulations of the Fair Political Practices Commission. Additionally, all employees are subject to the Employee Responsibility and Fraud Prevention Policy No 2.08, which was established via Resolution No. 2018-55, and prohibits the "misappropriation of funds and securities" pursuant to Section II. (4) of the Policy. All persons, broker/dealers, financial institutions and advisors providing investment services or bond issuance services shall disclose to the Administrative Services Director, upon request, all fee sharing, fee-splitting, and commission arrangements with other entities or persons prior to the City agreeing to buy an investment or issue bonds.

F. Authorized Securities and Transactions

All investments and deposits of the City shall be made in accordance with California Government Code Sections 16429.1 (Local Agency Investment Fund – LAIF), 53600-53609 (Investment of Surplus) and 53630-53686 (Deposit of Funds) except that, pursuant to California Government Code Section 5903(e) (Public Financing), proceeds of bonds and any moneys set aside or pledged to secure payment of the bonds may be invested in securities or obligations described in the ordinance, resolution, indenture, agreement, or other instrument providing for the issuance of the bonds. The Government Code sections do not constitute part of this Policy, however, they represent the City's acknowledgement of and adherence to the Code. In the event that a Government Code section is revised and conflicts with this Policy and past City investment practices, the City will strive to amend this Policy within three months of a newly enacted Government Code upon City Council approval.

The City has further restricted the eligible types of securities and transactions as follows:

1. United States Treasury bills, notes, bonds, or strips with a final maturity not exceeding five years from the date of trade settlement.

2. Federal Agency & Federal Instrumentality (government sponsored enterprise) debentures, discount notes, callable and step-up securities and mortgage-backed securities with a maximum remaining maturity of five years or less.

3. Repurchase Agreements may be made, on an investment authorized in this policy, with a final maturity not exceeding one year, pursuant to Government Code Section 53601(j)(2). The market value of securities that underlie a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be adjusted no less than quarterly.

   Investments in Repurchase Agreements may be made only upon prior approval of City Council and shall be entered into only with broker/dealers and who are recognized as Primary Dealers with the Federal Reserve Bank of New York or have a Primary Dealer within their holding company structure, pursuant to Government Code Section 53601(j)(4)(A). Primary Dealers approved as Repurchase Agreement counterparties shall have a short-term credit rating of at least A-1 or the equivalent and a long-term credit rating of at least A or the equivalent by a NRSRO. Repurchase agreement counterparties shall execute a City approved Master Repurchase Agreement with the City. The Administrative Services Director shall maintain a copy of the City's approved Master Repurchase Agreement, along with a list of the banks and broker/dealers who have executed same.

4. Prime Commercial Paper with a maturity not exceeding 270 days from the date of trade settlement with the highest ranking or of the highest letter and number rating as provided for by a NRSRO at the time of purchase pursuant to Government Code Section 53601. The entity that issues the commercial paper shall meet all of the following conditions in either sub-paragraph A. or sub-paragraph B. below:

   A.The entity shall (1) be organized and operating in the United States as a general corporation, (2) have total assets in excess of $500,000,000 and (3) have debt other than commercial paper, if any, that is rated at least “A” or the equivalent by a NRSRO, pursuant to Government Code Section 53601(h)(1).

B.The entity shall (1) be organized within the United States as a special purpose corporation, trust, or limited liability company, (2) have program wide credit enhancements, including, but not limited to, over collateralization, letters of credit or surety bond and (3) have commercial paper that is rated at least “A-1” or the equivalent by a NRSRO, pursuant to Government Code Section 53601(h)(2).

No more than 10% of the City’s total portfolio shall be invested in the commercial paper and corporate notes of any one issuer, and the aggregate investment in commercial paper shall not exceed 25% of the City’s total portfolio. However, per Senate Bill (SB 998), the following provisions are effective until January 1, 2026:

- If the City has one hundred million dollars ($100,000,000) or more in its investment portfolio, it may invest no more than 40% of its portfolio in eligible commercial paper.

5. Eligible Bankers Acceptances with a maturity not exceeding 180 days from the date of trade settlement, issued by a national bank with combined capital and surplus of at least $250 million, whose deposits are insured by the FDIC, and whose senior long-term debt is rated at least A or the equivalent by a NRSRO at the time of purchase. No more than 10% of the City’s total portfolio shall be invested in banker’s acceptances of any one issuer, and the aggregate investment in banker’s acceptances shall not exceed 25% of the City’s total portfolio.

