

Escambia County, Florida Investment Policy



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Escambia County, Florida Investment Policy

I. PURPOSE

The purpose of this policy is to set forth the investment objectives and parameters for the management of public funds of Escambia County Board of County Commissioners, Florida (hereinafter "County"). These policies are designed to safeguard the County's funds, the availability of operating and capital funds when needed, and an investment return competitive with comparable funds and financial market indices.

II. SCOPE

In accordance with Section 218.415, Florida Statutes, this investment policy applies to all cash and investments held or controlled by the County including the County's funds related to the issuance of debt . Any future revenues, which have statutory investment requirements conflicting with this Investment Policy and funds held or controlled by Federal or State agencies (e.g., Department of Revenue), are not subject to the provisions of this policy.

III. INVESTMENT OBJECTIVES

Safety of Principal

The foremost objective of this investment program is the safety of the principal of those funds within the portfolios. Investment transactions shall seek to keep capital losses at a minimum, whether they are from securities defaults or erosion of market value. 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.

From time to time, securities may be traded for other similar securities to improve yield, maturity or credit risk. For these transactions, a loss may be incurred for accounting purposes, provided any of the following occurs with respect to the replacement security:

- A. Yield has been increased, or
- B. Maturity has been adjusted in anticipation of interest rate changes
- C. Quality of the investment has been improved.

Maintenance of Liquidity

The portfolios shall be managed in such a manner that funds are available to meet reasonably anticipated cash flow requirements in an orderly manner. Periodical cash flow analyses will be completed in order to ensure that the portfolios are positioned to provide sufficient liquidity.

Return on Investment

Investment portfolios 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 is of least importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

IV. DELEGATION OF AUTHORITY

As designated by the Board of County Commissioners the responsibility for providing oversight in regards to the management of the investment program resides with Escambia County's Clerk and Comptroller (Clerk). If the portfolio is split between a short term and long term core investment program, the Clerk may utilize the services of an Investment Advisor to manage the long term portion who must be registered under the Investment Advisor/s Act of 1940. The Clerk or designee will be responsible for the transferring of appropriate funds to affect investment transactions for the long-term core investment program. The Clerk's Finance Department will be responsible for the investment of operating funds, operating reserves funds, and bond proceeds.

V. STANDARDS OF PRUDENCE

The standard of prudence to be used by investment officials shall be the "Prudent Person" standard and shall be applied in the context of managing the overall investment program. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectation are reported to the Investment Advisory Committee and Board of County Commissioners in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy. The "Prudent Person" rule states the following:

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived from the investment.

While the standard of prudence to be used by investment officials who are officers or employees is the Prudent Person standard, any person or firm hired or retained to invest, monitor, or advise concerning these assets shall be held to the higher standard of "Prudent Expert". The standard shall be that in investing and reinvesting moneys and in acquiring, retaining, managing, and disposing of investments of these funds, the contractor shall exercise: the judgment, care, skill, prudence, and diligence under the circumstances then prevailing, which persons of prudence, discretion, and intelligence, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims by diversifying the investments of the funds, so as to minimize the risk, considering the probable income as well as the probable safety of their capital.

VI. ETHICS AND CONFLICTS OF INTEREST

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

investment process shall disclose to the Investment Committee any material financial interests in financial institutions that conduct business with the County, and they shall further disclose any material personal financial/investment positions that could be related to the performance of the County's investment program.

VII. INTERNAL CONTROLS AND INVESTMENT PROCEDURES

The Clerk or designee shall establish a system of internal controls and operational procedures that are in writing and made a part of the County's finances operational procedures. The internal controls should be designed to prevent losses of funds, which might arise from fraud, employee error, and misrepresentation by third parties, or imprudent actions by employees. The written procedures should include reference to safekeeping, repurchase agreements, separation of transaction authority from accounting and recordkeeping, wire transfer agreements, banking service contracts, collateral/depository agreements, and "delivery-vs-payment" procedures. No person may engage in an investment transaction except as authorized under the terms of this policy.

Independent auditors as a normal part of the annual financial audit to the County shall conduct a review of the system of internal controls to ensure compliance with policies and procedures.

VIII. CONTINUING EDUCATION

The Clerk or designee shall annually complete 8 hours of continuing education in subjects or course of study related to investment practices and products.

