



City of Santa Maria

2025 Investment Policy

I. INTRODUCTION

It is the goal of the City of Santa Maria (City) to invest public funds in a manner that will provide maximum security, adequate liquidity, and sufficient yield, while meeting the daily cash flow demand of the City and conforming to all statutes and regulations governing the investment of public funds. The 2024 Investment Policy (Policy) identifies the formal policies and procedures that comprise good cash management and a secure short-term investment program.

II. SCOPE

This investment policy applies to all the financial assets of the City. These funds are accounted for in the City's audited Annual Comprehensive Financial Report. If the City should invest funds on behalf of another agency and, if that agency does not have an investment policy, the City's Policy shall govern the agency's investments.

A. Pooling of Funds – Except for cash that may be restricted, the City shall consolidate cash balances from all funds to maximize investment earnings. Investment income shall be allocated to various funds in accordance with generally accepted accounting principles.

B. Funds Included by the Policy –

- General Fund
- Special Revenue Funds
- Capital Project Funds
- Enterprise Funds
- Internal Service Funds
- Trust and Agency Funds
- Any new fund created by City Council unless specifically exempted

C. Funds Excluded from the Policy – The investment of bond proceeds, which are administered by a third-party fiscal agent, will be subject to the conditions and restriction of bond documents and are not governed by this Policy.

III. GENERAL OBJECTIVES

The primary objectives, in priority order, of the City's investment activities are safety, liquidity, and yield.

A. Safety: Preservation of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective shall be to mitigate credit risk and interest rate risk. To attain this objective, the City shall diversify its investments by investing funds among several financial institutions and a variety of securities offering independent returns.

- B. Liquidity:** The City's investment portfolio shall remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated without requiring a sale of securities. Since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets. Emphasis shall be on marketable securities with low sensitivity to market risk. A portion of the portfolio may be placed in money market mutual funds or LAIF which offer same-day liquidity for short-term funds.
- C. Yield (Return on Investment):** The investment portfolio shall be designed with the objective of attaining a market-average rate of return throughout budgetary and economic cycles, commensurate with the City's risk constraints, the liquidity characteristics of the portfolio, State and local laws, and ordinances or resolutions that restrict investments. Return on investment is of secondary 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. STANDARDS OF CARE

- A. Prudence:** The standard of prudence to be used by City investment officials shall be the "Prudent Investor Standard" in that 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 City, 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.

This "Prudent Investor Standard" shall be applied in the context of managing an overall portfolio. City investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectation are reported in a timely fashion, and appropriate action is taken to control adverse developments. It is the City's full intent, at the time of purchase, to hold all investments until maturity to ensure the return of all invested principal dollars.

- B. Public Trust, Ethics, and Conflict of Interest:** All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of public trust.

Officers and employees involved in the City investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or that could impair their ability to make impartial investment decisions. City employees and investment officials shall disclose any material financial interest in financial institutions that conduct business within the jurisdiction and shall further disclose any personal financial/investment positions that could be

related to the performance of the City immediately to the City Manager of Santa Maria and annually to the Fair Political Practices Commission. City employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

V. DELEGATION OF AUTHORITY (GOVERNMENT CODE #53607)

A. Investment Officer: Authority to manage the City's investment program is delegated to the Director of Finance, as the Investment Officer. Management responsibility for the investment program, which includes the investment, reinvestment, sale, or exchange of securities, is entrusted to the Investment Officer who shall establish and adhere to written procedures, which will comply with all sections of the Government Code of the State of California. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Investment Officer. The Treasury Manager is authorized to conduct investment-related activities, under the supervision of the Investment Officer, on behalf of the City. The Investment Officer may also delegate the day-to-day placement of investments to an SEC-registered investment advisor. The investment advisor shall make all investment decisions and transactions in strict accordance with the Government Code of the State of California and this Policy.