6. Medium-Term Notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States, with a final maturity not exceeding five years from the date of trade settlement, and rated at least “A” or the equivalent by a NRSRO at the time of purchase, pursuant to Government Code Section 53601(k). No more than 10% of the City’s total portfolio shall be invested in medium-term notes of any one issuer, and the aggregate investment in medium-term notes shall not exceed 30% of the City’s total portfolio.

7. Negotiable Certificates of Deposit with a maturity not exceeding five years and in FDIC insured state or nationally chartered banks, subject to the limitations of California Government Code Section 53638. Certificates of Deposits may be purchased only from financial institutions that meet the criteria set forth in the Selection of Banks section of this Policy. The aggregate amount invested in Certificates of Deposit, negotiable and non-negotiable, shall not exceed 30% of the City’s total portfolio.

8. Non-negotiable Certificates of Deposit and savings deposits with a maturity not exceeding five years and in FDIC insured state or nationally chartered banks that qualify as a depository of public funds in the State of California, as defined in California Government Code Section 53630.5. Time Certificates of Deposit exceeding the FDIC insured amount may be purchased only from financial institutions that meet the criteria set forth in the Selection of Banks section of this Policy, and must be secured pursuant to California Government Code Section 53652. The aggregate amount invested in Certificates of Deposit, non-negotiable and negotiable, shall not exceed 30% of the City’s total portfolio.

9. State of California's Local Agency Investment Fund (LAIF), pursuant to California Government Code Section 16429.1. Money invested with LAIF is pooled with *State* money in order to earn the maximum rate of return possible in a manner consistent with sound investment practices.

10. Los Angeles County Pooled Investment Fund (LACPIF). Money invested with LACPIF is pooled with *County* money in order to earn the maximum rate of return possible in a manner consistent with sound investment practices.

11. Money Market Mutual Funds registered under the Investment Company Act of 1940 that (1) are "no-load" (meaning no commission or fee shall be charged on purchases or sales of shares); (2) have a constant daily net asset value per share of $1.00; (3) invest only in the securities and obligations authorized in the applicable California statutes; and (4) pursuant to Government Code Section 53601 (i)(2 & 4), must either (a) have a rating of AAAm or the equivalent by at least two NRSROs or (b) must retain an investment advisor registered or exempt from registration with the Securities and Exchange Commission with at least five years' experience managing money market mutual funds with assets in excess of $500,000,000. No more than 10% of the City's total portfolio shall be invested in money market funds of any one issuer, and the aggregate investment in money market funds shall not exceed 20% of the City's total portfolio, pursuant to Government Code Section 53601 (i)(5).

It is the intent of the City that the foregoing list of authorized securities and transactions is strictly interpreted. Any deviation from this list must be pre-approved by resolution of the City Council.

G. Investment Pools

A thorough investigation of an Investment Pool account is required prior to investing, and on a semi-annual basis, the City will evaluate the performance of the pool to identify the investment outlook and feasibility. The investigation must include information, if available, on the following items before investing:

A. A description of eligible investment securities, and a written statement of investment policy.
B. A description of interest calculations and distribution and how gains and losses will be treated.
C. A description of how the securities are safeguarded (including the settlement process), and how often the securities are priced and the program audited.
D. A description of who may invest in the program, how often and what is the allowable size of deposits and withdrawals, and any limitations as to number of transactions.
E. A schedule for receiving statements and portfolio listings.
F. A determination if reserves, retained earnings, etc., are utilized by the pool.
G. A determination if the pool is eligible for bond proceeds and/or if it will accept such proceeds.

H. Prohibited and Restricted Categories of Investments

The following investments are either prohibited by law, or authorized by law and prohibited by the City:

1. Inverse Floaters
2. Range Notes
3. Mortgage-Derived, Interest-Only Strips
4. Financial Futures
5. Financial Option Contracts

I. Collateralization

Uninsured Time Deposits with banks and savings and loans shall be collateralized at market value and monitored in the manner prescribed by state law for depositories accepting investment funds from public governmental entities.

Repurchase Agreements shall be collateralized in accordance with terms specified in the Master Repurchase Agreement. The valuation of collateral securing a Repurchase Agreement will be verified and monitored on a daily basis to ensure a minimum of 102% of the market value of the transaction being held by the District's depository agent, pursuant to Government Code Section 53601 (j)(2). All collateral used to secure this type of transaction is to be delivered to a third party prior to release of funds. The third party will have an account in the name of the City.

J. Portfolio Maturities and Liquidity

To the extent possible, investments shall be matched with anticipated cash flow requirements and known future liabilities. The City will not invest in securities maturing more than five years from the date of trade settlement, unless the City Council has, by resolution, granted authority to make such an investment at least three months prior to the date of investment.

