

A RESOLUTION ADOPTING THE SEDGWICK COUNTY INVESTMENT POLICY

170-2018

WHEREAS, the Board of County Commissioners of Sedgwick County, Kansas (hereinafter "County Commission") is authorized by K.S.A. 19-19-101a to transact all county business and perform all powers of local legislation and administration that it deems appropriate; and

WHEREAS, the County Commission has adopted various resolutions since the enabling resolution (Resolution 18-1999 on February 3, 1999), regarding policies and procedures for Investments for Sedgwick County; and

WHEREAS, the attached policy entitled *Investment of Public Funds* and consisting of 15 pages was adopted on December 5, 2018, by the County Commission; and

WHEREAS, the County Commission now desires to adopt the attached policy in its entirety and repeal all previous resolutions relating to an investment policy for Sedgwick County.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF COUNTY COMMISSIONERS OF SEDGWICK COUNTY, KANSAS, that:

The attached policy entitled, *Investment of Public Funds*, is hereby adopted and all previous resolutions relating to the adoption of a Sedgwick County investment policy are hereby repealed.

EFFECTIVE DATE.

This resolution shall take effect upon its adoption.

Commissioners present and voting were:

DAVID M. UNRUH	<u>aye</u>
MICHAEL O'DONNELL, II	<u>aye</u>
DAVID DENNIS	<u>aye</u>
RICHARD RANZAU	<u>aye</u>
JIM HOWELL	<u>aye</u>

Dated this 5th day of December, 2018.


BOARD OF COUNTY COMMISSIONERS
OF SEDGWICK COUNTY, KANSAS

ATTEST:

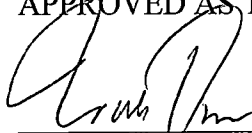

KELLY B. ARNOLD, County Clerk

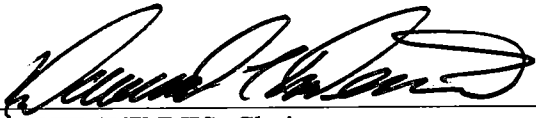




DAVID M. UNRUH, Chair Pro Tem
Commissioner, First District

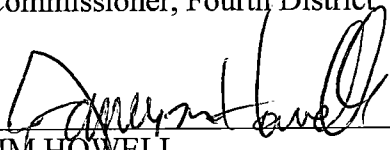

MICHAEL O'DONNELL, II
Commissioner, Second District


APPROVED AS TO FORM:


WILLIAM DEER
Assistant County Counselor


DAVID DENNIS, Chairman
Commissioner, Third District


RICHARD RANZAU
Commissioner, Fourth District


JIM HOWELL
Commissioner, Fifth District

	CHAPTER: Fiscal Management	POLICY: <i>Investments</i>
		PAGES: 15
SUBJECT: <i>Investment of public funds</i>		
RELATED POLICIES:	ENABLING RESOLUTION: 18-1999 RESOLUTION DATE: REVISED RESOLUTION & DATE:	210-2017 December 20, 2017 182-2016 December 14, 2016 214-2015 December 9, 2015 164-2014 December 10, 2014 214-2013 December 11, 2013 153-2012 September 26, 2012 177-2009 October 21, 2009 254-2007 November 14, 2007 144-2000 August 16, 2000 18-1999 February 3, 1999
OFFICE WITH PRIMARY RESPONSIBILITY: Finance		

I. Statement of Purpose

The Board of Sedgwick County Commissioners (“the Board”) has authority to invest all funds held by, or belonging to Sedgwick County (“the County”) pursuant to *Kansas statutes* Annotated 12-1675. The purpose of this *investment* policy is to identify the *investment* objectives of the Board and to establish a set of guidelines to achieve the policy goals through these objectives. The objectives of this *investment* policy are as follows: *safety of principal, maintenance of adequate liquidity and yield of the investment portfolio.*

Throughout this policy italicized words and phrases have the meanings provided for them in the Glossary of Terms.

