**KEYES COMMUNITY SERVICES DISTRICT**

**INVESTMENT POLICY**

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# **1. Overview**

The intent of this Investment Policy is to formalize the framework for the investment activities that shall be exercised to ensure the effective and judicious fiscal and investment management of the District’s funds. The District’s portfolio shall be designed and managed in a manner that will comply with state and local laws; ensure prudent money management; provide for daily cash flow requirements; provide a market rate of return consistent with the public trust and the prioritized objectives of safety, liquidity, and return on investment.

Under authority granted by the Board of Directors, the General Manager is responsible for investing the surplus cash maintained in the District’s accounts.

**2. Governing Authority**

The District’s investment program shall be managed in conformance with federal, state, and other legal requirements, including California Government Code Sections 6930-6933, 53600-53609, and 53630-53686. This Investment Policy was endorsed and adopted by the Board of Directors and is effective \_\_\_\_\_\_\_\_\_\_\_\_\_. This Investment Policy shall replace all previous versions.

# **3. Scope**

This investment policy applies to all financial assets of the District. These funds are accounted for in the annual audited financial statements of the District.

# **4. Prudence (Standard of Care)**

The standard of prudence to be used by the designated representative shall be the “prudent investor” standard and shall be applied in the context of managing the overall portfolio. Persons authorized to make investment decisions on behalf of local agencies investing public funds are trustees and therefore fiduciaries subject to the prudent investor standard which states, “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”.

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 capital as well as the probable income to be derived.

The General Manager and other individuals assigned to manage the investment portfolio, acting within the intent and scope of the investment policy and other written procedures and exercising due diligence, shall be relieved of personal responsibility and liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

# **5. Objectives**

As specified in GC 553600.5, when investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, the primary objectives of the investment activities, in priority order, shall be:

a) Safety: Safety of principal is the foremost objective of the investment program. Investments of the District shall be undertaken in a manner that seeks to ensure the preservation of capital in the whole portfolio. To attain 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.

b) Liquidity: The secondary objective shall be to meet the liquidity needs of the District.

c) Yield (Return on Investments): The third objective shall be to achieve a return on the funds under the District's control.

# **6. Delegation of Authority**

The authority to manage the District’s investment program is provided by the California Government Code Sections 53600, et seq. Pursuant to the Government Code, the Board of Directors may delegate to the General Manager for a one-year period the authority to invest or to reinvest all funds of the District. The General Manager shall establish procedures for the operation consistent with this investment policy. The General Manager may authorize other Administrative staff to initiate investment transactions. All participants in the investment process shall seek to act responsibly as custodians of the public trust. No officer or designee may engage in an investment transaction except as provided under the terms of this policy and supporting procedures.

The District may engage the services of one or more external investment managers to assist in the management of the District’s investment portfolio in a manner consistent with the District’s objectives. Such external managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Such managers must be registered under the Investment Advisers Act of 1940.

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

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

Additionally, the General Manager and the Accountant/Administrative Executive are required to annually file applicable financial disclosures as required by the Fair Political Practices Commission (FPPC). Furthermore, Investment officials must refrain from undertaking personal investment transactions with the same individual(s) employed by the financial institution with whom business is conducted on behalf of the District.

# **8. Indemnification**

# The General Manager and other authorized persons responsible for managing District funds, acting in accordance within written procedures and the intent and scope of this Investment Policy and exercising due diligence, shall be relieved of personal liability for an individual security’s credit risk or market price changes, provided that deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

# **9. Authorized Dealers and Institutions**

The General Manager will maintain a list of approved financial institutions authorized to provide investment services to the public agency in the State of California. These may include “primary” dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). Best practices include the following: 1) A determination that all approved broker/dealer firms, and individuals covering the public agency, are reputable and trustworthy; 2) the broker/dealer firms should have the ability to meet all their financial obligations in dealing with the Public Agency; 3) the firms, and individuals covering the agency, should be knowledgeable and experienced in Public Agency investing and the investment products involved; 4) no public deposit shall be made except in a qualified public depository as established by the established state laws; 4) all financial institutions and broker/dealers who desire to conduct investment transactions with the public agency may supply the General Manager with audited financial statements, proof of FINRA certification, trading resolution, proof of State of California registration, a completed broker/dealer questionnaire, certification of having read the Public Agency’s investment policy and depository contracts.