B. Investment Oversight Committee: The City has an Investment Oversight Committee, consisting of the City Manager, the Investment Officer, the City Attorney, and a City Councilmember, or their designee. The purpose of the Investment Oversight Committee is to:

- 1) Review the investment practices used by the Investment Officer for compliance with the Policy and written procedures; and
- 2) Analyze the quarterly Treasurer's Report for adherence to established guidelines; and
- 3) Advise the City Council of any deviations from guidelines or any practices deemed to be imprudent for a public agency.

VI. INTERNAL CONTROLS

The Investment Officer is responsible for establishing and maintaining a system of written internal controls. These controls may be annually reviewed with an independent external auditor who will notify the City Council if there is a material non-compliance with the policies and procedures.

The internal controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent action by employees and officers of the City. The internal structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognized 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. Controls deemed most important include control of collusion; separation of duties; separating transaction authority from accounting and recordkeeping; custodial safekeeping; clear delegation of authority; written confirmation of telephone transactions; minimizing the number of authorized investment officials; documentation of transactions; and code of ethics standards.

Timely bank reconciliations will be completed to ensure proper handling of all transactions. On a monthly basis, the City's investment portfolio and all related transactions will be reviewed and balanced to appropriate general ledger accounts by the Department of Finance.

VII. REPORTING

The Investment Officer shall submit investment reports to the City Council that provide a clear picture of the status of the current investment portfolio and shall contain sufficient information to permit an independent organization to evaluate the performance of the investment program. Based on the discretion of the Investment Officer, the City's SEC-registered investment advisor may from time to time perform one or more of the following functions: confirm that the portfolio is in compliance with the Government Code of the State of California; present an evaluation of the portfolio and investment strategy recommendations; and provide any other information that may be helpful in the review of the portfolio.

Required elements of the monthly report:

A. Quarterly Reporting to City Council:

The Investment Officer shall submit quarterly reports to the City Council summarizing the status of the current investment portfolio and the individual transactions executed over the last quarter. The report shall be prepared by the Treasury Manager or the Investment Officer's designee in a manner which shall allow the Investment Oversight Committee and the City Council to ascertain whether investment activities during the reporting period have conformed to the Policy. The report shall include:

- 1) Type of investment/issuer.
- 2) Date of maturity.
- 3) Cost of the security.
- 4) Current market value of securities with maturity in excess of 12 months.
- 5) Rate of interest of securities.
- 6) List of monthly portfolio transactions.
- 7) A statement that the portfolio is in compliance with the Policy or a discussion of any non-compliant investments.
- 8) A statement that sufficient monies are available to meet the City's expenditure requirements for the next six months or an explanation of any cash shortfall.

B. Statement of Investment Policy

The Statement of Investment Policy shall be reviewed when there are any changes made to the policy and submitted to the City Council for adoption by resolution. This is to ensure the Policy's consistency with the overall objectives of preservation of principal, liquidity of yield, and its relevance to current law and financial and economic trends. Any amendments to this Policy shall be forwarded to the City Council for approval.

VIII. AUTHORIZED INVESTMENT INSTRUMENTS FOR THE CITY

The City shall be governed by the California Government Code, Sections 53600 et seq (Code). If the Code is amended to allow additional investments or is changed regarding the limits on certain categories of investments, the City is authorized to conform to the changes in the revised Code, provided that the changes are not specifically prohibited by the City's Policy. The City shall be required to present those changes in the annual review of the Policy and to incorporate the new legislation within the Policy.

No more than five percent of the City's funds may be deposited with or invested in securities issued by any one corporate, financial, or municipal issuer with the exception of the U.S. Treasury, federal agency institutions, government-sponsored enterprises, supranationals, and investment pools such as Local Agency Investment Fund ("LAIF") and money market mutual funds.

For purposes of compliance with this Policy, an investment's term or remaining maturity shall be measured from the settlement date to final maturity. A security purchased in accordance with this Policy shall not have a forward settlement date exceeding 45 days from the time of investment.