1. Policy Statement

It is the policy of the Board that, giving due regard to the *safety* and risk of *investment*, all available funds shall be invested in conformance with legal and administrative guidelines at the highest rates obtainable at the time of *investment*.

Effective cash management is recognized as essential to good fiscal management. An aggressive cash management and *investment* policy will be pursued to take advantage of *investment* interest as a viable revenue source for all operating and capital funds; however, the *investment* policy and program is not administered to meet specific budgetary requirements or goals. The County's *portfolio* shall be managed in a manner responsive to the public trust and consistent with state and local law.

2. Application of Investment Policies

The *investment* policies adopted by the Board shall apply uniformly to all employees, officials, departments, agencies, boards, commissions, representatives and authorized agents in the performance of their official duties and to the processing and management of all *investment* transactions on behalf of the Board. These policies shall apply to all funds handled and managed by the County.

II. General Objectives

The primary objectives, in priority order, of *investment* activities shall be *safety*, *liquidity*, and *yield*:

1. Safety

Safety of *principal* is the foremost objective of the *investment* program. *Investments* shall be made to ensure the preservation of capital by reducing *credit risk* and *interest rate risk*.

a. *Credit risk*

The County will minimize *credit risk*, the risk of loss due to the failure of the *security* issuer or backer, by:

- Pre-qualifying the financial institutions, *broker* / dealers, intermediaries, and advisers with which the County will do business
- Diversifying the *investment portfolio* so that potential losses on individual *securities* will be minimized
- Limiting *investments* to the types of *securities* listed in Section VI of this *investment* policy

b. *Interest rate risk*

The County will minimize the risk that the *market value* of *securities* in the *portfolio* will decline due to the changes in general *interest rates* by:

- Structuring the *investment portfolio* so that *securities* mature to meet cash

requirements for ongoing operations, thereby minimizing the need to sell *securities* on the open market prior to *maturity*

- Investing *idle funds* primarily in *securities* with maturities of one year or less or the *Kansas Municipal Investment Pool (MIP)*
- Limiting *investments* to a maximum stated *maturity* of four years

2. *Liquidity and Maximum Maturity and Maturity Distribution*

The *investment portfolio* shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This will be accomplished by structuring the *portfolio* so that *securities* mature concurrently with cash needs to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the *investment portfolio* will contain *securities* with active secondary resale markets. A portion of the *portfolio* may be placed in *investments* which offer one-day *liquidity* for short-term funds, such as *repurchase agreements* or the *Kansas Municipal Investment Pool*.

The County will always maintain adequate funds in the short term portions of the portfolio to cover operations. In general this may mean having approximately up to 20% of the *portfolio* maturing in the less than 1 year range to ensure adequate *liquidity*. While observing the main policy objective of preservation of capital the County will also try to take advantage of the yield curve by spreading *maturities* from funds not required for operations throughout the 1 year to 4 year horizon. The County will purchase 4 year *maturities* when deemed appropriate. The Investment Manager will have the discretion to place *maturities* throughout the 4 year horizon.

3. *Yield*

The *investment portfolio* shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account *investment* risk constraints and *liquidity* needs. Return on *investment* is a lower priority than the *safety* and *liquidity* objectives described above.

III. Standards of Care

1. *Prudence*

The standard of prudence to be used by *investment* officials shall be the “prudent person” *investment* rule and shall be applied to the management of the entire *portfolio*. *Investment* officials 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 expectations are reported 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: “*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.”

2. *Ethics and Conflicts of Interest*

Officers and employees 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 decisions. Employees and *investment* officials shall disclose any material interests in financial institutions with which they conduct business. Employees and officers shall not undertake personal *investment* transactions with the same individual with whom business is conducted on behalf of the County.

3. Delegation of Authority

The Chief Financial Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. No person may engage in an *investment* transaction except as provided under the terms of this policy and the procedures established by the Chief Financial Officer.