IX. AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS

The Finance Director or designee and/or the County's Investment Advisor/s shall only purchase securities from Qualified Financial Institutions and investment institutions which are designated as Primary Securities Dealers by the Federal Reserve Bank of New York. The Clerk or designee and/or the County's Investment Advisor/s shall only enter into repurchase agreements with financial institutions that are Qualified Institutions and Primary Securities Dealers as designated by the Federal Reserve Bank of New York. The Clerk or designee and/or the County's Investment Advisor/s shall maintain a list of financial institutions and broker/dealers that are approved for investment purposes and only firms meeting the following requirements will be eligible to serve as Qualified Institutions:

- 1) Regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule);
- 2) Capital of no less than \$10,000,000;
- 3) Registered as a dealer under the Securities Exchange Act of 1934;
- 4) Member of the National Association of Dealers (NASD);
- 5) Registered to sell securities in Florida;
- 6) The firm and assigned broker have been engaged in the business of effecting transactions in U.S. government and agency obligations for at least five (5) consecutive years.
- 7) Public Depositories qualified by the Treasurer of the State of Florida, in accordance with Chapter 280, Florida Statutes.

All brokers, dealers and other financial institutions deemed to be Qualified Institutions shall be provided with current copies of the County's Investment Policy. A current audited financial statement is required to be on file for each financial institution and broker/dealer with which the County transacts business.

X. MATURITY AND LIQUIDITY REQUIREMENTS

To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash flow requirements.

Operating Funds

To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash flow requirements. Investments of current operating funds shall have maturities of no longer than twelve (12) months.

Core Funds

Investments of reserves, project funds, debt proceeds and other non-operating funds ("core funds") shall have a term appropriate to the need for funds and in accordance with debt covenants, but in no event shall exceed five (5) years and the average duration of the funds as a whole may not exceed three (3) years.

The maturities of the underlying securities of a repurchase agreement will follow the requirements of the master repurchase agreement.

XI. COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS

After the Clerk or designee and/or the County's Investment Advisor/s has determined the approximate maturity date based on cash flow needs and market conditions and has analyzed and selected one or more optimal types of investments, a minimum of three (3) qualified banks and/or approved broker/dealers must be contacted and asked to provide bids/offers on securities in questions. Bids will be held in confidence until the bid deemed to best meet the investment objectives is determined and selected.

However, if obtaining bids/offers are not feasible and appropriate, securities may be purchased/sold utilizing the comparison to current market price method on an exception basis. Acceptable current market price providers include, but are not limited to:

- A. Telerate Information System
- B. Bloomberg Information Systems
- C. Wall Street Journal or a comparable nationally recognized financial publication providing daily market pricing
- D. Daily market pricing provided by the County's custodian or their correspondent institutions

Examples of when this method may be used include:

- A. When time constraints due to unusual circumstances preclude the use of the competitive bidding process
- B. When no active market exists for the issue being traded due to the age or depth of the issue
- C. When a security is unique to a single dealer, for example, a private placement
- D. When the transaction involves new issues or issues in the “when issued” market

Overnight sweep investment instruments will not be bid, but may be placed with the County’s depository bank relating to the demand account for which the investment instrument was purchased.

When all other factors are equal, qualified public depositories having a physical presence within Escambia County will be given preference in order to enable the banks in Escambia County the opportunity to enhance the economics of the local area.

XII. AUTHORIZED INVESTMENTS AND PORTFOLIO COMPOSITION

Investments should be made subject to the cash flow needs and such cash flows are subject to revisions as market conditions and the County’s needs change. County Bureaus are responsible for updating cash flow projections and expenditure projections over \$100,000 and for providing this information to the Clerk or designee on a quarterly basis or as needed. However, when the invested funds are needed in whole or in part for the purpose originally intended or for more optimal investments, the Clerk or designee and/or the County’s Investment Advisor/s may sell the investment at the then-prevailing market price and place the proceeds into the proper account at the County’s custodian.

The following are the investment requirements and allocation limits on security types, issuers, and maturities as established by the County. Diversification strategies within the established guidelines shall be reviewed and revised periodically as necessary by the Clerk and/or Investment Advisory Committee. The Clerk and/or the Investment Advisory Committee, and/or County’s Investment Advisor/s shall have the option to further restrict investment percentages from time to time based on market conditions, risk and diversification investment strategies.