K. Diversification

The City shall diversify its investments by security type, issuer, maturity, and financial institutions. No percentage limitations are established for the United States government, United States government agencies and United States government sponsored enterprises; however percentage limitations are established for other permitted investments, as noted in TABLE A of this policy. The investments shall be diversified by limiting investments to avoid over-concentration in securities from a specific issuer or business sector (excluding U.S. Treasury and Federal Agency securities), limiting investment in securities that have higher credit risks, and investing in securities with varying maturities.

L. Selection of Broker/Dealers

The Administrative Services Director shall maintain a list of broker/dealers approved for investment purposes, and it shall be the policy of the City to purchase securities only from those brokers and the firms they represent. Each approved broker/dealer must possess an authorizing certificate from the California Commissioner of Corporations as required by Section 25210 of the California Corporations Code. The firms they represent must:

1. Be recognized as Primary Dealers by the Federal Reserve Bank of New York or have a primary dealer within their holding company structure, or
2. Report voluntarily to the Federal Reserve Bank of New York, or

3. Qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (Uniform Net Capital Rule).

Each authorized broker/dealer shall be required to submit and annually update a City approved Broker/Dealer Information Request form that includes the firm's most recent audited financial statements. Each authorized broker/dealer shall also provide to the City the most recent FINRA (Financial Industry Regulatory Authority) report and proof that they are in good standing on a national securities exchange.

The City may purchase commercial paper from direct issuers even though they are not on the approved broker/dealer list as long as they meet the criteria outlined in Item 5 of the Authorized Securities and Transactions section of this Policy.

M. Competitive Transactions

Each investment transaction shall be competitively transacted with authorized broker/dealers. At least three broker/dealers shall be contacted for each transaction and their bid or offering prices shall be recorded.

If the City is offered a security for which there is no other readily available competitive offering, then the Administrative Services Director will document quotations for comparable or alternative securities.

N. Selection of Banks

The Administrative Services Director shall maintain a list of FDIC insured banks approved to provide banking services for the City. To be eligible, a bank shall qualify as a depository of public funds in the State of California as defined in California Government Code Section 53630.5, and shall secure deposits in excess of FDIC insurance coverage in accordance with California Government Code Section 53652.The City may chose to invest in a portion of surplus funds in deposits and in certificates of deposits at a commercial bank, savings bank, and loan association, or credit union, which shall be known as the *depository institution* in accordance with California Government Code Sections 53601.8 and 53635.8.

O. Safekeeping and Custody

The Administrative Services Director shall select one or more financial institutions to provide safekeeping and custodial services for the City, in accordance with the provisions of Section 53608 of the California Government Code. A Safekeeping Agreement approved by the City shall be executed with each custodian bank prior to utilizing that bank's safekeeping services.

Custodian banks will be selected on the basis of their ability to provide services for the City's account and the competitive pricing of their safekeeping related services.

Additionally, Assembly Bill 945 ("AB 945") authorizes a local agency to invest in specified types of financial institutions whether the investment be in certificate of deposits or another form. These specified financial institutions include nationally or state-chartered commercial bank, savings bank, savings and loan association, or credit union in this state to invest the funds, which shall be known as the "selected" depository institution (Government Code 53601.8).

The purchase and sale of securities and repurchase agreement transactions shall be settled on a delivery versus payment basis. All securities shall be perfected in the name of the City. Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

All investment securities, except non-negotiable Certificates of Deposit, Money Market Funds, LAIF and LACPIF, purchased by the City will be delivered by either book entry or physical delivery and will be held in third-party safekeeping by a City approved custodian bank, its correspondent bank or its Depository Trust Company (DTC) participant account.
All Fed wireable book entry securities owned by the City shall be held in the Federal Reserve System in a customer account for the custodian bank which will name the City as "customer."

All DTC eligible securities shall be held in the custodian bank's DTC participant account and the custodian bank shall provide evidence that the securities are held for the City as "customer."

All non-book entry (physical delivery) securities shall be held by the custodian bank or its correspondent bank and the custodian bank shall provide evidence that the securities are held by the bank for the City as "customer."

The third party custodian shall send the City, on a monthly basis, a summary of safekeeping assets for the City to reconcile to their records. All securities held in custody for the City shall be independently audited from time to time.