Responsibility for the operation of the investment program is delegated to the Investment Manager, who shall establish written procedures consistent with this investment policy. Procedures should include references to: *safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements.*

IV. Qualifications of Investment Officials

A. Chief Financial Officer

The Chief Financial Officer shall have a Master's Degree from an accredited college or university in finance, accounting, public/business administration, economics or a related field and at least five years related experience in a broad range of governmental operations, including experience in a managerial/supervisory capacity, or any equivalent combination of training and experience which provides the required knowledge, skills, abilities and competencies.

B. Director of Accounting

The Director of Accounting shall have at least three years of direct work experience in the areas of finance, accounting, or management of investments or shall have at least a baccalaureate degree from an accredited college or university and at least three years of direct work experience in the areas of finance, accounting, or management of investments.

C. Investment Manager

The Investment Manager shall be appointed by the Director of Accounting and shall be responsible for planning, directing, and managing the County's investment programs under the direction of the Director of Accounting in accordance with applicable statutes, rules and regulations, and policies of the County.

The Investment Manager shall meet qualifications established by the Director of Accounting with respect to the following:

- i. Education and training in a finance-related field;
- ii. Experience as an investment or trust officer for a financial institution, association or corporation, or experience in a finance-related field;
- iii. Experience in money market or fixed-income investments;

V. Authorized Financial Dealers and Institutions

A list will be maintained of financial institutions authorized to provide *investment* services. In addition, a list also will be maintained of approved *security broker / dealers* selected by creditworthiness. Approved *broker / dealers* shall have a minimum capital requirement of \$10,000,000 and at least five years of operation. These may include “*primary*” *dealers* or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1.

Qualifications as a financial institution or *broker / dealers* shall include the following:

- Their most recent audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
- Proof of National Association of Securities Dealer (NASD) certification (not applicable to *certificate of deposit* counterparties)
- Proof of state registration with the Kansas Securities Commission
- Completed *broker / dealer* questionnaire
- Certification of having read, understood, and agreed to comply with this policy

An annual review of the financial condition and registration of qualified financial institutions and *broker / dealers* will be conducted by the *Investment Manager* and reported to the Chief Financial Officer.

V. Safekeeping and Custody

1. *Internal controls*

The Chief Financial Officer is responsible for establishing and maintaining an *internal control* structure designed to ensure that the *investments* of the County are protected from loss, theft or misuse. The *internal control* structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

The *investment* program shall be subject to an annual independent review by an external auditor to assure adequate *internal controls*. The *internal controls* shall address the following points:

- Control of *collusion*
- Separation of transaction authority from accounting and record keeping
- Custodial *safekeeping*
- Avoidance of physical delivery of *securities* other than *certificates of deposit*
- Clear delegation of authority to subordinate staff members

- Written confirmation of transactions for *investments* and wire transfers
 - Development of a wire transfer agreement with the lead bank and third-party custodian.
2. *Delivery vs. payment*
All trades will be executed by *delivery vs. payment (DVP)* to ensure that *securities* are deposited in an eligible financial institution simultaneously with the release of funds.
 3. *Safekeeping of Securities*
Securities will be held by an independent third-party custodian selected by Sedgwick County as evidenced by *safekeeping* receipts in Sedgwick County's name. The *safekeeping* institution shall annually provide a copy of their most recent report on *internal controls*.

VI. Suitable and Authorized *Investments*

1. *Idle funds*
The *investments* authorized for *idle funds* under this policy shall be in conformance with K.S.A. 12-1675, K.S.A. 12-1677b and any other applicable statutes and amendments thereto. The following list represents the range of *investments* which the County will consider and shall be authorized for the *investment* of funds.
 - a. *United States government securities and agency securities*
The County may invest in obligations of the United States Government or any agency thereof insured as to *principal* and interest by the United States or any agency thereof and obligations and *securities* of United States-sponsored enterprises that under federal law may be accepted as *security* for public funds, except that none of the County's funds may be invested in government-agency-issued mortgage-backed *securities*.
 - b. *Repurchase agreements (Repo)*
The County may invest in *repurchase agreements* including tri-party agreements between the County and *commercial banks*, state or federally chartered savings and loan associations or federally chartered savings banks which have offices located in the County or approved government *securities* dealers. The purchaser in a *repurchase agreement* (repo) enters into a contractual agreement to purchase Treasury *securities* while simultaneously agreeing to resell these *securities* at a predetermined price and date.
 - c. *Collateralized public deposits (Certificates of Deposit)*
The County may invest in interest-bearing *time deposit* instruments issued by financial institutions that are authorized by *Kansas statutes*. The certificates of deposit are required to be backed by collateral.
 - d. *Temporary notes*
The County may invest in temporary notes issued by the County.
 - e. *Kansas Municipal Investment Pool*
The County may invest in a pool of funds managed by and under the authority of the Kansas Pooled Money Investment Board, in accordance with *Kansas statutes*.
 - f. *Bank Trust Departments with commercial banks*