Rating requirements and percentage limitations, where indicated, apply at the time of purchase. In the event a security held by the City is subject to a rating change that brings it below the minimum specified rating requirement, the Investment Officer shall notify the Investment Oversight Committee of the change. The course of action to be followed will then be decided on a case-by-case basis, considering such factors as the reason for the ratings change, prognosis for recovery or further ratings changes, and the market price of the security.

The following investment instruments are authorized for purchase in accordance with the provisions of Section 53601 et seq of the California Government Code:

U.S. Treasury Instruments

As authorized in Government Code 53601(b), the City may invest in United States treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest. There are no portfolio limitations on this type of investment.

Government Agency Issues

As authorized in Government Code Section 53601(f), the City may invest in Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises, such as Federal Home Loan Bank (FHLB), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), and Federal Farm Credit Bank (FFCB). There are no portfolio limitations on this type of investment.

California and California Local Agency Municipal Obligations

Obligations of the State of California or any local agency within the state as authorized in Government Code Section 53601(c) and 53601(e), including bonds payable solely out of revenues from a revenue-producing property owned,

controlled, or operated by the state or any local agency or by a department, board, agency, or authority of the state or any local agency. In addition, these securities shall be rated in a rating category of "A" or its equivalent or higher by a nationally recognized statistical rating organization (NRSRO). Purchase of California and California local agency municipal obligations, together with other state municipal obligations, may not exceed 30 percent of the City's investment portfolio.

Other State Municipal Obligations

Registered treasury notes or bonds of any of the other 49 United States in addition to California, as authorized in Government Code Section 53601(d), including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 United States, in addition to California (Government Code section 53601[d]). In addition, these securities shall be rated in a rating category of "A" or its equivalent or higher by a NRSRO. Purchase of other state municipal obligations, together with California and California local agency municipal obligations, may not exceed 30 percent of the City's investment portfolio.

Bankers' Acceptances

As authorized in Government Code Section 53601(g), the City may invest in bankers' acceptances, otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank the short-term paper of which is rated in a rating category of "A-1" or its equivalent or higher by a NRSRO.

Purchases of Bankers' Acceptances may not exceed 180 days maturity or 40 percent of the portfolio. Additionally, no more than 5 percent of the portfolio may be invested in Bankers' Acceptances with any one commercial bank.

Commercial Paper

As authorized in Government Code Section 53601(h), the City may invest in commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a NRSRO.

The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or paragraph (2):

(1) The entity meets the following criteria: (A) is organized and operating in the United States as a general corporation, (B) has total assets in excess of five hundred million dollars (\$500,000,000), and (C) has debt other than commercial paper, if any, that is rated "A" or its equivalent or higher by a NRSRO.

(2) The entity meets the following criteria: (A) is organized within the United States as a special purpose corporation, trust, or limited liability company, (b) has program wide credit enhancements, including, but not limited to, over collateralization, letters of credit or surety bond, and (C) has commercial paper that is rated "A-1" or higher, or the equivalent, by a NRSRO.

Purchases of commercial paper may not exceed 270 days maturity. Effective until January 1, 2026, investment in commercial paper shall not exceed 40 percent of

the City's portfolio. After January 1, 2026, investment in commercial paper shall not exceed 25 percent of the City's portfolio. Additionally, no more than 5 percent of the portfolio may be invested in any one issuer's commercial paper.

Negotiable Certificates of Deposit (NCD)

As authorized in Government Code Section 53601(i), the City may invest in negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a Federal association (as defined by Section 5102 of the Financial Code), a state or Federal credit union, or by a state or Federally licensed branch of a foreign bank; provided that the senior debt obligations of the issuing institution are rated in a rating category of "A" or its equivalent or higher by a NRSRO.

Purchases of negotiable certificates of deposit may not exceed 30 percent of the City's portfolio. Additionally, no more than 5 percent of the portfolio may be invested in any one issuer's negotiable certificates of deposit.

