

RESOLUTION NO. 6964

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CYPRESS, AND ACTING AS THE EX OFFICIO GOVERNING BOARD OF DIRECTORS OF THE CYPRESS RECREATION AND PARK DISTRICT, ADOPTING THE ANNUAL STATEMENT OF INVESTMENT POLICY

WHEREAS, Section 53646 of the Government Code of the State of California establishes and requires the City Treasurer to annually render to the City Council at a public meeting a Statement of Investment Policy; and

WHEREAS, the City Treasurer has heretofore prepared and submitted to the City Council a proposed Statement of Investment Policy, pursuant to law;

NOW, THEREFORE BE IT RESOLVED that the City Council of the City of Cypress, and acting as the ex officio governing Board of Directors of the Cypress Recreation and Park District, hereby adopts the Annual Statement of Investment Policy.

PASSED AND ADOPTED by the City Council of the City of Cypress, ex officio governing Board of Directors of the Cypress Recreation and Park District, at a regular meeting held on the 10th day of June, 2024.


MAYOR OF THE CITY OF CYPRESS

ATTEST:


CITY CLERK OF THE CITY OF CYPRESS

STATE OF CALIFORNIA }
COUNTY OF ORANGE } SS

I, ALISHA FARNELL, City Clerk of the City of Cypress, DO HEREBY CERTIFY that the foregoing Resolution was duly adopted at a regular meeting of the said City Council held on the 10th day of June, 2024, by the following roll call vote:

AYES: 5 COUNCIL MEMBERS: Burke, Mallari, Marquez, Peat and Minikus
NOES: 0 COUNCIL MEMBERS: None
ABSENT: 0 COUNCIL MEMBERS: None


CITY CLERK OF THE CITY OF CYPRESS

CITY OF CYPRESS
STATEMENT OF INVESTMENT POLICY
FISCAL YEAR 2024-25



**CITY OF CYPRESS
STATEMENT OF INVESTMENT POLICY
Fiscal Year 2024-25**

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PURPOSE

This purpose of this policy is to provide guidelines for the prudent investment of unexpended funds to maximize security while meeting daily cash flow demands and providing a market rate of return. The investment practices and policies are based on compliance with State law and prudent money management principles.

SCOPE

This Statement of Investment Policy (Policy) covers all funds under the City's control including the Cypress Recreation and Park District collectively referred to herein as the City's investment portfolio, or portfolio.

This Policy also applies to any bond proceeds. If a bond's trust agreement is more restrictive than this Policy, then the trust agreement supersedes this Policy. The City may delegate its investment responsibility to the fiscal agent to ensure compliance with the bond covenants when managing bond proceeds. Borrowing money solely for the purpose of investing and earning arbitrage is specifically prohibited.

The Public Agencies Post-Employment Benefits Trust (PARS Trust) is managed under separate investment goals, objectives, and management policies, and as such is specifically excluded from this policy. Additional information can be found in the Investment Guidelines Document for the PARS Trust.

PRUDENCE

The City strives to maintain the level of investment of all idle funds as near 100% as possible. All temporarily pooled idle cash is invested under the Prudent Investor Standard, as set forth in California Government Code Section 53600.3:

"...all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. 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. Within the limitations of this section and considering individual investments as part of an overall strategy, investments

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may be acquired as authorized by law.”

OBJECTIVE

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

- a. Safety - The safety and risk associated with an investment refers to the potential loss of principal, interest or a combination of these amounts. The City will undertake investments in a manner that seeks to ensure the preservation of capital in the overall portfolio.
- b. Liquidity - This refers to the ability to "cash in" at any moment in time with a minimal chance of losing some portion of principal or interest. The City will maintain sufficient cash and short-term investment instruments which, together with projected revenues, will provide sufficient liquidity to meet all operating requirements as well as unanticipated needs for funds.
- c. Return on Investments (Yield) – Yield is the income returned on investments. The Portfolio will be designed with the objective to attain a market rate of return throughout budgetary and economic cycles, commensurate with the City’s investment risk constraints and cash flow requirements.

DELEGATION OF AUTHORITY

The City Council, pursuant to California Government Code Section 53601, has primary responsibility for the investment of surplus monies. As authorized under Section 53607, the City Council hereby delegates its authority to invest surplus City funds to the City Treasurer and the Finance Manager. This delegation of authority shall be in effect for one fiscal year. The City Council may renew the authority annually and may revoke the authority at any time.

ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair their ability to make impartial investment decisions. Officials, staff members and investment consultants shall disclose to the City Manager any material financial interests with a financial institution, provider, dealer or broker that conducts business with the City. Officials, staff members and investment consultants will further disclose any personal financial position that could be related to the City’s cash and investment portfolio.

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Any firm proposing to provide any type of investment service to the City shall acknowledge their familiarity with and agree to abide by any Federal and State laws or regulations pertaining to contractual conflicts of interest or contributions by such firms, their employees, spouses or agents. Any persons, firms, dealers, brokers and advisors providing investment services or bond issue assistance shall disclose to the City Treasurer and Finance Manager all fee sharing and commission arrangements with other entities or persons prior to the City agreeing to buy an investment or issuing bonds.

AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Treasurer will maintain a list of approved financial institutions authorized to provide investment services to the City. The City of Cypress shall transact business only with banks, savings and loans, and "primary" or "regional" registered investment securities broker/dealers with offices located in the State of California. The firms, and individuals covering the agency, should be knowledgeable and experienced in public agency investing and the investment products involved. Any broker/dealer or financial institution wishing to provide services must provide the following to the City Treasurer:

- A completed City of Cypress Broker/Dealer Questionnaire
- Audited financial statements
- Proof of Financial Industry Regulatory Authority (FINRA) certification
- Trading resolution
- Proof of state registration

AUTHORIZED AND SUITABLE INVESTMENTS

The City is authorized by California Government Code Section 53600 et seq. to invest in specific types of securities. This Statement of Investment Policy further limits the authorized investments to the following:

a) U.S. Treasury Securities

United States Treasury bills, notes, bonds, or certificates of indebtedness, for which the full faith and credit of the United States are pledged for the payment of principal and interest. There is no limit on the percentage of the portfolio that can be invested in this category.

b) U.S. Government Agency Securities

Bonds or obligations issued by federal government agencies or government-sponsored enterprises. There is no limit on the percentage of the portfolio that can be invested in this category. Examples include:

- Federal Home Loan Mortgage Corporation (FHLMC)
- Federal National Mortgage Association (FNMA)
- Federal Farm Credit Bank (FFCB)

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- Federal Home Loan Bank Notes and Bonds (FHLB)
- Federal Agricultural Mortgage Corporation (FAMC)
- Government National Mortgage Association (GNMA)

c) Certificates of Deposit (CD)

A time deposit with a specific maturity evidenced by a Certificate. Purchases of CDs shall not exceed 25% of the portfolio at the time of purchase, nor one year maturity.

d) Bankers' Acceptances

Also known as bills of exchange or time drafts, Bankers' Acceptances are drawn on and accepted by a commercial bank. Purchases of bankers' acceptances shall not exceed 180 days maturity. Issuing banks must be rated by at least two of the Nationally Recognized Statistical Rating Organizations (NRSROs) and have a short-term rating of at least A1/P1 and a long-term rating, if any, of not less than "A". Bankers' Acceptances shall not exceed 25% of the portfolio at the time of purchase.

e) Commercial Paper

Short-term, unsecured promissory notes issued by both financial and non-financial corporations. Eligible commercial paper shall be of "prime" quality of the highest ranking or of the highest letter and number rating as provided by an NRSRO, shall not exceed 270 days maturity, and shall not exceed 25% of the portfolio at the time of purchase. Furthermore, the City may invest no more than 10% of its total portfolio in the commercial paper and medium-term corporate notes of any single issuer at the time of purchase.

f) Negotiable Certificates of Deposit

Negotiable Certificates of Deposit issued by a nationally or state-chartered bank, a savings association, or a federal association, a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. Issuing institutions must be rated by at least two of the NRSROs and have a short-term rating of at least A1/P1 and a long-term rating, if any, of not less than "A". Negotiable CDs shall not exceed 25% of the portfolio at the time of purchase.

g) Medium-term Corporate Notes

Unsecured promissory notes issued by corporations organized and operating in the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment under this subdivision shall be rated "A" or better by an NRSRO. Medium-term Corporate Notes shall not exceed 25% of the portfolio at the time of purchase. Furthermore, the City may invest no more than 10% of its total portfolio in the commercial paper and medium-term corporate notes of any single issuer at the time of purchase.