The County may invest with *Trust Departments* of *commercial banks* with offices located in the County or with trust companies which have contracted to provide trust services under the provisions of K.S.A. 9-2107 and amendments thereto, which have offices located in Sedgwick County. These accounts will be secured as provided for under K.S.A. 9-1402 and amendments thereto. Authorized *investments* in these pools will be subject to the same terms, conditions and limitations as are applicable to the *Kansas Municipal Investment Pool*

2. Bond Proceeds

The *investments* authorized for the proceeds of bonds (other than *industrial revenue bonds* for which the County is merely a conduit issuer) or temporary notes under this policy shall be in conformance with K.S.A. 10-131 and amendments thereto. The following list represents the range of *investments* which the County will consider and which shall be authorized for the *investment* of bond proceeds.

- a. *Investments* authorized for *idle funds* by K.S.A. 12-1675.
- b. Direct obligations of the United States Government or any agency thereof.
- c. Obligations of *Fannie Mae*, *Federal Home Loan Banks* or the *Federal Home Loan Mortgage Corporation*.
- d. *Repurchase agreements* secured by direct obligations of the United States Government or any agency thereof or obligations of *Fannie Mae*, *Federal Home Loan Banks* or the *Federal Home Loan Mortgage Corporation*.
- e. *Investment Agreements* with or other obligations of a financial institution the obligations of which at the time of *investment* are rated in any of the three highest rating categories by Moody's Investors Service or Standard and Poor's Ratings Group.
- f. *Investment* in shares or units of a *money market fund* or trust, the *portfolio* of which is comprised entirely of *securities* in direct obligations of the U.S. Government or any agency thereof or obligations of *Fannie Mae*, *Federal Home Loan Banks* or *Federal Home Loan Mortgage Corporation*.
- g. Receipts evidencing ownership interests in *securities* or portions thereof in direct obligations of the United States Government or any agency thereof or obligations of *Fannie Mae*, *Federal Home Loan Banks* or *Federal Home Loan Mortgage Corporation*.
- h. *Municipal bonds* or other obligations issued by any municipality of the State of Kansas as defined in K.S.A. 10-1101 and amendments thereto which are general obligations of the municipality issuing the same.
- i. Bonds of any municipality of the State of Kansas as defined in K.S.A. 10-1101 and amendments thereto which have been refunded in advance of their *maturity* and are fully secured as to payment of *principal* and interest thereon by deposit in trust, under escrow agreement with a bank, or *securities* in direct obligations of the United States Government or any agency thereof or obligations of *Fannie Mae*, *Federal Home Loan Banks* or *Federal Home Loan Mortgage Corporation*.

j. Sedgwick County's temporary notes issued pursuant to K.S.A. 10-123 and amendments thereto.