Deposit Placement Services

Deposits placed through a deposit placement service that meets the requirements of Government Code Section 53601.8. The full amount of the principal and the interest that may be accrued during the maximum term of each deposit shall at all times be insured by federal deposit insurance. The maximum term for deposits made through placement services shall be five years. Deposit placement services may not exceed 50 percent of the City's portfolio.

Medium-Term Corporate Notes

As authorized in Government Code Section 53601(k), the City may invest in medium-term notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States provided such notes are rated in a rating category of "A" or its equivalent or higher by a NRSRO.

Purchases of medium-term corporate notes may not exceed 30 percent of the City's portfolio. Additionally, no more than 5 percent of the portfolio may be invested in the notes of any one issuer.

Asset-backed Securities

As authorized in Government Code Section 53601(o), the City may invest in any mortgage pass-through securities, collateralized mortgage obligations, mortgage-backed or other pay-through bonds, equipment lease-backed certificates, consumer receivable pass-through certificates, and consumer receivable-backed bonds and for securities eligible for investment not issued or guaranteed by federal agencies and GSEs, the following limitations apply:

- A maximum remaining settle of five years or less with no more than 5 percent of the portfolio may be invested in the notes of any one issuer
- Securities shall be rated in a rating category of "AA" or its equivalent or higher by a NRSRO

Asset-backed securities may not exceed 20 percent of the City's portfolio.

Local Agency Investment Fund (LAIF)

As authorized in Government Code Section 16429.1, the City may invest in the LAIF. The City may invest up to the maximum as permitted by the LAIF Investment Advisory Board.

Mutual Funds and Money Market Funds

As authorized in Government Code Section 53601(l), the City may invest in shares of beneficial interest issued by diversified management companies. There are a number of other qualifications and restrictions regarding these allowable investments which are outlined in section 53601(l) of the Government Code.

Purchase of mutual funds or money market mutual funds may not exceed 20 percent of the City's portfolio. No more than 10 percent of the City's portfolio may be invested in any one mutual fund. A thorough investigation of mutual funds and money market funds is required prior to investing, and on a continual basis.

Supranationals

As authorized in Government Code Section 53601(q), the City may invest in United States dollar-denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Securities shall be rated in a rating category of "AA" or its equivalent or higher by a NRSRO.

Purchases of supranational securities may not exceed 30 percent of the City's portfolio.

Any State of California legislative action that further restricts allowable maturities, investment types, or percentage allocations will be incorporated into the City's Policy and supersede any and all previous applicable language.

Joint Powers Authority (Local Government Investment Pools)

Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (q), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:

- (1) The adviser is registered or exempt from registration with the Securities and Exchange Commission.
- (2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive.
- (3) The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

Prohibited Investments

As per Government Code Section 53601.6, the City shall not invest in inverse floaters, range notes, or mortgage-derived, interest-only strips, or in any security that could result in zero-interest accrual if held to maturity, except as provided in the subsequent paragraph.

Notwithstanding the prohibitions stated in the above paragraph, the City may invest in securities issued by, or backed by, the United States government that could result in zero- or negative-interest accrual if held to maturity, in the event of, and for the duration of, a period of negative market interest rates. The City may hold these instruments until their maturity dates. Securities described in this paragraph shall remain in effect only until January 1, 2026, and as of that date is repealed.

IX. MATURITIES

To the extent possible, the City will attempt to match the investments with anticipated cash flow requirements. Where there is no specified maturity limitation on an investment, no investment shall be made in any security, which at the time of the investment, has a term remaining to maturity in excess of five years, unless the City Council has granted express authority to make that investment no less than three months prior to the investment.

