City of Gladstone Missouri

Gladstone All-America City 2008

All-America City

MEMO TO FILE

August 12, 2014

Resolution R-14-54, Granting a Permanent Easement to Kansas City Power and Light to construct, operate, and maintain electrical improvements to serve The Heights at Linden Square was approved by the City Council at their regularly scheduled meeting held July 28, 2014.

Resolution R-14-54 was added to the agenda on July 28, 2014. The agenda was amended as required and presented to the City Council. Mayor J. Brian Hill noted the amended agenda including the addition of Resolution R-14-54.

A clerical error was made in that preparing Resolution R-14-54 for the July 28 agenda, the Resolution was not added to the Resolution Log file. (A file kept by the City Clerk to track detail information regarding Resolutions and Ordinances). Consequently, on the August 11 City Council Agenda, Resolution R-14-54 (the number) was erroneously duplicated to approve the City of Gladstone Investment Policy, approved by the City Council August 11, 2014.

The Resolution Log has been amended to reflect the true Resolution 14-54 as Granting a Permanent Easement to Kansas City Power and Light to construct, operate, and maintain electrical improvements to serve The Heights at Linden Square. Therefore, Resolution R-14-54, City of Gladstone Investment Policy, has now been amended to read Resolution R-14-58, the next available sequential resolution number in the log.

A copy of this memo will be included with both Resolutions, the original Agenda Packet, and minutes of the August 11, 2014, City Council meeting for future clarification.

RESOLUTION NO. R-14-58

A RESOLUTION ADOPTING A REVISED "INVESTMENT POLICY" ESTABLISHING PROCEDURES FOR INVESTING THE FINANCIAL ASSETS OF ALL FUNDS OF THE CITY OF GLADSTONE.

WHEREAS, an Investment Policy dated April 12, 2004, was adopted as the Official Investment Policy for the City of Gladstone; and

WHEREAS, certain changes in the City Investment Policy are necessary to promote safety of principal, maintenance of adequate liquidity, and maximization of earnings and the City of Gladstone, Missouri desires to amend the existing investment policy.

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF GLADSTONE, MISSOURI, AS FOLLOWS:

THAT, a revised "**City of Gladstone, Missouri Investment Policy**", attached hereto as Exhibit "A" is hereby adopted.

INTRODUCED, READ, PASSED AND ADOPTED BY THE COUNCIL OF THE CITY OF GLADSTONE, MISSOURI, THIS 11th DAY OF AUGUST, 2014.

J. Brian Hill

J. Brian Hill, Mayor

ATTEST:

Ruth E Bocchino

Ruth E. Bocchino, City Clerk

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J. Brian Hill, Mayor

ATTEST:

Ruth E Bocchino

Ruth E. Bocchino, City Clerk

R-14-58

7010 N Holmes Gladstone, Missouri 64118 816-436-2200 Fax 816-436-2228 Gladstone.mo.us

August 1, 2014

TO: Kirk Davis – City Manager

FROM: Debra Daily – Director of Finance DD

RE: Investment Policy Update

The City's current Investment Policy was last updated April 12, 2004. A work session regarding updates to the policy was conducted on July 28, 2014. The current Investment Policy required only minor changes. Recommended updates incorporate the fact that market conditions can change and therefore the updated policy can now provide for better investment decision flexibility affecting both portfolio allocation and collateralization. It also further defines the option to engage the services of an external investment manager to optimize the Gladstone investment portfolio. The following listed changes are recommended.

<u>Section VI 4. Collateralization (page 11)</u> – The required market value of collateralization and securitization repurchase agreements and certificates of deposit was changed from at least102% to at least 100% and further provided that this percentage could be adjusted as necessitated by market conditions with the approval of the City Manager based on recommendations from the Director of Finance.

<u>Section VII 1. Diversification f. (page 12)</u> – The Portfolio Constraints were adjusted for current market conditions and prudent investment practices. City Management can also adjust the stated portfolio constraints based on market conditions and the best interests of the City. This includes portfolio allocation percentages by type of investments and by individual investor.