The General Manager may conduct an annual review of the financial condition and registrations of qualified dealers & institutions.

# **10. Authorized and Suitable Investments**

Investment of District funds is governed by, subject to and limited by, the California Government Code Sections 53600 et seq. Permitted investments for the District shall include the following security types and related credit quality, maturity, and diversification constraints:

A. **Municipal Bonds**: Bonds issued by the District, the State of California, any other of the 49 states in addition to California, and any local agency within the state of California. This authorization includes the ability to invest in obligations payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or any local agency in the state of California or by a department, board, agency, or authority of a state or any local agency in the state of California.

Credit Quality: Securities in this category shall have a minimum credit rating of A (or its equivalent) by at least one nationally recognized statistical rating organization at the time of purchase.

Maximum Maturity: Five years at the time of purchase.

Diversification: No more than 5% of the portfolio may be invested in any single issuer. No more than 30% of the portfolio may be invested in this category.

B. **U.S. Treasury Obligations**: United States Treasury bills, notes, bonds, and certificates of indebtedness or those for which the faith and credit of the Unites States are pledged for the payment of principal and interest.

Credit Quality: No minimum credit rating required for securities in this category.

Five years at the time of purchase.

There are no dollar or percentage limits on securities in this category.

C. **Federal Agency Obligations**: Federal agency or United States government-sponsored-enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

Credit Quality: No minimum credit rating required for securities in this category.

Maximum Maturity: Five years at the time of purchase.

Diversification: There are no dollar or percentage limits on securities in this category.

D. **Bankers’ Acceptances:** Bankers' acceptances otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank.

Credit Quality: Must be issued by organizations having short-term debt obligations rated A1 (or the equivalent) or better and long-term debt obligations rated A (or the equivalent) or better by at least two nationally recognized statistical rating organizations.

Maximum Maturity: 180 days at the time of purchase.

Diversification: No more than 5% of the portfolio may be invested in any single issuer. No more than 10% of the portfolio may be invested in this category.

E. **Commercial Paper**: Commercial paper of "prime" quality and issued by a corporation organized and operating in the United States with total assets of at least $500 million.

Credit Quality: Securities in this category must be rated “A-1” (or the equivalent) or higher by at least one nationally recognized statistical rating organization. In addition, debt other than commercial paper (if any) issued by corporations in this category must be rated at least “A” (or the equivalent) or better by at least one nationally recognized statistical rating organization.

Maximum Maturity: 270 days at the time of purchase.

Diversification: No more than 5% of the District’s portfolio may be invested in any single issuer. For purposes of this issuer limitation, holdings of commercial paper shall be combined with holdings of medium-term corporate notes as set forth in subsection 12 hereto. No more than 25% of the total portfolio may be invested in this category. No more than 10% of the outstanding commercial paper of any single issuer may be purchased.

F. **Federally Insured Time Deposits**: Non-negotiable certificates of deposit in state or federally chartered banks, savings and loans, or credit unions.

Credit Quality: Securities in this category shall be limited to the maximum amount covered by federal deposit insurance.

Maximum Maturity: Five years at the time of purchase.

Diversification: No more than 5% of the portfolio may be invested in any single issuer of non-negotiable or negotiable certificates of deposit. No more than 15% of the portfolio may be invested in any combination of non-negotiable certificates of deposit as set forth in subsections F, G, and H hereto. No more than 30% of the portfolio may be invested in any combination of non-negotiable or negotiable certificates of deposit.

G. **Collateralized Time Deposits**: Non-negotiable certificates of deposit in state or federally chartered banks, savings and loans, or credit unions in excess of federal deposit insurance limits which are fully collateralized in accordance with state law.

Credit Quality: Securities in this category exceeding federal deposit insurance limits shall be collateralized in accordance with state law and be issued by institutions which have long-term debt obligations rated “A” (or the equivalent) or better and short-term debt obligations, if any, rated “A1” (or the equivalent) or better by at least two nationally recognized statistical rating agencies.