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h) Local Agency Investment Fund (LAIF)

LAIF is a voluntary investment program administered by the California State Treasurer and overseen by the Local Investment Advisory Board. It allows local agencies to invest in a major portfolio while maintaining highly liquid investments. The City may invest in LAIF up to the maximum permitted by State law.

i) Investment Trust of California (CalTRUST)

CalTRUST is a Joint Powers Authority created by local public agencies to deposit funds for investment. CalTRUST is governed by a Board of Trustees made up of experienced local agency treasurers and investment officers. There is no minimum investment, nor is there a maximum investment imposed by CalTRUST, however, the City has established a maximum of \$50 million.

j) Money Market Mutual Funds

Shares of money market mutual funds as described in Government Code Section 53601(l). The total investment in money market mutual funds shall not exceed 20% of the portfolio at the time of purchase. No more than 10% of the portfolio may be invested in any one mutual fund.

k) Municipal Bonds

Bonds issued by local agencies of the United States, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency rated "A" or better by an NRSRO. No more than 5% of the portfolio may be invested in any one municipal issuer. In addition, the aggregate investment in municipal bonds may not exceed 25% of the portfolio at the time of purchase.

REVIEW OF INVESTMENT PORTFOLIO

The securities held by the City must be in compliance with Section 8 – Authorized and Suitable Investments at the time of purchase. Because some securities may not comply with Section 8 subsequent to the date of purchase, the Treasurer shall at least quarterly review the portfolio to identify any securities no longer in compliance. The Treasurer shall report to the City Council any major and critical incidences of noncompliance identified through the portfolio review.

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If the credit rating of a security in the portfolio is downgraded, the City Treasurer and Finance Manager will monitor the credit risk and evaluate the need to sell the security prior to maturity. When selling securities prior to maturity, losses are only acceptable if (1) the proposed swap/trade can clearly enhance yield (value) over the life of the new security on a total return basis, or (2) to prevent the further loss of principal. Sufficient written documentation to facilitate the audit of the transaction must be maintained. Under Section 53601.6 of the California Government Code, the City may hold prohibited investments until their maturity to avoid incurring a loss. This allows the City to "grandfather" in securities purchased prior to a downgrade or the effective date of new legislation.

INVESTMENT POOLS/MUTUAL FUNDS

The Treasurer shall be required to research all investment pools and mutual funds prior to investing in them, and to stay abreast of any changes while the funds are invested in the pool/fund. The analysis should include an understanding of the pool/fund's eligible securities, maximum maturities, interest calculation and distribution, size, withdrawal and deposit limits, and expense ratio.

COLLATERALIZATION

Surplus funds must be deposited in state or national banks, state or federal savings associations or federal credit unions within the State of California. All demand and time deposits shall be collateralized with securities authorized by California Government Code Section 53651 et seq. The bank or savings and loan must secure public funds deposits with eligible securities having a market value of 110% of the total amount of the deposits or first trust deeds having a value of 150% of the total amount of the deposits. The Treasurer may waive security for that portion of a deposit, which is insured pursuant to Federal law. The first \$250,000 of a deposit is federally insured. Deposits over \$250,000 are collateralized as indicated above.

SAFEKEEPING AND CUSTODY

All security transactions shall be conducted on a delivery-versus-payment (DVP) method. All securities shall be registered in the name of the City of Cypress and held by a third-party custodian designated by the City Treasurer.

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MAXIMUM MATURITIES AND SETTLEMENT PERIODS

In accordance with California Government Code, the City will not invest in any security maturing more than 5 years from the settlement date. Investment purchases must settle within 45 days of the commitment to purchase the investment. If the City Treasurer desires to invest in longer-term securities, the Government Code allows such an investment if it is expressly approved by the City Council at least three months prior to the purchase.

INTERNAL CONTROLS

A system of internal control shall be established and documented in writing. The controls shall be designed to prevent losses of public funds arising from irregularities, employee error, misrepresentation of third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City. Controls deemed most important include: control of collusion, separation of duties, custodial safekeeping, clear delegation of authority, written confirmation of transactions, minimizing the number of authorized investment officials, documentation of transactions and strategies, and code of ethics standards.

REPORTING

Under provisions of Section 53607 of the California Government Code, the City Treasurer shall submit a monthly investment report to the City Council. This report will list the type of investment, institution, date of maturity, amount of deposit, rate of interest, current market value of securities with maturities in excess of 12 months, source of market valuations, and statement of compliance. A schedule of market values maturing by date and type, and such other data as required by the City Council will also be provided.