<u>Section VIII Investment Manager of Consultant</u> – This section was added to provide the option of contracting the services of a qualified external investment manager to assist in the management of the investment portfolio and to optimize earnings consistent with the "SLY Principle" and this proposed Investment Policy.

In conclusion, staff recommends updating the current Investment Policy to provide for collateralization requirements based on market conditions, flexibility of portfolio allocations, and the option to contract for investment services to optimize earnings as investment rates improve. A resolution and the Investment Policy is on the August 11, 2014 agenda for Council consideration. If you have any questions or comments, please contact me at your convenience.

R-14-58

Exhibit A

CITY OF GLADSTONE

INVESTMENT POLICY

Effective August 11, 2014

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RESOLUTION NO. R-xx-xx

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____
J. Brian Hill, MAYOR

ATTEST:

____
Ruth Bocchino, City Clerk

I. POLICY

It is the policy of the City of Gladstone, Missouri (the City) to invest all funds of the City pursuant to State statutes and the State Constitution as amended from time to time. The purpose of this Investment Policy is to identify the investment objectives of the City Council and to establish a set of procedures to achieve the Policy goals through these objectives. The objectives of this investment policy, in the order of priority, are as follows: Safety of Principal, Maintenance of Adequate Liquidity and Maximization of Earnings on the Investment Portfolio.

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 viable and material revenue to all City funds. It is the City's policy to earn a rate of return at least equal to a "risk free" rate of return indicator, such as the three month Treasury Bill or Federal Funds.

This document is intended to identify the investment objectives, constraints and guidelines of the City. This Policy will be used in the implementation of an investment program utilizing fixed income investments and cash equivalents. This Policy also provides a basis for monitoring and measuring the performance of the funds on an ongoing basis. The City will concentrate its investment efforts using local banks, primary and regional dealers or State Investment Pools located within the State of Missouri, which are permissible under the Missouri statutes for public funds.

II. SCOPE

This investment policy applies to all financial assets of the City with the exception of any pension assets which has its own investment policy. City funds are accounted for in the annual financial statement.

1. **Pooling of Funds**. Except for cash in certain restricted and special funds, the City will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.
2. **External Management of Funds.** Investment through external programs, facilities and professionals operating in a manner consistent with this Policy will constitute compliance.
3. **Statute Compliance.** Funds will be invested and collateralized in compliance with the provisions of Missouri Revised Statutes 110.010, 110.020, and the Missouri State Constitution. Investments will be in accordance with written policies and administrative procedures. Investment of all tax-exempt bond funds will comply with federal legislation and regulations governing reinvestment of proceeds and arbitrage. Earnings from investments will be used in a manner that will best serve the interests of the City or in accordance with bond documents.

III. GENERAL OBJECTIVES

The City's investment objectives are:

1. **Safety.** Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner seeking to ensure the preservation of capital in the overall portfolio. The objective will be to reduce credit risk and interest rate risk.

   a **Credit Risk.** The City 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 advisors with which the City will do business
   - Diversifying the investment portfolio so that potential losses on individual securities will be minimized

   b **Interest Rate Risk.** The City 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 operating(?) funds primarily in securities with maturities of one year or less
     Limiting investments to a maximum stated maturity of five years

2. **Liquidity.** 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 bank deposits, local government investment pools, and repurchase agreements.

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 the investment risk constraints and liquidity needs. 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.

It is the intent of the City to hold securities until maturity and securities shall not be sold prior to maturity with the following exceptions after approval is obtained from the City's Director of Finance or designee:

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

4. **Competitive Placement of Funds.** All investments of the City should be bid to insure competitive pricing. The exception to this may be when purchasing a new issue government agency security when the price is the same through all brokers and the issuing agency pays the selling commission directly to the broker. In this case the City will rotate through the list of brokers. In addition, investments in a Missouri sponsored Local Government Investment Pool or bank account sweep repurchase agreements are not considered biddable securities.