Investment Limitations: Security purchases and holdings should be maintained within statutory limits imposed by the Government Code. The City's Policy may be more restrictive than Government Code. Current City limits are shown below:

Sector	Sector Limit	Issuer Limit	Maturity Limit
U.S. Treasuries	100%	N/A	5 years*
Federal Agencies	100%	N/A	5 years*
Municipal Obligations	30%	5%	5 years*
Bankers' Acceptances	40%	5%	180 days
Commercial Paper	40%	5%	270 days
Negotiable Certificates of Deposit	30%	5%	5 years*
Deposit Placement Service	50%	\$250,000**	5 years
Medium-Term Notes	30%	5%	5 years*
Asset-backed Securities	20%	5%	5 years*
LAIF	N/A***		N/A
Mutual Funds/Money Market Funds	20%	10% per fund for mutual funds only	N/A
Supranationals	30%	N/A	5 years*
Joint Powers Authority/LGIP	100%	N/A	N/A

*Maximum term unless expressly authorized by City Council.

**Principal and accrued interest limit per each certificate of deposit.

***Limit set by LAIF Governing Board, not Government Code.

X. BANKS AND QUALIFIED SECURITIES DEALERS

If a third-party investment advisor is authorized to conduct investment transactions on the City's behalf, the investment advisor may use its own list of approved brokers/dealers and financial institutions for investment purposes. The investment advisor's approved list must be made available to the City upon request.

For any investment transactions conducted by the Investment Officer or the Treasury Manager on behalf of the City, the Investment Officer and Treasury Manager shall comply with the following requirements:

In selecting financial institutions for the deposit or investment of City's funds, the Investment Officer shall consider the creditworthiness of institutions. The Investment Officer shall continue to monitor financial institutions' credit characteristics and financial history throughout the period in which the City's funds are deposited or invested.

The City shall transact business only with banks, savings and loans, and broker/dealers. The broker/dealers should be primary dealers regularly reporting to the New York Federal Reserve Bank or regional brokers, who have complied with the City's broker/dealer certification process. The Investment Officer will be limited to actively conducting business with no more than three brokers/dealers.

On an annual basis, the Investment Officer shall send a copy of the current Policy to all brokers/dealers approved to do business with the City. Confirmation of receipt of this Policy shall be considered evidence that the dealer understands the City's investment policies and intends to sell the City only appropriate investments authorized by this Policy.

XI. PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs. The City will measure the portfolio's performance against a market benchmark that is commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio.

XII. RISK TOLERANCE

The City recognizes that investment risks can result from issuer defaults, market price changes, or various technical complications leading to temporary illiquidity. Portfolio diversification is employed as a way to control risk. Investment managers are expected to display prudence in the selection of securities as a way to minimize default risk. No individual investment transaction shall be undertaken, which jeopardizes the total capital position of the overall portfolio. The Investment Officer shall periodically establish guidelines and strategies to control risks of default, market price changes, and illiquidity. In addition to these general policy considerations, the following specific policies will be strictly observed:

- 1) All transactions will be executed on a delivery versus payment basis.
- 2) A competitive bid process, when practical, will be used to place all investment purchases, other than those that are classified as "new issue" securities.
- 3) Any State of California legislative action that further restricts allowable maturities, investment types, or percentage allocations will be incorporated into the City's Policy and supersede any and all previous applicable language. If the City is holding an investment that is subsequently prohibited by a legislative change, the City may hold that investment, if it is deemed prudent by the Investment Officer, until the maturity date to avoid an unnecessary loss.

XIII. SAFEKEEPING AND CUSTODY

Securities purchased from brokers/dealers shall be held in a third-party custodian/safekeeping account. Said securities shall be held in a manner that establishes the governmental entity's right of ownership.

All securities owned by the governmental entity shall be held by a third party except the collateral for time deposits in banks and savings and loans. Collateral for time deposits in savings and loans is held by the Federal Home Loan Bank or an approved Agent of Depository. The collateral for time deposits in banks should be held in the entity's name in the bank's Trust Department, or alternately, in the Federal Reserve Bank.

XIV. INVESTMENT POOLS

A thorough investigation of the pool/fund is required prior to investing, and on a continual basis.