INVESTMENT POLICY ADOPTION

The City Treasurer and Finance Manager shall be responsible for reviewing and modifying this Statement of Investment Policy annually for City Council approval to ensure its consistency with the overall objectives of safety, preservation of principal, and liquidity, and its relevance to current law and current financial and economic conditions.

INDEMNIFICATION

Any authorized investment personnel acting with prudence and in accordance with the City Statement of Investment Policy, will not be held personally liable for any investment losses. Through surety bonds the City is indemnified against any investment personnel acting with malfeasance, misfeasance or nonfeasance.

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INVESTMENT GUIDELINES AND STRATEGY

I. GUIDELINES:

Guidelines are established to direct and control activities in such a manner that previously established goals are achieved.

1. Investment Transaction: Every investment transaction must be authorized and reviewed by the City Treasurer and Finance Manager.
2. Pooled Cash: Whenever practical, cash is consolidated into one bank account and invested on a pooled concept basis. Interest earnings are allocated quarterly to each fund according to fund actual month-end cash balances.
3. Competitive Bids: Purchases and sales of securities are made on the basis of competitive offers and bids when practical.
4. Cash Forecasting: The cash flow for the City is projected with the receipt of revenues and maturity of investments scheduled so that adequate cash will be available to meet disbursement requirements.
5. Investment Limitations: Security purchases and holdings are maintained within statutory limits imposed by the California Government Code. The City's current limits are listed on the following page.
6. Liquidity: The marketability (salability) of a security is considered at the time of purchase, as the security may have to be sold at a later date to meet unanticipated cash demands.
7. Diversification: The portfolio should consist of various types of securities, issuers, and maturities.
8. Evaluate Certificates of Deposit:
 - a) Certificates of Deposit shall be evaluated in terms of Federal Deposit Insurance Corporation (FDIC) coverage. The City does not purchase Certificates of Deposit in excess of the FDIC coverage amount.
 - b) Negotiable Certificates of Deposit shall be evaluated in terms of the credit worthiness of the issuer, as these deposits are uninsured and uncollateralized promissory notes.

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INVESTMENT GUIDELINES AND STRATEGY

| <u>PERMITTED INVESTMENTS</u> | <u>CITY POLICY</u> | | <u>GOVERNMENT CODE</u> | |
|--|------------------------|-------------------------|------------------------|-------------------------|
| | <u>Portfolio Limit</u> | <u>Maximum Maturity</u> | <u>Portfolio Limit</u> | <u>Maximum Maturity</u> |
| U.S. Treasury Securities | No limit | 5 years | No limit | 5 years |
| U.S. Agency Securities | No limit | 5 years | No limit | 5 years |
| Certificates of Deposit (CD) | 25% | 1 year | No limit | 5 years |
| Bankers' Acceptances ¹ | 25% | 180 days | 40% 25% - | 180 days |
| Commercial Paper ² | 25% | 270 days | 40% | 270 days |
| Negotiable CDs ¹ | 25% | 5 years | 30% | 5 years |
| Medium-term Corporate Notes ² | 25% | 5 years | 30% | 5 years |
| LAIF | No limit ³ | n/a | No limit ³ | n/a |
| CalTRUST | \$50 million | n/a | No limit | n/a |
| Money Market Mutual Funds | 20% | n/a | 20% | n/a |
| Municipal Bonds ⁴ | 25% | 5 years | No limit | 5 years |

¹ Individual issuer limit of 10%

² Individual issuer limit of 10% for Commercial Paper and Medium-term Corporate Notes combined

³ Limit set by LAIF Governing Board is \$75 million per individual account. The City maintains two LAIF accounts (City and the Recreation and Park District).

⁴ Individual issuer limit of 5%

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INVESTMENT GUIDELINES AND STRATEGY

II. STRATEGY:

Strategy refers to the ability to manage financial resources in the most advantageous manner.

1. Economic Forecasts: Economic forecasts are obtained periodically from economists and financial experts to assist with the formulation of an investment strategy for the local agency.
2. Implementing Investment Strategy: Investment transactions are executed which conform with anticipated interest rate trends and the current investment strategy plan.
3. Preserve Portfolio Value: The City generally holds investments until maturity to avoid short-term market fluctuations..

III. AUDIT:

Annually, the City's external auditors test the City's portfolio for conformance to this policy in relation to the financial statement audit.