Diversification limits outlined below may be temporarily exceeded at the Clerk’s discretion when general economic conditions warrant such departure. Exceeding percentage limits due to changes in portfolio balance will not require liquidation of any asset, but will restrict further investing. The percentage allocations requirements for investment types and issuers are calculated based on the original cost of each investment. Investments not listed in this policy are prohibited.

The following requirements do not apply to funds derived from the sale of debt:

A. United States Government Securities

1. Purchase Authorization

Negotiable direct obligations or obligations the principal and interest of which are unconditionally guaranteed by the United States Government. Such securities will include, but not be limited to the following:

- Cash Management Bills
- Treasury Securities – State and Local Government Series (“SLGS”)
- Treasury Bills
- Treasury Notes
- Treasury Bonds
- Treasury Strips

2. Portfolio Composition

A maximum of 100% of available funds may be invested in the United States Government Securities with the exception of Treasury Strips are limited to 10% of available funds.

3. Maturity Limitations

The maximum length to maturity of any direct investment in the United States Government Securities is five (5) years from the date of purchase.

B. United States Government Agencies

1. Purchase Authorization

Bonds, debentures, notes or callables issued or guaranteed by the United States Governments agencies, provided such obligations are backed by the full faith and credit of the United States Government. Such securities will include, but not be limited to the following:

- United States Export – Import Bank
 - Direct obligations or fully guaranteed certificates of beneficial ownership
- Farmer Home Administration
 - Certificates of beneficial ownership
- Federal Financing Bank
 - Discount notes, notes and bonds
- Federal Housing Administration Debentures
- Government National Mortgage Association (GNMA)
 - GNMA guaranteed mortgage-backed bonds
 - GNMA guaranteed pass-through obligations
- General Services Administration

United States Maritime Administration Guaranteed
-Title XI Financing
New Communities Debentures
-United States Government guaranteed debentures
United States Public Housing Notes and Bonds
-United States Government guaranteed public housing notes and
bonds
United States Department of Housing and Urban Development
-Project notes and local authority bonds

2. Portfolio Composition

A maximum of 50% of available funds may be invested in United States Government agencies.

3. Limits on Individual Issuers

A maximum of 10% of available funds may be invested in individual United States Government agencies.

4. Maturity Limitations

The maximum length to maturity for an investment in any United States Government agency security is five (5) years from the date of purchase.

C. Federal Instrumentalities (United States Government sponsored agencies)

1. Purchase Authorization

Bonds, debentures, notes or callables issued or guaranteed by United States Government sponsored agencies (Federal Instrumentalities), which are non-full faith and credit agencies. These are limited to the following:

Federal Farm Credit Bank (FFCB)
Federal Home Loan Bank or its County banks (FHLB)
Federal National Mortgage Association (FNMA)
Federal Home Loan Mortgage Corporation (Freddie-Macs) including
Federal -Home Loan Mortgage Corporation participation certificates

2. Portfolio Composition

A maximum of 100% of available funds may be invested in Federal Instrumentalities.

3. Limits on Individual Issuers

A maximum of 25% of available funds may be invested in any one issuer.

4. Maturity Limitations

The maximum length to maturity for an investment in any Federal Instrumentality security is five (5) years from the date of purchase.

D. Interest Bearing Time Deposit or Saving Accounts

1. Purchase Authorization

Non-negotiable interest bearing time certificates of deposit or savings accounts in banks organized under the laws of this state and/or in national banks organized under the laws of the United States and 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. Additionally, the bank shall not be listed with any recognized credit watch information service.

2. Portfolio Composition

A maximum of 20% of available funds may be invested in non-negotiable interest bearing time certificates of deposit.

3. Limits on Individual Issuers

A maximum of 10% of available funds may be deposited with any one issuer.