P. Internal Controls

The Administrative Services Director will implement and maintain a system of internal controls to ensure compliance with Federal and State regulations, City Council direction, and prudent cash management procedures. Controls shall be designed to ensure that funds are protected from theft, loss, or misuse and that adequate separation of duties, including dual authorization of transactions, are in place to safeguard the City's funds. An annual audit will be conducted by an independent auditing firm to ensure compliance with all regulations and the Investment Policy of the City. Any findings shall be reported to City Council.

Q. Portfolio Review and Performance

The investment portfolio will be reviewed on a semi-annual basis to validate the portfolio and compliance with this Policy and performance described below. In the event the portfolio experiences a realized loss or investments fall out of compliance, the Treasurer or Administrative Services Director will notify the City Council at the next scheduled meeting.

The investment portfolio shall be designed to attain a market rate of return and shall aim to achieve a maximum rate of return throughout budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities, and cash flow requirements. The performance of the City's investments may be compared to the average yield on the U.S. Treasury security that most closely corresponds to the portfolio's actual weighted average effective maturity. When comparing the performance of the City's portfolio, its rate of return will be computed net of all fees and expenses.

R. Reporting

Monthly, the Administrative Services Director or his/her designee shall submit to the Council, City Treasurer and City Manager a report of the investment earnings and performance results, including deviations in expectations and investments whose ratings fall below the policy threshold(s), of the City's investment portfolio. The report shall include the following information:

1. Investment type, issuer, date of maturity, par value and dollar amount invested in all securities, and investments and monies held by the City;
2. The weighted average maturity of the investment portfolio;
3. A description of the funds, investments and programs;
4. A market value as of the date of the report (or the most recent valuation as to assets not valued monthly);
5. A statement of compliance with the investment policy or an explanation for non-compliance; and
6. A statement of the ability to meet expenditure requirements for six months, as well as an explanation of why money will not be available if that is the case.

S. Annual Statement of Investment Policy

The Policy shall be reviewed by the City Manager and the Administrative Services Director, annually, to ensure its consistency with the overall objectives of preservation of principal, liquidity, yield and diversification and its relevance to current law and economic trends. The City Council shall consider the Investment Policy, and any changes therein, at an annual public meeting and the Policy shall be adopted by resolution.

DATED: ________________ BY: ___________________________________

Dylan Feik
City Manager

APPROVED AS TO FORM: ATTEST:

________________________________ BY:___________________________________

Craig A. Steele
City Attorney

Alice D. Atkins, MMC
City Clerk

TABLE A

AUTHORIZED SECURITIES AND TRANSACTIONS

*** - Maximum term unless expressly authorized by the City Council and within the prescribed time frame for said approval.**

#	**Permitted** **Investments**	**Legal Limit** **(Percentage or $)**	**Maximum Maturity**	**Other** **Constraints**
1.	U.S. Treasury Bills	Unlimited	5 Years *****	
2.	Federal Agency and Federal Instrumentality Securities	Unlimited	5 Years *****	
3.	Repurchase Agreements	Unlimited	1 Year	Collateralized by securities listed above, at a minimum market value of 102% of the dollar value.
4.	Prime Commercial Paper	25% total; however, per SB 998, this amount may be increased to 40%(until 1/1/26) if the total portfolio is $100,000,000 or more; 10% maximum for any one issuer	270 days	U.S. Corporations with assets in excess of $500,000,000; "A-1" commercial paper rating.
5.	Eligible Bankers Acceptances	25% total; 10% maximum for any one issuer	180 days	
6.	Medium-Term Corporate Notes	30% total; 10% maximum for any one issuer	5 Years *	U.S. Corporations; Rating of at least a "A" by an NSRSO.
7.	Negotiable Certificates of Deposit	30% (for negotiable and non-negotiable)	5 Years *	FDIC insured
8.	Non-Negotiable Certificates of Deposit	30% (for negotiable and non-negotiable)	5 Years *	FDIC insured
9.	State of California's Local Agency Investment Fund	$75,000,000**	N/A	
10.	Los Angeles County Pooled Investment Fund	Unlimited	N/A	
11.	Money Market Mutual Funds	20% total; maximum of 10% for any one issuer.	N/A	Registered under the Investment Company Act of 1940. Rating of at least a "AAAm" or equivalent.
12.	Non-Pooled Local Agency Investments	50% total	N/A	

**** - Not set by Government Code, but instead by LAIF Governing Board.**

- All credit ratings and percent limitations are evaluated at the time of purchase.

APPENDIX

GLOSSARY OF INVESTMENT TERMS

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 (e.g., Government National Mortgage Association). Federally sponsored agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee (e.g., Federal National Mortgage Association).

ASKED PRICE: The price at which securities are offered for sale, also known as offering price.