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INVESTMENT PROCEDURES
INTERNAL CONTROL GUIDELINES

I. OBJECTIVES OF INTERNAL CONTROL:

Internal control is the plan of organization and all the related systems established by management's objective of ensuring, as far as practicable:

- The orderly and efficient conduct of its business, including adherence to management policies.
- The safeguarding of assets.
- The prevention or timely detection of errors and irregularities.
- The accuracy and completeness of the accounting records.
- The timely preparation of reliable financial information.

II. LIMITATIONS OF INTERNAL CONTROL:

No internal control system, however elaborate, can by itself guarantee the achievement of management's objectives. Internal control can provide only reasonable assurance that the objectives are met, because of its inherent limitations, including:

- Management's typical and practical requirement that a control be cost-effective.
- The focus of most controls on recurring, rather than unusual, types of transactions.
- Human error due to misunderstanding, carelessness, fatigue or distraction of functions.
- The potential for a person responsible for exercising control abusing that responsibility.
- Frequently, a member of management may be in a position to override controls which management has set up.
- Collusion, where two or more employees conspire to circumvent controls.

III. ELEMENTS OF INTERNAL CONTROL:

Elements of a system of internal control are the means by which an organization can satisfy the objectives of internal control. These elements are:

- **ORGANIZATION**: Specific responsibility for the performance of duties should be assigned and lines of authority and reporting clearly identified and understood.
- **PERSONNEL**: Personnel should have capabilities commensurate with their responsibilities. Personnel selection and training policies, together with the quality and quantity of supervision, are essential.

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INVESTMENT PROCEDURES
INTERNAL CONTROL GUIDELINES

- **SEGREGATION OF FUNCTIONS**: Segregation of incompatible functions reduces the risk that a person is in a position both to perpetrate and conceal errors or irregularities in the normal course of duty. If different people handle two parts of a transaction, collusion is necessary to conceal errors or irregularities. In particular, the functions that should be considered when evaluating segregation of functions are authorization, execution, recording, custody of assets, and performing reconciliations.
- **AUTHORIZATION**: An appropriate responsible individual should authorize all transactions. The responsibilities and limits of authorization should be clearly delineated. The authorization for a specific transaction or the granting of authority for transactions should be to a position commensurate with the significance of the transactions. Delegation of authority to authorize transactions should be handled carefully.
- **CONTROLS OVER ACCOUNTING SYSTEM**: Controls over an accounting system include manual and automated procedures carried out independently to ascertain that transactions are complete, valid, authorized and properly recorded.

IV. CASH CONTROLS:

1. Cash control procedures include the following:
 - a. Receipts are reconciled on a daily basis.
 - b. Amounts are deposited intact.
 - c. All bank accounts are duly authorized.
 - d. Bank reconciliations are prepared and reviewed.
 - e. The posting of cash receipt entries in books is timely.
 - f. Receipt forms are automated, accounted for, and physically secured.
 - g. Proper approval required for write-off of customer accounts.
 - h. Checks are restrictively endorsed upon receipt.
 - i. Adequate physical security over cash.
 - j. Individuals who handle cash do not post account records.
 - k. Adequate supervision of Finance Department operations.
2. Significant revenues are confirmed directly with payer and compared with City books to make sure amounts are recorded properly.
3. Cash balances are substantiated by confirming **all** account balances. Bank reconciliations are reviewed for propriety and recalculated by the auditor. All significant reconciling items on bank reconciliations are verified as valid reconciling items by proving to subsequent bank statements.