Maximum Maturity: Five years at the time of purchase.

Diversification: No more than 5% of the portfolio may be invested in any single issuer of non-negotiable or negotiable certificates of deposit. No more than 15% of the portfolio may be invested in any combination of non-negotiable certificates of deposit as set forth in subsections 6, 7, and 8 hereto. No more than 30% of the portfolio may be invested in any combination of non-negotiable or negotiable certificates of deposit.

H. **Certificate of Deposit Placement Services**: Non-negotiable certificates of deposit at a commercial bank, savings bank, savings and loan association, or credit union that that uses a private sector entity to assist in the placement of deposits (e.g., CDARS).

Credit Quality: The full amount of each deposit and the interest that may accrue on each such deposit shall at all times be insured by federal deposit insurance.

Maximum Maturity: Five years at the time of purchase.

Diversification: No more than 5% of the portfolio may be invested in any single issuer of non-negotiable or negotiable certificates of deposit. No more than 15% of the portfolio may be invested in any combination of non-negotiable certificates of deposit as set forth in subsections F, G, and H hereto. No more than 30% of the portfolio may be invested in any combination of non-negotiable or negotiable certificates of deposit.

I. **Negotiable Certificates of Deposit**: Negotiable certificates of deposit issued by a nationally or state- chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or a federally licensed or state-licensed branch of a foreign bank.

Credit Quality: Securities in this category exceeding federal deposit insurance limits shall be issued by institutions which have long-term debt obligations rated “A” (or the equivalent) or better and short-term debt obligations, if any, rated “A1” (or the equivalent) or better by at least two nationally recognized statistical rating agencies.

Maximum Maturity: Five years at the time of purchase.

Diversification: No more than 5% of the portfolio may be invested in any single issuer of non-negotiable or negotiable certificates of deposit. No more than 30% of the portfolio may be invested in any combination of non-negotiable or negotiable certificates of deposit.

J. **Repurchase Agreements**: Repurchase agreements with specific terms and conditions may be transacted with banks and brokers. Such investments must be subject to a “Master Repurchase Agreement” substantially in the form developed by the Securities Industry and Financial Markets Association (“SIFMA”).

Credit Quality: Repurchase agreements shall be collateralized with U.S. Treasury and Federal Agency securities (as authorized herein) maintained at a value of at least 102% of the market value of the repurchase agreement. Securities used as collateral for repurchase agreements shall be delivered to the District’s custodian bank.

1 year at the time of entry.

There are no dollar or percentage limits on securities in this category.

K. **Reverse Repurchase Agreements**: Reverse repurchase agreements with specific terms and conditions may be transacted with banks and brokers. Such investments must be subject to a “Master Repurchase Agreement” substantially in the form developed by the Securities Industry and Financial Markets Association (“SIFMA”). The District may enter into reverse repurchase agreements only to fund short-term liquidity needs.

Credit Quality: Securities sold pursuant to a reverse repurchase agreement must have been owned and fully paid for by the District for a minimum of 30 days prior to sale.

Maximum Maturity: The maximum maturity of reverse repurchase agreements shall be 92 days. Funds obtained or funds within the portfolio of an equivalent amount to that obtained from selling a security to a counterparty using a reverse repurchase agreement shall not be used to purchase another security with a maturity greater than the term of the reverse repurchase agreement.

Diversification: Amounts in this category shall not exceed 20% of the value of the portfolio as specified in California Government Code Section 53601.

L. **Medium-Term Corporate Notes**: Medium-term corporate notes shall mean all corporate and depository institution debt securities 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.

Credit Quality: Securities in this category shall be rated in the “A” category or better by at least two nationally recognized statistical rating organizations at the time of purchase.

Maximum Maturity: Five years at the time of purchase.

Diversification: No more than 5% of the portfolio may be invested in any single issuer. For purposes of this issuer limitation, holdings of medium-term notes shall be combined with holdings of commercial paper as set forth in subsection 5 hereto. No more than 30% of the portfolio may be invested in this category.

M. **Money Market Mutual Funds**: Money market mutual funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15U.S.C. Sec. 80a-1 et seq.) meeting the credit quality requirements set forth below or retaining an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars ($500,000,000).