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

BID PRICE: The price offered by a buyer of securities.

BOND PROCEEDS: The money paid to the issuer by the purchaser or underwriter of a new issue of municipal securities. These moneys are used to finance the project or purpose for which the securities were issued and to pay certain costs of issuance as may be provided in the bond contract.

BOOK VALUE: The value at which a debt security is shown on the holder's balance sheet. Book value is often acquisition cost plus/minus amortization and accretion, which may differ significantly from the security's current value in the market.

BROKER: An individual who brings buyers and sellers together and is compensated for his/her service.

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. Collateral refers to securities pledged by a bank to secure deposits of public monies.

COMMERCIAL PAPER: An unsecured promissory note with a fixed maturity of no more than 270 days, that is a security issued (sold) by a corporation to obtain funds to meet short-term debt obligations (for example, payroll), and is backed by an issuing bank or company promise to pay the face amount on the maturity date specified on the note. Since it is not backed by collateral, only firms with excellent credit ratings from a recognized credit rating agency will be able to sell their commercial paper at a reasonable price.

ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR): The official annual financial report for a public agency. The ACFR includes financial information for the funds of the public agency. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and detailed statistical section.

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 a Nationally Recognized Statistical-Rating Organization.

CREDIT RISK: The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

CUSTODIAN: A bank or other financial institution that keeps custody of fixed income assets including a public bank as defined by Government Code 57600 (Assembly Bill 857).

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, by buying and selling for his/her own account.

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

DERIVATIVES: (1) financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

DIVERSIFICATION: Dividing investment funds among a variety of security types by sector, maturity and quality ratings offering independent returns.

FAIR VALUE: The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

FEDERAL CREDIT AGENCIES: Agencies of the Federal Government set up to supply credit to various classes of institutions and individuals, (e.g., S&L’s, small-business firms, students, farmers, farm co-operatives, and exporters.)

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits currently up to $250,000 per deposit.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks) that lend funds and provide correspondent bank services to member commercial banks, thrift institutions, credit unions and insurance companies.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. 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.

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., twelve Regional Banks and about 5,700 commercial banks that are members of the system.

FINANCIAL INDUSTRY REGULATORY AUTHORITY (FINRA): 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.

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.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value.

LOCAL AGENCY INVESTMENT FUND (LAIF): Chapter 730, Statutes of 1976 of the State of California, established the Local Agency Investment Fund. This fund enables local governmental agencies to remit money not required for immediate needs to the State Treasurer for the purpose of investment. In order to derive the maximum rate of return possible, the State Treasurer has elected to invest these monies with State monies as a part of the Pooled Money Investment Account. Each local governmental unit has the exclusive determination of the length of time its money will be on deposit with the State Treasurer. At the end of each calendar quarter, all earnings derived from investments are distributed by the State Controller to the participating government agencies in proportion to each agency's respective amounts deposited in the Fund and the length of time such amounts remained therein. Prior to the distribution, the State's costs of administering the program are deducted from the earnings.

MARK-TO-MARKET: The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

MARKET RISK: The risk that the value of a security will increase or decline as a result of changes in market conditions.

MARKET VALUE: The current price at which a security is trading and could presumably be purchased or sold at that particular point in time.

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

MATURITY: The date upon which the principal or stated value of a financial obligation is due and payable.

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

MUTUAL FUND: 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 Securities and Exchange Commission (SEC) disclosure guidelines.

NATIONALLY RECOGNIZED STATISTICAL-RATING ORGANIZATION (NRSRO): Standard and Poor's, Moody's, and Fitch Financial Services are examples of such organizations.

PAR VALUE: The amount of principal that must be paid at maturity. Also referred to as the face amount of a bond, normally quoted in $1,000 increments per bond.

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

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

PRINCIPAL: The face value or par value of a debt instrument, or the amount of capital invested in a given security.

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 the buyer for this.

RISK: Degree of uncertainty of return on an asset.

SAFEKEEPING SERVICE: 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 vault for protection and security.

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

TREASURY BILLS: Short-term U.S. government non-interest bearing discounted debt securities with maturities of no longer than one year and issued in minimum denominations of $10,000.

TREASURY BOND: A long-term coupon-bearing U.S. Treasury security issued as a direct obligation of the U.S. Government and having an initial maturity of more than 10 years and issued in minimum denominations of $1,000.

TREASURY NOTE: A medium-term coupon-bearing U.S. Treasury security issued as a direct obligation of the U.S. Government and having an initial maturity of from one to ten years and issued in denominations ranging from $1,000 to $1 million or more.

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

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