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SEGREGATION OF RESPONSIBILITIES OF THE TREASURY FUNCTIONS

| <u>Function</u> | <u>Responsibility</u> |
|--|---|
| 1. Authorization of Investment Transactions | |
| A) Formal Investment Policy | |
| Prepared by: | Finance Manager/City Treasurer |
| Approved by: | City Treasurer |
| Adopted by: | City Council |
| B) Investment transactions approved by: | City Treasurer |
| C) Monthly Investment Report | |
| Prepared by: | Accountant/Finance Manager |
| Reviewed by: | Finance Manager/City Treasurer |
| Approved by: | City Treasurer |
| Submitted to: | City Council |
| 2. Execution of investment transactions: | Finance Manager/City Treasurer |
| 3. Timely recording of investments in Treasurer's records: | Finance Manager/City Treasurer |
| 4. Recording of investments in the accounting records: | Accountant/Finance Manager |
| 5. Accounting records approved by: | City Treasurer |
| 6. Verification on investment with broker's records: | Accountant/Finance Manager |
| 7. Safeguarding of Assets and Records | |
| A) Reconciliation of Treasurer's records to accounting records, bank statements and safekeeping records: | Finance Manager/City Treasurer |
| B) Approved by: | City Treasurer |
| C) Review of financial institution's financial condition, safety, liquidity, and yield potential of investments: | Finance Manager with City Treasurer approval |
| 8. Wire Transfer Control Procedures | |
| A) Written amount, account and authorization agreement: | Requesting Department |
| B) Dual-approval required for all wire transfers: | Finance Manager/City Treasurer |
| 9. Annual review of investment portfolio prepared by Finance Manager/City Treasurer, including investment types, purchase price, market values, maturity dates, yields, and safekeeping reports: | Independent Auditors for Financial Statements |

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GLOSSARY OF INVESTMENT TERMINOLOGY

Bankers' Acceptances: Short-term debt instruments issued by a company and guaranteed by a commercial bank. They are time drafts in which a bank accepts the obligation to pay the principal and interest at maturity even if the issuer does not. Essentially, these are bank obligations collateralized by goods being shipped between an exporter and importer. The date of maturity typically ranges between 30 and 180 days. The City may not invest more than 25% of its surplus money in Bankers' Acceptances with each issuer limited to 10%.

Basis Point: One one-hundredth of one percent, or 0.01%. Basis points are often used to describe changes in yields on bonds and notes.

Bid Price: The price at which a buyer offers to buy a security.

Certificates of Deposit (CD): A deposit of funds at a bank for a specified period of time that earns interest at a specified rate. The City does not purchase Certificates of Deposit that are not FDIC insured. The City may invest up to 25% of its surplus money in insured CD's with maturities of one year or less.

Collateral: Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public funds.

Commercial Paper: Short-term unsecured promissory notes issued by a corporation to raise working capital. These negotiable instruments are typically purchased at a discount to par value or at par value with interest bearing. Local agencies are permitted by State law to invest in Commercial Paper of the highest ranking or of the highest letter and numerical rating as provided by a nationally recognized statistical rating organization (NRSRO). Purchases of eligible Commercial Paper may not exceed 270 days maturity, nor exceed 25% of the City's surplus funds. Furthermore, the City may invest no more than 10% of its total portfolio in the commercial paper and medium-term corporate notes of any single issuer at the time of purchase.

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

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

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Delivery Versus Payment (DVP): A procedure for settling investment transactions in which the delivery of the security by the seller and the payment for the security by the buyer happen simultaneously by a third-party safekeeping agent. This practice ensures no funds are at risk in an investment transaction as funds are not released until securities are delivered.

Discount: The difference between the par value of a bond and the cost of the bond, when cost is below par. Some short-term securities, such as Treasury bills and bankers acceptances, are known as discount securities. They sell at a discount from par and return par value to the investor at maturity, without additional interest. Other securities trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

Duration: A measure of the timing of 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 Funds Rate: Interest rate charged by banks with excess reserves at a Federal Reserve bank to banks needing overnight loans to meet reserve requirements.

Interest: The amount earned while owning a security, generally calculated as a percentage of the principal amount.

Investment Trust of California (CalTRUST): A Joint Powers Agency Authority created by local public agencies to deposit funds for investment. CalTRUST is authorized as an investment under California Government Code Section 53601(p). While there is no maximum balance imposed by CalTRUST, the City has established a \$50 million limit. CalTRUST offers varying degrees of liquidity, with the short-term option providing that deposits can be converted to cash in 24 hours. Interest is distributed to those agencies participating on a per share basis determined by the amounts deposited and the length of time they are deposited. Interest is paid monthly. CalTRUST retains a portion of the earnings for administrative costs, ranging between 12 and 20 basis points.

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GLOSSARY OF INVESTMENT TERMINOLOGY

Local Agency Investment Fund (LAIF): A voluntary investment alternative for local governments and special districts authorized by California Government Code Section 16429.1 et seq. There is no minimum investment period and the minimum transaction is \$5,000. Each LAIF account is limited to 15 transactions per month and subject to a maximum balance, currently set by the State Treasurer at \$75 million, but subject to change. LAIF offers high liquidity because deposits can be converted to cash in 24 hours with no interest lost. Interest is distributed to those agencies participating on a per share basis determined by the amounts deposited and the length of time they are deposited. Interest is paid quarterly. The State retains a portion for administrative costs, not to exceed five percent of the quarterly earnings.