3. Collateral Requirements

To qualify as a *depository* under K.S.A. 9-1401 et seq., a bank, trust company, savings and loan association, or savings bank must *collateralize* County deposits (the amount of money on deposit with an institution at any given time) by either *securities, corporate surety bonds, Federal Home Loan Bank Letter of Credit, or the Certificate of Deposit Account Registry Services (CDARS) network.*

a. *Securities*

The financial institution may pledge or assign for the County's benefit sufficient *securities*, the *market value* of which is at least 102% of the total deposits. Peak period collateral agreements permitted under K.S.A. 9-1403 and mortgages as contemplated by K.S.A. 9-1402 are not to be accepted by the County. Allowable *securities* are limited to:

- Direct obligations of, or obligations insured by, the U.S. Government or any agency thereof.
- Obligations and *securities* of U.S. government-sponsored corporations which, under federal law, may be accepted as *security* for public funds.
- Bonds of any Kansas municipality which have been refunded and are secured by U.S. obligations.
- Bonds of the State of Kansas.
- *General obligation bonds* of any Kansas municipality.
- General obligation temporary notes of Sedgwick County Kansas.

Allowable *securities* are also limited to having maturities of four years or less.

b. *Corporate surety bond*

The financial institution may provide a *corporate surety bond* of a surety corporation authorized to do business in Kansas in an amount equal to the amount on deposit including interest accrued.

c. *Federal Home Loan Bank Letter of Credit*

The financial institution may provide a letter of credit from the *Federal Home Loan Bank*, in an amount equal to the funds on deposit including interest accrued.

d. *Certificate of Deposit Account Registry Services (CDARS)*

The financial institution may place the deposit into the *CDARS* network. Funds cannot be placed with another *depository* within the County. Also, funds can only be placed in a reciprocal transaction.

VII. *Investment Parameters*

1. *Diversification*

The *investments* shall be diversified by:

- Limiting *investments* to avoid over-concentration in *securities* from a specific issuer or business sector (excluding U.S. Treasury *securities*)
 - Limiting *investment* in *securities* that have higher *credit risks*
 - Investing in *securities* with varying maturities
 - Continuously investing a portion of the *portfolio* in readily available funds such as the *Kansas Municipal Investment Pool*, *money market funds* or overnight *repurchase agreements* to ensure that appropriate *liquidity* is maintained in order to meet ongoing obligations.
- a. The following maximum limits, by instrument, are established for the County's total *investment portfolio*:

<i>Investment Type</i>	Maximum Percentage of Portfolio
<i>Repurchase agreements*</i>	15%
<i>Certificates of Deposit</i> -No more than 15% of the total <i>portfolio</i> can be with any one institution	100%
<i>United States government securities</i>	80%
<i>Agency securities</i> -Callable obligations are limited to 60% of the total U.S. Government Agency obligations -No more than 60% of the <i>portfolio</i> can be invested in the <i>securities</i> of a single issuer.	80%
<i>Kansas Municipal Investment Pool Fund (MIP)*</i>	25%
Bank Trust Department Municipal Pools	15%
Temporary Notes	10%

*The limit on *repurchase agreements* and Kansas MIP deposits may not exceed 75% of the *portfolio* for a maximum of forty-five (45) days during each of the May and December tax seasons

- b. Additional *investments* established for bond proceeds are as follows: Maximum limits are listed by instrument as a percentage of the County's *portfolio* value. Invested amounts are not to exceed: 20% for *money market funds*; 10% for *G.O. bonds* of Kansas municipalities.
2. *Maturities*
The County shall attempt to match its *investments* with anticipated *cash flow* requirements. The County will not directly invest in *securities* maturing more than four years from the date of purchase, in accordance with *Kansas statutes*.

The sale of *securities* before *maturity* shall require the prior approval of the Director of Accounting, Chief Financial Officer, or County Manager, any of whom may approve the sale based on the following reasons:

- a. A *security* with declining credit may be sold early to minimize loss of *principal*.
- b. A *security* swap would improve the quality, *yield*, or target *maturity* of the *portfolio*.
- c. *Liquidity* needs require that the *security* be sold.

In the matter of one of the three events listed above where the County requires the immediate selling of *investments*, the Investment Manager shall consult with the Director of Accounting on the course of action. The Investment Manager and Director shall determine the *securities* to sell. Market conditions will be the most important factor affecting this decision. The selected *securities* will be those that present a positive capital gain, meaning they were purchased with a higher *yield* than what the current market offers. The Investment Manager and the Director will notify the Chief Financial Officer of this course of action.