Credit Quality: Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations.

Maximum Maturity: No maturity restrictions apply.

Diversification: No more than 20% of the portfolio may be invested in this category.

N. **Mutual Funds**: Mutual funds that invest in securities authorized by California Government Code Section 53601 meeting the credit quality requirements set forth below or retaining an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years experience investing in the securities and obligations authorized by California Government Code Section 53601, and with assets under management in excess of five hundred million dollars ($500,000,000).

Credit Quality: Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations.

Maximum Maturity: No maturity restrictions apply.

Diversification: No more than 20% of the portfolio may be invested in this category. No more than 10% of the portfolio may be invested in any one mutual fund.

O. **Mortgage Pass-Through and Asset-Backed Securities**: Mortgage pass-through securities, collateralized mortgage obligations, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bonds meeting the requirements set forth below.

Credit Quality: Securities eligible for investment under this section shall be issued by an issuer having an "A" or higher rating for the issuer's debt as provided by a nationally recognized statistical rating organization and rated in a rating category of "AA" or its equivalent or better by a nationally recognized statistical rating organization.

Maximum Maturity: Five years at the time of purchase.

Diversification: With the exception of obligations issued by Federal Agencies as specified in subsection C hereto, no more than 5% of the portfolio may be invested in any single issuer. No more than 20% of the total portfolio may be invested in this category and shall include pass-through obligations issued by Federal Agencies as specified in subsection 3 hereto.

P. **State of California Local Agency Investment Fund**: The State of California Local Agency Investment Fund (“LAIF”) managed by the State of California Treasurer’s Office.

Credit Quality: No credit rating requirements exist for LAIF. In addition, should LAIF invest in securities or instruments prohibited or not specifically authorized by the District’s Investment policy, the District is not prohibited from investing in LAIF provided sufficient information is available to allow the District to understand the risks associated with investing in LAIF.

Maximum Maturity: No maturity restrictions apply.

Diversification: The District may invest up to the maximum amount permitted by California state law.

Q. **Joint Powers Authority Pools**: Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in securities authorized by California Government Code Section 53601 and that has retained an investment adviser that is registered or exempt from registration with the Securities and Exchange Commission having not less than five years of experience investing in the securities and obligations authorized in the appropriate subdivisions of the California Government Code Section 536601 and having at least five hundred million dollars ($500,000,000) under management.

Credit Quality: There are no credit rating requirements for Joint Powers Authority Pools.

Maximum Maturity: No maturity restrictions apply.

Diversification: The District may invest up to the maximum amount permitted by California law.

R. **Supranational Securities**: United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank eligible for purchase and sale within the United States.

Credit Quality: Securities in this category shall be rated in the “AA” category or better by at least one nationally recognized statistical rating organizations at the time of purchase.

Five years at the time of purchase.

No more than 5% of the portfolio may be invested in any single issuer. No more than 15%

of the portfolio may be invested in this category.

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**Note on Credit Quality Requirements:** Should the credit rating of a security owned by the District be downgraded to a level below that required by this Investment Policy, the Board of Directors of the District will review the credit situation and determine if such securities should be sold or retained in the portfolio based upon its remaining term to maturity, the credit outlook for the issuer, and other relevant facts and circumstances. If the decision is made to retain a downgraded security, it will be closely monitored by the General Manager and reported on quarterly to the Board of Directors of the District.

**Note on Maximum Maturity Limitation:** The five year maturity limitation of this Investment Policy may be extended if the Board of Directors of the District grants express authority for an extension not to exceed ten years.

**Note on Diversification Requirements:** The diversification requirements set forth above relating to the maximum allowable percentage for a particular issuer or investment type shall apply at the time of purchase. Due to fluctuations in the aggregate invested balance, these maximum percentages may be exceeded from time to time and shall not require liquidation to realign the portfolio. However, consideration should be given to this matter when future purchases are made.

**Note on Other Requirements:** Should any investment fall out of compliance with any other guidelines of this policy after its purchase, the General Manager will review the situation and determine if such securities should be sold or retained in the portfolio based upon its remaining term to maturity, the credit outlook for the issuer, and other relevant facts and circumstances. If the decision is made to retain such a security, it will be closely monitored by the General Manager and reported on quarterly to the Board of Directors for the District.