4. The maximum maturity on any certificate shall be no greater than one (1) year from the date of purchase.

E. Repurchase Agreements

1. Purchase Authorization

a. Repurchase agreements composed of only those investments authorized in Section XII.B, C, and D. All firms are required to sign the County's Master Repurchase Agreement prior to the execution of a repurchase agreement transaction.

b. A third party custodian with whom the County has a current custodial agreement shall hold the collateral for all repurchase agreements with a term longer than one (1) business day. A clearly marked receipt that shows evidence of ownership must be supplied to the Clerk or designee and retained.

c. Securities authorized for collateral must have maturities less than ten (10) years and with market value for the principal and accrued interest of 102 percent of the value and for the term of the repurchase agreement. Immaterial short-term deviations from 102 percent requirement are permissible only upon the approval of the Clerk or designee and/or the County's Investment Advisor/s.

d. The overnight sweep arrangement shall adhere to the agreement between the County and the County's depository bank.

2. Portfolio Composition

A maximum of 20% of available funds may be invested in repurchase agreements excluding one (1)-business day agreements and overnight sweep agreements.

3. Limits on Individual Issuers

A maximum of 10% of available funds may be invested with any one institution excluding one (1)-business day agreements and overnight sweep agreements.

4. Limits on Maturities

The maximum length to maturity of any repurchase agreement is 90 days from the date of purchase.

F. Commercial Paper

1. Purchase Authorization

Commercial paper of any United States company that is rated, at the time or purchase, "Prime-1" by Moody's and "A-1" by Standard & Poor's (prime commercial paper). In addition, corporate obligations allowed are corporate obligations issued by financial institutions that participate in the FDIC's Temporary Liquidity Guarantee Program and are fully insured by the FDIC and are guaranteed by the full faith and credit of the United States Government.

2. Portfolio Composition

A maximum of 25% of available funds may be directly invested in prime commercial paper.

3. Limits on Individual Issuers

A maximum of 5% of available funds may be invested with any one issuer.

4. Maturity Limitations

The maximum length to maturity for prime commercial paper shall be 270 days from the date of purchase.

G. Corporate Notes

1. Purchase Authorization

Corporate notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States that have a long term debt rating, at the time of purchase, at a minimum “Aa” by Moody’s and a minimum long term debt rating of “AA” by Standard & Poor’s. In addition, corporate obligations allowed are corporate obligations issued by financial institutions that participate in the FDIC's Temporary Liquidity Guarantee Program and are fully insured by the FDIC and are guaranteed by the full faith and credit of the United States Government.

2. Portfolio Composition

A maximum of 20% of available funds may be directly invested in corporate notes.

3. Limits on Individual Issuers

A maximum of 5% of available funds may be invested with any one issuer.

4. Maturity Limitations

The maximum length to maturity for corporate notes shall be (3) three years from the date of purchase.

H. Banker’s Acceptances

1. Purchase Authorization

Bankers’ acceptances issued by a domestic bank or a federally chartered domestic office of a foreign bank, which are eligible for purchase by the Federal Reserve System, at the time of purchase, the short-term paper is rated, at a minimum, “P-1” by Moody's Investors Services and “A-1” Standard & Poor's.

2. Portfolio Composition

A maximum of 25% of available funds may be directly invested in Bankers’ acceptances

3. Limits on Individual Issuers

A maximum of 5% of available funds may be invested with any one issuer.

4. Maturity Limitations

The maximum length to maturity for Bankers’ acceptances shall be 180 days from the date of purchase.

I. State and/or Local Government Taxable and/or Tax-Exempt Debt

1. Purchase Authorization

State and/or local government taxable and/or tax-exempt debt, general obligation and/or revenue bonds, rated at least “Aa” by Moody’s and “AA” by Standard & Poor’s for long-term debt, or rated at least “MIG-2” by Moody’s and “SP-2” by Standard & Poor’s for short-term debt.

2. Portfolio Composition

A maximum of 25% of available funds may be invested in taxable and tax-exempt General Obligation bonds.

A maximum of 10% of available funds may be invested in taxable and tax-exempt Revenue and Excise tax bonds of the various municipalities of the State of Florida, provided none of such securities have been in default within five (5) years prior to the date of purchase.

3. Maturity Limitations

A maximum length to maturity for an investment in any state or local government debt security is five (5) years from the date of purchase.

J. Registered Investment Companies (Money Market Mutual Funds)

1. Investment Authorization

Shares in open-end and no-load fund provided such funds are registered under the Federal Investment Company Act of 1940 and operate in accordance with 17 C.F.R. § 270.2a-7, which stipulates that money market funds must have an average weighted maturity of 90 days or less. In addition, the share value of the money market funds must equal to \$1.00.