3. Competitive Placement of Funds

In compliance with *Kansas statute* K.S.A 12-1675, funds will first be offered to banks and other eligible financial institutions located within the County. Annually, the County will send letters to banks and other eligible financial institutions located within the County to determine if any of those entities wish to bid on the County's *investments* during the upcoming 12 months. Those institutions which respond as willing to bid on the County's *investments* will be added to the County's authorized list of financial institutions. For *certificate of deposit* transactions, the County will solicit bids from at least three (3) authorized financial institutions. For other competitive *investment* transactions, the County will solicit bids from the approved list of financial institutions and/or *broker/dealers*.

In addition, *investments* with the *Kansas Municipal Investment Pool*, *money market funds* and daily *investment repurchase agreements* with the main operating bank are not considered biddable *securities*.

VIII. Reporting

1. Methods

The Investment Manager shall prepare a weekly report summarizing the week's *investment* activities. This report shall be provided to key County financial officers.

The Investment Manager shall prepare a detailed quarterly report, including a management summary and analysis of the status of the current *investment portfolio* and transactions made over the last quarter. This management summary will be prepared in a manner which will allow the County to ascertain whether *investment* activities during the reporting period conformed to the *investment* policy. The report will be provided to the Board of County Commissioners, County Manager, and key County financial officers. The report will include the following:

- a. Listing of individual *securities* held at the end of the reporting period.
 - b. *Realized gains or losses* or unrealized gains or losses resulting from *appreciation* or depreciation by listing the cost and *market value* of *securities*.
 - c. Weighted average *yield to maturity* of the *portfolio* of *investments* as compared to the applicable benchmark.
 - d. Listing of *investments* by *maturity date*.
 - e. Percentage of the total *portfolio* which each type of *investment* represents.
 - f. Percentage of the total *portfolio* which each institution holds.
2. Performance Standards
 The *investment portfolio* will be managed with the objective of regularly meeting or exceeding selected performance benchmarks in accordance with the parameters specified within this policy.
- The performance benchmark is the one year U.S. Treasury Bill.
3. Marking to market
 The *market value* of the *portfolio* shall be calculated at least monthly and a statement of the *market value* of the *portfolio* shall be issued at least monthly. The *market values* of all *securities* in the *portfolio* will be obtained from a reputable and independent source. The report will include the *market value*, book value and unrealized gains or losses of *securities* in the *portfolio*.
4. Safekeeping / Custodian Reports
 The *safekeeping* agent shall prepare a holdings report and a transaction summary report monthly. In addition, the *safekeeping* agent shall value collateral *securities* on a weekly basis and report values for each bank sub-custodial account.
5. Rate Shock Analysis
 Quarterly, a rate shock analysis will be performed on the *investment portfolio*. The Investment Manager will review the results of the analysis with the Accounting Director.

IX. Policy Considerations

1. Exemption
 Any *investment* held on the date of adoption of this policy that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At *maturity* or liquidation, such monies shall be reinvested only as provided by this policy.
2. Amendments
 This policy shall be reviewed and approved by the Board on an annual basis prior to submitting annual review materials to MIPS.

Appendix: Glossary of Terms

The following is a glossary of key terms which appear in Sedgwick County's *Investment Policy*.

Agency securities - A debt *security* issued by a federal agency. Federal agencies are backed by the full faith and credit of the U.S. Government.

Appreciation - The increase in value of an asset.

Broker - A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides. In the money market, brokers are active in markets in which banks buy and sell money.

Cash flow - Cash receipts minus disbursements from a given asset, or group of assets, for a given period. An analysis of the movement of cash through a venture as contrasted with the earnings of the venture.

Certificate of Deposit - A *time deposit* with a specific *maturity* evidenced by a certificate.

Certificate of Deposit Account Registry Services (CDARS) - A deposit placement service offered by Promontory Interfinancial Network in which a group of FDIC insured financial institutions reciprocate deposits with one another to provide large deposits FDIC insurance on the entire deposit.

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

Collusion - A secret agreement between two or more persons for a fraudulent purpose.