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# **11. Prohibited Investments and Practices**

# Provided below are certain prohibited investments and investment practices intended to help safeguard invested balances.

# A. In accordance with California Government Code section 53601.6, investments in inverse floaters, range notes, mortgage-derived interest-only strips, and any security that could result in zero interest accrual if held to maturity are prohibited.

# B. Investments not specifically described herein are prohibited.

# C. The purchase or sale of securities on margin is prohibited.

# D. The purchase of securities denominated in foreign currencies is prohibited.

# E. The purchase or sale of securities done solely to speculate on the direction of future interest rates is prohibited.

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

# **12. Investment Pools / Money Market Funds**

A thorough investigation of the investment pool/money market fund is required prior to investing, and on a continual basis. Best efforts will be made to acquire the following information:

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

# **13. Collateralization**

Collateralization will be required on two types of investments: non-negotiable certificates of deposit and repurchase (and reverse repurchase) agreements. To anticipate market changes and provide a level of security for all funds, the collateralization level will be 110% of market value for non-negotiable certificate of deposit and 102% for reverse repurchase agreements of principal and accrued interest.

Collateral will always be held by an independent third party with whom the entity has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the entity and retained.

The District may waive the collateralization requirements for any portion of the deposit that is covered by Federal Deposit Insurance.

# **14. Safekeeping and Custody**

All security transactions shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third-party custodian designated by the Treasurer and evidenced by safekeeping receipts.

# **15. Diversification**

The District shall diversify the investments within the portfolio to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions, or maturities. To promote diversification, no more than 5% of the portfolio may be invested in the securities of any one issuer, regardless of security type, excluding U.S. Treasuries, federal agencies, and pooled investments such as LAIF, money market funds, or local government investment pools.

# **16. Maximum Maturities**

To the extent possible, the Keyes Community Services District will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the District will not directly invest in securities maturing more than 5 years from the date of purchase. Any investment longer than 5 years must be done with advance permission from Board of Directors.

# **17. Internal Controls**

The General Manager is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Keyes Community Services District are protected from loss, theft, fraud or misuse.

Separation of functions between the District’s General Manager or Accountant/Administrative Executive is designed to provide an ongoing internal review to prevent the potential for converting assets or concealing transactions.

Investment decisions are made by the General Manager, executed by the Administrative Executive and confirmed by the Senior Accountant. All wire transfers initiated by the Accountant/Administrative Executive must be reconfirmed by the appropriate financial institution to the General Manager. Proper documentation obtained from confirmation and cash disbursement wire transfers is required for each investment transaction. Timely bank reconciliation is conducted to ensure proper handling of all transactions.

The investment portfolio and all related transactions are reviewed and balanced to appropriate general ledger accounts by the Senior Accountant on a monthly basis. An independent analysis by an external auditor shall be conducted annually to review and perform procedure testing on the District’s cash and investments that have a material impact on the financial statements. The General Manager shall review and assure compliance with investment process and procedures.

# **18. Performance Standards**

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

The District intends to spread its investments relatively evenly between 0 and 5 years and hold those investments to maturity. The District is limiting its authorized investments to the safest end of the investment spectrum—debt issued by the U.S. Treasury, U.S. Government Agencies, and debt that is federally insured (see section 10 Authorized and Suitable Investments, above, for a complete list of authorized investments).

Therefore, an appropriate performance benchmark will be a Constant Treasury Maturity Rate consistent with the weighted average maturity of the portfolio. The District recognizes that benchmarks may change over time based on changes in market conditions or cash flow requirements.

# **19. Reporting**

The General Manager shall review and render quarterly reports to the Board of Directors that include the following information:

* Investment type (e.g. U.S. Treasury Note, U.S. Government Agency Bond)
* Name of the issuer (e.g. Federal Farm Credit Bank, Federal Home Loan Bank)
* Maturity date
* Yield to maturity
* Current market value and source of market value
* Par and dollar amount for each security the District has invested in
* Par and dollar amount on any money held by the District (e.g. LAIF balance, Cash Balance).