The pooling of the State's surplus cash with the participant's surplus cash creates a multi-billion dollar money pool and allows diversified investments. In a high interest rate market, the City may do better than LAIF however, in times of low interest rates, LAIF's yields tend to be higher. The City invests in the Local Agency Investment Fund, whose Investment Policy allows investments in securities not specifically authorized by the City's Investment Policy. However these investments by LAIF are allowable under the California Government Code.

Market Risk: The possibility of an investor experiencing losses due to factors that affect the overall performance of the financial markets. Market risk is also known as undiversifiable risk because it affects all asset classes and is unpredictable.

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.

Medium Term Corporate Notes: Unsecured promissory notes issued by a corporation organized and operating in the United States. These are negotiable instruments traded in the secondary market. Medium Term Corporate Notes can be defined as extended maturity Commercial Paper. Local agencies are restricted by the Government Code to investments in corporations rated in the top three note categories by an NRSRO, five year maximum maturity and may not exceed 30% of surplus funds. The City's restrictions are a maximum term of five years to maturity and total investments in Medium Term Corporate Notes may not exceed 25% of the City's surplus funds. Furthermore, the City may invest no more than 10% of its total portfolio in the commercial paper and medium-term corporate notes of any single issuer at the time of purchase.

Municipal Bonds: Debt securities issued by a state or local government or governmental entity.

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Nationally Recognized Statistical Rating Organization (NRSRO): A credit rating organization that provides an assessment of the creditworthiness of a firm or financial instrument(s), and is registered with the Securities and Exchange Commission.

Negotiable Certificates of Deposit: Unsecured obligations of the financial institution, bank or savings and loan, bought at par value with the promise to pay face value plus accrued interest at maturity. They are high-grade negotiable instruments, paying a higher interest rate than regular certificates of deposit. The primary market issuance is in multiples of \$1,000,000, the secondary market usually trades in denominations of \$500,000, and smaller lots are occasionally available. As a matter of practice, only the ten largest US banks, where there is a secondary market established for continued liquidity, are considered for investment. Purchases of Negotiable Certificate of Deposit may not exceed 25% of the City's surplus funds and five years to maturity. The City may invest no more than 10% of its total portfolio in the negotiable certificates of deposit of any single issuer.

Offer Price: The price asked by a seller of securities.

Par Value: The face value of a bond.

Premium: The difference between the par value of a bond and the market value of the bond, when the market price is above par. A bond is usually sold at a premium when it offers a coupon rate higher than prevailing interest rates.

Principal: The face value or par value of an investment.

Price Risk: The risk that the price of a bond sold prior to maturity will be less than the price at which the bond was originally purchased.

Reinvestment Risk: The risk that coupon payments (or other payments received) cannot be reinvested at the same rate as the initial investment.

Safekeeping: Storage and protection of a customer's financial assets, provided as a service by an institution serving as Agent or Custodian and, where control is delegated by the customer.

Settlement Date: The date on which an investment trade/purchase is finalized, cash/assets are exchanged and all parties take possession of the securities/assets agreed-upon in the terms of the trade/purchase.

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U.S. Government Agency Securities: Debt securities issued or guaranteed by U.S. federal government agencies, or bonds issued by government-sponsored enterprises (GSEs). GSEs are corporations created by Congress to foster a public purpose. Bonds issues or guaranteed be federal agencies, such as the Government National Mortgage Association, are backed by the full faith and credit of the U. S. government. Bonds issued by GSEs, such as the Federal Nation Mortgage Association, are not backed by the same guarantee as federal government agencies.

U.S. Treasury Bills: Direct obligations of the United States Government issued weekly with maturity dates up to one year. They are issued and traded on a discount basis with interest calculated on a 360-day basis and actual invested days, and paid at maturity. They are a highly liquid security. An unlimited amount of the City's portfolio may be invested in US Treasury Bills.

U.S. Treasury Notes: Direct obligations of the United States Government with original maturities of two to ten years. Notes are actively traded in a large secondary market and are very liquid. Interest is paid every six months until maturity. An unlimited amount of funds may be invested in US Treasury Notes with maximum terms of five years. The term may be extended if authorized by the City Council.

Yield: The rate of annual income return on an investment, expressed as a percentage.