GLOSSARY OF INVESTMENT TERMS

Annual Comprehensive Financial Report (ACFR): The official financial annual report for the City. The ACFR includes government wide financial statements, governmental fund financial statements, proprietary fund financial statements, and custodial fund financial statements prepared in conformity with government accepted accounting principles. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed statistical section.

Asset-Backed Securities: Bonds created from various types of consumer debt. Returns on these securities come from customer payments on their outstanding loans. The primary types of asset-backed securities are mortgages, home equity loans, auto loans, leases, credit card receivables, and student loans.

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

Broker: Someone who brings buyers and sellers together and is compensated for the service.

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

Commercial Paper: Short-term unsecured promissory note with a fixed maturity issued by companies to raise short-term cash.

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

Custodian: A bank or other financial institution that keeps custody of stock certificates and other assets.

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

Delivery Versus Payment: There are two methods of delivery of securities: 1) delivery versus payment; and 2) delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

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

Federal Home Loan Banks (FHLB): Government-sponsored wholesale banks (currently 12 regional banks) that lend funds and provide correspondent banks services to member commercial banks, thrift institutions, credit unions, and insurance companies.

Federal National Mortgage Association (FNMA): FNMA is a Federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages.

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 assurances that these objectives are met. The concept of reasonable assurance recognized that 1) the cost of a control should not exceed the benefits likely to be derived, and 2) the valuation of costs and benefits require estimates and judgments by management. Internal controls should address the following points:

- **Control of collusion** – Collusion is a situation where two or more employees are working in conjunction to defraud the employer.
- **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.
- **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.
- **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.

Liquidity: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and if a reasonable size can be done at those quotes.

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

The California Government Code states that monies placed for deposit in LAIF are in trust in the custody of the State Treasurer and cannot be borrowed or be withheld from the City. Further, the right of the City to withdraw its deposited money from the LAIF upon demand may not be altered, impaired, or denied in any way by any State official or agency based upon the State's failure to adopt a budget by July 1 of each new fiscal year.

Local Government Investment Pool (LGIP): An investment by local governments in which their money is pooled as a method for managing local funds.

Market Risk: This is the risk that the value of a security will rise or decline as a result of changes in market conditions.

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

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

Medium-Term Corporate Notes: All corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States, or by depository institutions licensed by the United States or any state and operating within the United States.

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, and Federal funds).

Mutual Fund: An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by Securities and Exchange Commission (SEC) disclosure guidelines.

Nationally Recognized Statistical Ratings Organization: (*source: SEC*) Credit rating agencies registered with the SEC are known as nationally recognized statistical rating organizations. As of April 13, 2012, there were ten firms registered as nationally recognized statistical rating organizations:

- A.M. Best Company, Inc.
- DBRS Ltd.
- Egan-Jones Rating Company
- Fitch, Inc.
- Japan Credit Rating Agency, Ltd.
- Kroll Bond Rating Agency, Inc. (f/k/a LACE Financial Corp.)
- Moody's Investors Service, Inc.
- Rating and Investment Information, Inc.
- Realpoint LLC
- Standard & Poor's Ratings Services

Negotiable Certificates of Deposit: Fixed deposit certificate that may be negotiated (traded) to a third party. The institution issuing the certificate promises to pay face value plus accrued interest at maturity or semi-annually if maturity is over one year.

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

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

Principal: (1) The value or par value of a debt instrument; (2) one who acts as a dealer buying and selling for his own account.

Rate of Return: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

Safekeeping Service: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vault for protection and security.

Supranationals: International financial institutions that are generally established by agreements among nations, with member nations contributing capital and participating in management. Supranational bonds finance economic and infrastructure development and support environmental protection, poverty reduction, and renewable energy around the globe.

Treasury Bills: Short-term U.S. government non-interest bearing discounted debt securities with maturities of no longer than one year and issued in minimum denominations of \$10,000. Auctions of three-month 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.

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