The report shall also include a description of any of the District’s funds, investments, or programs that are under the management of contracted parties, including lending programs.

The quarterly report shall state compliance of the portfolio to the investment policy, or manner in which the portfolio is not in compliance.

The quarterly report shall include a statement denoting the ability of the District to meet its expenditure requirements for the next six months or provide an explanation as to why sufficient money shall (or may not) be available.

The quarterly reports shall be placed on the Board of Directors meeting agenda for its review and approval no later than 30 days after the quarter ends. If there are no Council meetings within the 30-day period, the quarterly report shall be presented to the Council at the soonest possible meeting thereafter.

# **20. Investment Policy Adoption**

The Keyes Community Services District investment policy shall be adopted by resolution of the Board of Directors. The policy shall be reviewed annually by the Board of Directors and any modifications made thereto must be approved by the Board of Directors.

The General Manager shall establish written investment policy procedures for the operation of the investment program consistent with this policy. The procedures should include reference to: safekeeping, master repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Keyes Community Services District.

# **21. Glossary of Terms in this Policy**

**Accrued Interest:** Interest earned but not yet received.

**Annual Comprehensive Financial Report (ACFR):** The official annual financial report for the District. It includes five combined statements and basic financial statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principles (GAAP).

**Bond:** A financial obligation for which the issuer promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

**Bond Swap:** Selling one bond issue and buying another at the same time in order to create an advantage for the investor. Some benefits of swapping may include tax-deductible losses, increased yields, and an improved quality portfolio.

**Broker:** In securities, the intermediary between a buyer and a seller of securities. The broker, who usually charges a commission, must be registered with the exchange in which he or she is trading, accounting for the name registered representative.

**Certificate of Deposit:** A deposit insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC) at a set rate for a specified period of time.

**Collateral:** Securities, evidence of deposit or pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposit of public moneys.

**Constant Maturity Treasury (CMT):** An average yield of a specific Treasury maturity sector for a specific time frame. This is a market index for reference of past direction of interest rates for the given Treasury maturity range.

**Custody:** A banking service that provides safekeeping for the individual securities in a customer's investment portfolio under a written agreement that also calls for the bank to collect and pay out income, to buy, sell, receive and deliver securities when ordered to do so by the principal.

**Delivery vs. Payment (DVP):** Delivery of securities with a simultaneous exchange of money for the securities.

**Diversification:** Dividing investment funds among a variety of securities offering independent returns and risk profiles.

**Federal Deposit Insurance Corporation (FDIC):** Insurance provided to customers of a subscribing bank that guarantees deposits to a set limit (currently $250,000) per account.

**Interest Rate:** The annual yield earned on an investment, expressed as a percentage.

**Liquidity:** Refers to the ability to rapidly convert an investment into cash.

**Market Value:** The price at which a security is trading and could presumably be purchased or sold.

**Maturity:** The date upon which the principal or stated value of an investment becomes due and payable.

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

**Primary Dealer:** A group of government securities dealers that submit daily reports of market activity and security positions held to the Federal Reserve Bank of New York and are subject to its informal oversight.

**Purchase Date:** The date in which a security is purchased for settlement on that or a later date.

**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.

**Risk:** Degree of uncertainty of return on an asset. Safekeeping: See Custody.

**Settlement Date:** The date on which a trade is cleared by delivery of securities against funds.

**Time Deposit:** A deposit in an interest-paying account that requires the money to remain on account for a specific length of time. While withdrawals can generally be made from a passbook account at any time, other time deposits, such as certificates of deposit, are penalized for early withdrawal.

**Treasury Obligations:** Debt obligations of the U.S. Government that are sold by the Treasury Department in the forms of bills, notes, and bonds. Bills are short-term obligations that mature in one year or less. Notes are obligations that mature between one year and ten years. Bonds are long-term obligations that generally mature in ten years or more.

**U.S. Government Agencies:** Instruments issued by various US Government Agencies most of which are secured only by the credit worthiness of the particular agency.