IV. STANDARDS OF CARE

1. **Prudence.** The standard of care to be used by investment officials shall be the prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion to the City Council and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

   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. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of the City.

3. **Delegation of Authority.** Authority to manage the investment program is delegated to the Director of Finance, or its designee, who shall establish written procedures and internal controls for the operation of the investment program 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. No person may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the Director of Finance. The Director of Finance shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

   Bonding of all staff with signatory authority is required, and such bonding requirements will apply to those individuals authorized to place, purchase, or sell investment instruments. The City Manager will establish specific bonding levels.

V. INVESTMENT TRANSACTIONS, SAFEKEEPING AND CUSTODY

1. **Authorized Financial Dealers and Institutions.** A list will be maintained of financial institutions authorized to provide investment transactions. In addition, a list also will be maintained of approved security broker/dealers selected by creditworthiness as determined by the Director of Finance. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3 1 (uniform net capital rule). It is the intent of the City to have no more than three (3) qualified institutional oriented dealers/banks located in the Kansas City metropolitan area with which it will transact investment business, because of the size of the investment portfolio.

   All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

   - Audited financial statements.
   - Proof of Financial Industry Regulatory Authority ("FINRA") (formerly NASD) certification.
   - Proof of state registration.
   - Certification of having read and understood and agreeing to comply with the City's Investment Policy.

   An annual review of the financial condition and registration of qualified financial institutions and broker/dealers will be conducted.

2. **Internal Controls.** The Director of Finance is responsible for establishing and maintaining an internal control structure designed to ensure that the investments of the City 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 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 transfers agreement with the lead bank and third party custodian.

3. **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 to the release of funds. Securities will be perfected in the name of or for the account of the City and shall be held by a third party custodian as evidenced by safekeeping receipts.

4. **Safekeeping of Securities.**

   a. To protect against potential fraud, embezzlement, or insolvency of a financial institution holding the City's securities, the investments of the City shall be secured through third party custody and safekeeping procedures. Ownership shall be protected through third party custodial safekeeping. The City's external auditor shall review safekeeping procedures annually
   b. The City shall contract with a single financial institution for custodial and safekeeping services for the City's investment portfolio and collateral required for depository relationships. The exception to this may be when participating in tri party repurchase agreements where the broker and the City jointly select a custodial agent.

c. Securities that serve as collateral for deposits will be held in a third party institution and registered jointly to the City and the depository financial institution as required by Missouri statutes.
d. Securities that serve as collateral for repurchase agreements must be delivered to a third party custodian with whom the City has established a third party safekeeping agreement.
e. The authorization to release City securities and transfer City funds will be accomplished by authorized cash management personnel.
f. Verification of collateral will be part of the City's annual independent audit.

V1. SUITABLE AND AUTHORIZED INVESTMENTS

1 **Investment Types.** In accordance and subject to restrictions imposed by current statutes, the following list represents the entire range of investments that the City will consider and which shall be authorized for the investments of funds by the City.

a. United States Treasury Securities. The City may invest in obligations of the United States government for which the full faith and credit of the United States are pledged for the payment of principal and interest.
b. United States Agency Securities. The City may invest In obligations issued or guaranteed by any agency of the United States government as described in section VI. (2).
c. Repurchase Agreements ("Repo"). The City may invest in contractual agreements between the City and commercial banks or primary government securities dealers. The purchaser in a Repo enters into a contractual agreement to purchase US Treasury and government agency securities while simultaneously agreeing to resell the securities at predetermined dates and prices.
d. Collateralized Public Deposits (Certificates of Deposit). Instruments issued by financial institutions which state that specified sums have been deposited for specified periods of time and specified rates of interest. The certificates of deposit are required to be backed by acceptable collateral securities as dictated by the City in compliance with state statutes.
e. Bankers Acceptances. Time drafts drawn on and accepted by a commercial bank are otherwise known as banker's acceptances. The City may invest in bankers acceptances issued by domestic commercial banks possessing the highest short-term rating by Moody's Investor Services, Inc. or Standard and Poor's Corporation. If rated by both rating agencies, both ratings must be in the highest short-term rating category; i.e., no split ratings are permitted. A split rating is where the two rating agencies do not agree with each other.