2. Portfolio Composition

A maximum of 50% of available funds may be invested in money market funds.

3. Limits of Individual Issuers

A maximum of 25% of available funds may be invested with any one money market fund.

4. Rating Requirements

The money market funds shall be rated “AAAm” by Standard & Poor’s or the equivalent by another rating agency.

5. Due Diligence Requirements

A thorough review of any money market fund is required prior to investing, and on a continual basis. There shall be a questionnaire developed by the Clerk or designee and/or the County's Investment Advisor/s that will contain a list of questions that covers the major aspects of any investment pool/fund.

K. Intergovernmental Investment Pool

1. Investment Authorization

Intergovernmental investment pools that are authorized pursuant to the Florida Interlocal Cooperation Act, as provided in Section 163.01, Florida Statutes and provided that said funds contain no derivatives.

2. Portfolio Composition

A maximum of 25% of available funds may be invested in intergovernmental investment pools.

3. Rating Requirements

The Intergovernmental Investment Pool shall be rated "AAAm" by Standard & Poor's or the equivalent by another rating agency.

4. Due Diligence Requirements

A thorough review of any investment pool/fund is required prior to investing, and on a continual basis. There shall be a questionnaire developed by the Clerk or designee and/or the County's Investment Advisor/s that will contain a list of questions that covers the major aspects of any investment pool/fund.

XIII. DERIVATIVES AND REVERSE REPURCHASE AGREEMENTS

The County shall not invest in investment products. 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. Reverse repurchase agreements are not permitted by this policy.

XIV. PERFORMANCE MEASUREMENTS

In order to assist in the evaluation of the portfolios' performance, the County will use performance benchmarks for short-term and long-term portfolios. The use of benchmarks will allow the County to measure its returns against other investors in the same markets.

- A. The short-term investment portfolio shall be evaluated in comparison with the weighted average return (net book value rate of return) of the Standard & Poor's Local Government Investment Pool All 30 Day rate (LGIP30D). The Standard & Poor's LGIP30D represents Government Investment Pools that maintain a stable net asset value

of \$1 per share with an average maturity of 30 days and is rated in Standard & Poor's two highest money market fund rating categories: "AAAm" and "AAm."

- B. The long-term investment portfolio shall be designed with the annual objective of achieving a comparable return to the Merrill Lynch 1-3 Year Treasury Index. The Merrill Lynch 1-3 Year Treasury Index represents all U.S. Treasury securities maturing over one year, but less than three years. This maturity range is an appropriate benchmark based on the objectives of the County.

XV. REPORTING

- A. Monthly, the Clerk shall prepare a list of the investments held in the portfolio. The distribution of this monthly report shall be to the County Commissioners, County Administrator, Budget Director, County Investment Advisory Committee Members and any other interested parties. The specific information in the report will include, but not be limited to, the following:
 - A. Name of security
 - B. Cost of security
 - C. Market value of security
 - D. Date of purchase
 - E. Maturity date
 - F. Coupon rate
 - G. Yield-to-maturity and/or yield-to-call
 - H. Name of security dealer or bank from whom it was purchased
 - I. Accrued interest, premium or discount on purchase
 - J. Actual portfolio diversification percentages
 - K. Actual dealer or financial institution participation percentages

Annually, the certified public accountants conducting the audit of the County pursuant to Florida Statute 11.45 shall report, as part of the audit, whether or not the County has complied with Florida Statute 218.415.

- B. The County's Investment Advisor/s shall provide quarterly investment reports on the County's short-term and long-term core investments to the Investment Advisory Committee and Board of County Commissioners. Schedules in the quarterly report should include the following:
 - 1. A listing of individual securities held at the end of the reporting period
 - 2. Percentage of available funds represented by each investment type
 - 3. Coupon, discount or earning rate
 - 4. Average life or duration and final maturity of all investments
 - 5. Par value and market value

C. Annual Investment Report

On an annual basis, the County's Investment Advisor/s shall submit to the Investment Committee and the Board of County Commissioners a written report on the long-term core investment funds. The annual report shall provide all, but not limited to, the following: a complete list of all invested funds, name or type of security in which the funds are invested, the amount invested, the maturity date, earned income, the book value, the market value and the yield on each investment. The annual report will show performance on both a book value and total rate of return basis and will compare the results to the above-stated performance benchmarks. All investments shall be reported at fair value per GASB standards. Investment reports shall be available to the public.