Commercial bank - A bank, the *principal* functions of which are to receive demand deposits and to make short-term loans.

Corporate surety bond - A contractual arrangement between the surety, the *principal* and obligee whereby the surety agrees to protect the obligee if the *principal* defaults in performing the *principal's* contractual obligations. The bond is the instrument which binds the surety.

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

Depository - A financial institution authorized to hold deposits of County funds.

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

Delivery vs. 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.

Fannie Mae - *Fannie Mae* (formerly the Federal National Mortgage Association) is a private stockholder-owned 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. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to

fixed-rate mortgages. *Fannie Mae's securities* are also highly liquid and are widely accepted. *Fannie Mae* assumes and guarantees that all *security* holders will receive timely payment of *principal* and interest.

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

Federal Home Loan Mortgage Corporation (FHLMC) - A federal agency which purchases first mortgages from members of the Federal Reserve System and the *Federal Home Loan Bank* System. Commonly called "Freddie Mac."

General Obligation Bonds (G.O. Bonds) or Notes - Bonds or notes secured by the "full faith and credit" of the issuing government and backed by revenues from its taxing power.

Idle funds - Money which is not immediately required for the purposes for which it was collected or received.

Industrial revenue bonds - A specific type of revenue bond whose proceeds are used to finance the purchase or construction of facilities or equipment to be leased to a private corporation. The bonds are backed by the credit of the corporation.

Interest rate - The annual rate of interest received by an investor from the issuer of fixed-income *securities*. The percentage of an amount of money which is paid for its use for a specified time.

Interest rate risk - The risk associated with declines or rises in *interest rates* which cause an *investment* in a fixed-income *security* to increase or decrease in value.

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

Investment - Commitment of money to gain profit or interest as by purchasing *securities*.

Investment Agreements - An agreement with a financial institution to borrow public funds subject to certain terms and conditions regarding *collateralization*, *liquidity* and *interest rates*.

Kansas Municipal Investment Pool (MIP) - The State of Kansas offers a Local Government Investment Pool (LGIP) entitled "State of Kansas Municipal Investment Pool", which is governed by the State of Kansas Pooled Money Investment Board.

Kansas statutes - A written law enacted by the Kansas State Legislature.

Liquidity - Refers to the ability of an instrument to be converted into cash rapidly without substantial loss of value.

Market value - The price at which a *security* is trading and could be purchased or sold on a given day.

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

Maturity - The length of time an *investment* is held.

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

Money market 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.)

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

Principal - (1) The face amount or par value of a debt *security*. (2) One who acts as a dealer buying and selling for his own account.

"Primary" dealer - Government *securities* dealers included in the "List of Government *Securities* Dealers Reporting to the Market Reports Division of the Federal Reserve Bank of New York (NY Fed)" that submit daily reports of market activity and positions and monthly financial statements to the NY Fed and are subject to its informal oversight. Primary dealers include SEC-registered *securities broker* - dealers, banks and a few unregulated firms.

Realized gain or loss - The amount of realized gain from the sale or other disposition of property is the excess of the amount realized over the adjusted basis of the property; the amount of realized loss is the excess of the property's adjusted basis over the amount realized.

Repurchase agreement (Repo) - 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 at a specified later date.

Safekeeping - The holding of *securities* by a financial institution on behalf of the owner.

Safety - Freedom from risk.

Securities - Documents that can be traded for value; an instrument of ownership or debt used to finance government and corporate entities.

Time deposits - A savings account or *Certificate of Deposit* in a *commercial bank*.

Trust Department - A department of a bank which is authorized to serve in a fiduciary capacity.

United States government securities (Treasuries) - Bonds, notes, treasury bills or other *securities* constituting direct obligations of, or obligations the *principal* of and interest on which are fully and unconditionally guaranteed as to the full and timely payment by the United States of America.

Unrealized gain or loss - A profit or loss that has not yet materialized. An example of an unrealized profit would be an appreciated stock in which the price has increased but, if the stock is not sold, the profit is considered an unrealized gain.

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