f. Commercial Paper. The City may invest in commercial paper issued by domestic corporations, which have received the highest short-term ratings issued by Moody's Investor Services, Inc. and Standard and Poor's Corporation. Both rating agencies must rate the paper and no split ratings are permitted for qualified investments. Eligible paper is further limited to issuing corporations that have total commercial paper program size in excess of five hundred million dollars ($500,000,000).

g. Local Government Investment Pools. The City may invest in pools managed by the state treasurer or an investment advisor if permitted under state statutes.

2. **Security Selection**. The following list represents the entire range of United States Agency Securities that the City will consider and which shall be authorized for the investment of funds by the City. Additionally, the following definitions and guidelines should be used in purchasing the instruments:

   a. US Government Agency Coupon and Zero Coupon Securities. Bullet coupon bonds with no embedded options.
   b. US Government Agency Discount Notes. Purchased at a discount with maximum maturities of one (1) year.
   c. US Government Agency Callable Securities. Restricted to securities callable at par only with final stated maturities of five (5) years or less.
   d. US Government Agency Step up Securities. The coupon rate is fixed for an initial term. At the step up date, the coupon rate rises to a new, higher fixed rate; restricted to securities with final stated maturities of five (5) years or less. "Step ups" are generally callable by the issuing Agency on or after the first coupon step up date.

3. **Investment Restrictions and Prohibited Transactions**. To provide for the safety and liquidity of the City's funds, the investment portfolio will be subject to the following restrictions:

   a. Borrowing for investment purposes ("leverage") is prohibited.
   b. Instruments known as variable rate demand notes, floaters, inverse floaters, leveraged floaters, and equity-linked securities are not permitted. An investment in any instrument, which is commonly considered a "derivative" instrument (e.g. options, futures, swaps, caps, floors, and collars), is prohibited.
   c. Contracting to sell securities not yet acquired in order to purchase other securities for purposes of speculating on developments or trends in the market is prohibited.

4. **Collateralization.** Collateralization/securitization will be required on two types of investments: certificates of deposit and repurchase agreements. The market value (including accrued interest) of the collateral should be at least 100%, or as otherwise determined by the Director of Finance with approval of the City Manager. The City must approve all collateral to be pledged and all securities must be in compliance with the City's Investment Policy and State Statutes.

   For certificates of deposit, the market value of collateral must be at least 100% or the greater of the amount of certificates of deposits plus demand deposits with the depository, less the amount, if any, which is insured by the Federal Deposit Insurance Corporation, or the National Credit Unions Share Insurance Fund. The use of surety bonds is permitted to collateralize deposits if the bond is issued by an insurance company qualified to do business in the state and the rating of the issuer is equivalent to the securities that would be used for collateral as the alternative.

   All securities which serve as collateral against the deposits of a depository institution must be safe kept at a nonaffiliated custodial facility approved by the City giving the City control over the pledged securities. Depository institutions pledging collateral against deposits must, in conjunction with the custodial agent, furnish the necessary custodial receipts immediately upon deposit.

   The City shall have a depository contract and pledge agreement with each safekeeping bank that shall comply with the Financial Institutions, Reform, Recovery, and Enforcement Act of 1989 (FIRREA). This will ensure that the City's security interest in the collateral pledged to secure deposits is enforceable against the receiver of a failed financial institution.