D. Investment Advisory Committee Establishment

- (a) The board of county commissioners has established a county investment advisory committee. The county investment advisory committee shall be composed of the Clerk or designee, the County Administrator or designee, two members appointed by the Board of County Commissioners, and one member appointed by the Clerk.
- (b) The appointed members of the County Investment Advisory Committee shall not be employed by any office of the county government and shall be residents of the county. They shall have documented expertise in finance and investments. Appointees shall serve a term of three years and shall be subject to two reappointments. The first appointees shall serve staggered first terms of one, two and three years respectively. Appointed members of the county investment advisory committee may not engage in any private financial dealings with the county directly or indirectly related to the county's financial operations during their tenure on the committee and for a period of two year thereafter.

Duties

- (a) It shall be the duty of the County Investment Advisory Committee to review and recommend changes regarding the investment practices of the county. The county investment advisory committee shall review the county's portfolio activity for compliance with the policies. The Investment Advisory Committee shall review investment policies and make recommendations to the Board of County Commissioners and the Clerk for amendments thereto, including:
 - 1) Proposed investment objectives, policies and strategies;
 - 2) Organization and conduct of the investment management function; and
 - 3) Investment performance, as it relates to safety, liquidity and yield, to include the structure of portfolios and investment actions taken
- (b) The Investment Advisory Committee shall meet at least quarterly and report to the Board and the Clerk as to the county's investment practices and performance and make recommendations for changes thereto.

- (c) From time to time, any member of the Investment Advisory Committee may call a meeting of the full committee to discuss investment issues in order to ensure that objectives of the investment policy are understood and met.

XVI. THIRD-PARTY CUSTODIAL AGREEMENTS

Securities, with the exception of certificates of deposits, shall be held with a third party custodian; and all securities purchase by, and all collateral obtained by the County should be properly designated as an asset of the County. The securities must be held in an account separate and apart from the assets of the financial institution. A third party custodian is defined as 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 national 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. Certificates of deposits will be placed in the provider's safekeeping department for the term of the deposit.

The custodian shall accept transaction instructions only from those persons who have been duly authorized by the Clerk and which authorization has been provided, in writing, to the custodian. No withdrawal of securities, in whole or in part, shall be made from safekeeping, shall be permitted unless by such a duly authorized person.

Monthly, the custodian shall provide the Clerk or designee and/or the County's Investment Advisor/s with detail information on the securities held by the custodian. Security transactions between a broker/dealer and the custodian involving the purchase or sale of securities by transfer of money or securities must be made on a "delivery vs. payment" basis, if applicable, to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction. Only after receiving written authorization from the Clerk or designee shall authorized securities be delivered "free". Securities held as collateral shall be held free and clear of any liens.

XVII. RESERVATION OF AUTHORITY

The authority to issue and/or revise this policy is reserved for the Board of County Commissioners.

BOARD OF COUNTY COMMISSIONERS
ESCAMBIA COUNTY, FLORIDA

As adopted by the Board on January 21, 2010

Attachment
Glossary of Cash and Investment Management 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. Federally sponsored agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee. An example of federal agency is the Government National Mortgage Association (GNMA). An example of a FSA is the Federal National Mortgage Association (FNMA).

Asked - The price at which securities are offered.

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

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

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

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

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

Broker - A broker brings buyer and sellers together for a commission.

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

Collateralization - Process by which a borrower pledges securities, property, or other deposits for securing the repayment of a loan and/or security.

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

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

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

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

Delivery Versus Payment (DVP) - A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or his/her custodian.

Attachment

Glossary of Cash and Investment Management Terms

Derivatives - For hedging purposes, common derivatives are options, futures, swaps and swaptions. All Collateralized Mortgage Obligations (“CMOs”) are 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).

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

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

Duration - A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

Federal Home Loan Banks (FHLB) - Government sponsored wholesale banks (currently 12 regional banks) which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

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 (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. 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.

Government National Mortgage Association (GNMA OR GINNIE MAE) - Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. The security holder is protected by full faith and credit of the U. S. Government. Ginnie Mae securities are backed by the FHA, VA, or FMHM mortgages. The term “passthroughs” is often used to describe Ginnie Maes.