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

**Yield to Maturity:** The rate of income return on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.

# **22. Glossary of General Investment Terms**

**Active Deposits:** Funds that are immediately required for disbursement.

**Amortization:** An accounting practice of gradually decreasing (increasing) an asset's book value by spreading its depreciation (accretion) over a period of time.

**Asked Price:** The price a broker dealer offers to sell securities. Basis Point: One basis point is one hundredth of one percent (.01). Bid Price: The price a broker / dealer offers to purchase securities.

**Book Entry Securities:** Securities, such stocks held in “street name,” that are recorded in a customer’s account, but are not accompanied by a certificate. The trend is toward a certificate-free society to cut down on paperwork and to diminish investors’ concerns about the certificates themselves. All the large New York District banks, including those that handle the bulk of the transactions of the major government securities dealers, now clear most of their transactions with each other and with the Federal Reserve through the use of automated telecommunications and the “book-entry” custody system maintained by the Federal Reserve Bank of New York. These banks have deposited with the Federal Reserve Bank a major portion of their government and agency securities holdings, including securities held for the accounts of their customers or in a fiduciary capacity for the District. Virtually all transfers for the account of the banks, as well as for the government securities dealers who are their clients, are now effected solely by bookkeeping entries. The system reduces the costs and risks of physical handling and speeds the completion of transactions.

**Book Value:** The value at which a debt security is shown on the holder's balance sheet. Book value is acquisition cost less amortization of premium or accretion of discount.

**Bullet Bond:** *See “Non-callable Bond.”*

**Callable Bond:** A debit obligation where the bond issuer (i.e. borrower) has the option to *call the bond* or pay it off early (before the scheduled maturity date). For instance, a 5-year bond might be “callable quarterly”—meaning that, although the bond has a scheduled end date 5 years from now, it could end in 3 months (and every 3 months after that, until the scheduled maturity date).

**Coupon:** The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value.

**Credit Analysis:** A critical review and appraisal of the economic and financial conditions or of the ability to meet debt obligations.

**Current Yield:** The interest paid on an investment expressed as a percentage of the current price of the security.

**Discount:** The difference between the cost of a security and its value at maturity when quoted at lower than face value.

**Duration:** The weighted average maturity of a bond's cash flow stream, where the present value of the cash flows serve as the weights; the future point in time at which on average, an investor has received exactly half of the original investment, in present value terms; a bond's zero-coupon equivalent; the fulcrum of a bond's present value cash flow time line.

**Fannie Mae:** Trade name for the Federal National Mortgage Association (FNMA), a U.S. sponsored corporation.

**Federal Reserve System:** The central bank of the U.S. that consists of a seven member Board of Governors, 12 regional banks and approximately 8,000 commercial banks that are members.

**Fed Wire:** A wire transmission service established by the Federal Reserve Bank to facilitate the transfer of funds through debits and credits of funds between participants within the Fed system.

**Freddie Mac:** Trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a U.S. sponsored corporation.

**Investment Agreements:** An agreement with a financial institution to borrow public funds subject to certain negotiated terms and conditions concerning collateral, liquidity and interest rates.

**Nationally Recognized Statistical Rating Organizations (NRSRO):** A U.S. Securities & Exchange Commission registered agency that assesses the creditworthiness of an entity or specific security. NRSRO typically refers to Standard and Poor’s Ratings Services, Fitch Ratings, Inc. or Moody’s Investors Services.

**New Issue:** Term used when a security is originally "brought" to market.

**Non-callable Bond:** Also known as, *“Bullet Bond.”* A non-callable bond is a debt obligation where the bond issuer does not have the option to “call the bond” i.e.-end the bond before the scheduled maturity date.

**Perfected Delivery:** Refers to an investment where the actual security or collateral is held by an independent third party representing the purchasing entity.

**Repurchase Agreement (REPO):** A transaction where the seller (bank) agrees to buy back from the buyer (District) the securities at an agreed upon price after a stated period of time.

**Reverse Repurchase Agreement (REVERSE REPO):** A transaction where the seller (District) agrees to buy back from the buyer (bank) the securities at an agreed upon price after a stated period of time.

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

**Yield Curve:** The yield on bonds, notes or bills of the same type and credit risk at a specific date for maturities up to thirty years.