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

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

The concept of reasonable assurance recognizes that 1) the cost of a control should not exceed the benefits likely to be derived and 2) the valuation of costs and benefits requires estimates and judgments by management. Internal controls should address the following points:

1. **Control of collusion** - Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
2. **Separation of transaction authority from accounting and record keeping** - By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
3. **Custodial safekeeping** - Securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.
4. **Avoidance of physical delivery securities** - Book-entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
5. **Clear delegation of authority to subordinate staff members** - Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
6. **Written confirmation of transactions for investments and wire transfers** - Due to the potential for error and improprieties arising from telephone and electronic transactions, all transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and if the safekeeping institution has a list of authorized signatures.
7. **Development of a wire transfer agreement with the lead bank and third-party custodian** - The designated official should ensure that an agreement will be entered into and will address the following points: controls, security provisions, and responsibilities of each party making and receiving wire transfers.

Investment Company Act of 1940- Federal legislation that sets the standards by which investment companies, such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

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

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Local Government Investment Pool (LGIP) - An investment by local governments in which their money is pooled as a method for managing local funds, (i.e., Florida State Board of Administration “SBA”).

Long-Term Core Investment Program – Funds that are not needed within a one year period.

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

Market Value - Current market price of a security.

Master Repurchase Agreement - A written contract covering all future transactions between parties to repurchase—reverse repurchase agreement that establishes each party’s rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

Maturity - The date on which payment of a financial obligation is due. The final stated maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder. See "Weighted Average Maturity”.

Money Market - The market in which short-term debt instruments (bills, commercial paper, bankers’ acceptance, etc.) are issued and traded.

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).

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

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

$$[(\text{Total assets}) - (\text{Liabilities})] / (\text{Number of shares outstanding})$$

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

Portfolio - Collection of securities held by an investor.

Principal - The face value or par value of a debt instrument. Also may refer to the amount of capital invested in a given security.

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Qualified Public Depository - Per Florida Statute 280, means any bank, saving bank or savings association that:

- (a) Is organized and exists under the laws of the United States, the laws of this state or any other state or territory of the United States;
- (b) Has its principal place of business in this state or has a branch office in this state which is authorized under the laws of this state or of the United States to receive deposits in this state.
- (c) Has deposit insurance under the provision of the Federal Deposit Insurance Act, as amended, 12 U.S.C. ss.1811 seq.
- (d) Meets all requirements of F.S. 280
- (e) Has been designed by the Treasurer as a qualified public depository.

Rate of Return - For fixed income securities (bonds and preferred stock), current yield, that is, the coupon or contractual dividend rate divided by the purchase price. For common stock, dividend yield, which is the annual dividend divided by the purchase price.

Repurchase Agreement (repo or RP) - An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date.

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

Safekeeping - Holding of assets (e.g., securities) by a financial institution.

Structured Notes - Notes issued by government sponsored enterprises (FHLB, FNMA, SLMA, etc.) and corporations which have imbedded options (e.g. call features, step-up coupons, floating rate coupons, and derivative-based returns) into their debt structure. Their market performance is impacted by fluctuation of interest rates, the volatility of the imbedded options, and shifts in the shape of the yield curve.

Swap - Trading one asset for another.

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

Treasury Bills - Short-term U.S. government non-interest bearing debt securities with maturities of no longer than one year and issued in minimum denominations of \$10,000. Auctions of three- and six-month bills are weekly, while auctions of one-year bills are monthly. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.

Treasury Notes - Intermediate U.S. government debt securities with maturities of one to 10 years and issued in denominations ranging from \$1,000 to \$1 million or more.

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

Weighted Average Maturity (WAM) - The average maturity of all the securities that comprise a portfolio. According to SEC rule 2a-7, the WAM for SEC registered money market mutual funds may not exceed 90 days and no one security may have a maturity that exceeds 397 days.

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

Yield Curve - A graph showing the relationship at a single point in time between the available maturities of a security or similar securities with essentially identical credit risk and the yields that can be earned for each of those available maturities. A graphical depiction of the term structure of interest rates at any given point in time. Yield curves may be constructed for different instruments.

Yield-to-call (YTC) - The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date. **Yield Curve** - A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.

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

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