   Repurchase Agreements. The securities for which repurchase agreements will be transacted will be limited to US Treasury and government agency securities that are eligible to be delivered via the Federal Reserve Fed wire book entry system. Securities will be delivered to the City's designated custodial/safekeeping agent. Funds and securities will be transferred on a delivery vs. payment basis.

VII. INVESTMENT PARAMETERS/PORTFOLIO CONSTRAINTS

1. **Diversification**. The investments shall be diversified by:

   a. Limiting investments to avoid over concentration in securities from a specific issuer or business sector.
   b. Limiting investment in securities that have higher credit risks.
   c. Investing in securities with varying maturities.
   d. Continuously investing a portion of the portfolio in readily available funds such as repurchase agreements, local government

investment pools, and bank account sweep programs to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

e. No single financial institution will hold demand or certificates of deposits which will constitute more than 20% of the City's portfolio value.

f. The following maximum limits, by investment type, are established for the City's total investment portfolio. It is the intent of the City to invest in the following investment categories. The percentage stated is a "not to exceed" limitation. The Director of Finance, with approval of the City Manager, shall have the authorization to waive the stated portfolio constraints when such action is deemed to be necessary or desirable and in the best interest of the City. Any such waiver shall be documented and approved by the City Manager. Investments are not required in every investment type. For example, it is permitted to own 80% in Agency securities and 20% in Repurchase Agreements, and own no other securities:

Portfolio Constraint Summary

Investment Type	Maximum % Of Portfolio	Maximum Maturity	Maximum Per Provider As % of Portfolio
US Treasury Securities	100%	5 years	N/A
US Government Agency Securities		5 years	
Non Callable	80%		50%
Callable or Step-Ups	30%		50%
Repurchase Agreements			
Overnight/Term	50%	90 days	100%
Flex*	See Note	See Note	
Collateralized CD's	70%	5 years	20%
Local Government Investment Pools	25%	N/A	N/A
Commercial Paper	15%	180 days	5%
Bankers Acceptances	10%	180 days	5%

*Additional investments established for Bond Proceeds include the above and Flexible Repurchase Agreements (Flex Repos). which can be up to 100% of the available bond proceeds and can have a maximum maturity to match the maturity of the bonds.

2. **Portfolios**. The City's funds shall be separated into two portfolios for efficient investment management. The short term portfolio is defined as maturities less than one year and the long term portfolio as maturities one year or greater. Funds will be allocated based on the cash flow needs of the City.

3. **Maturities**. The City shall attempt to match its investments with anticipated cash flow requirements. The City will not invest in

securities with stated maturities more than five (5) years from the date of purchase, in accordance with Missouri statutes and Constitution.

VIII. INVESTMENT MANAGER OR CONSULTANT

The City may engage the services of one or more external investment managers to assist in the management of the investment portfolio in a manner consistent with the City's objectives. Such external manager(s) may be granted discretion to purchase and sell investment securities in accordance with the City's Investment Policy. Such manager(s) must be registered under the Investment Advisor's Act of 1940 and in accordance with Missouri Law. The investment manager(s) shall cooperate and comply with periodic audits of and reviews by outside independent consultants.

IX. REPORTING

1. **Methods**. The Director of Finance shall prepare an investment report at least annually, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last year. This management summary will be prepared in a manner that will allow the City to ascertain whether investment activities during the reporting period have conformed to the Investment Policy. The report will include the following at a minimum:

    - Listing of individual securities held at the end of the reporting period.
    - Realized and unrealized gains and losses resulting from appreciation or depreciation by listing the cost and market value of securities over a one year duration (in accordance with Government Accounting Standards Board (GASB) 31 requirements). This is required annually.
    - Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.
    - Listing of investment by maturity date.
    - Percentage of the total portfolio that each type of investment represents.

2. **Performance Standards**. The investment portfolio will be managed in accordance with the parameters specified within this Policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable rates. A series of appropriate benchmarks may be established against which the portfolio performance shall be compared on a regular basis.

    Commercial paper and bankers acceptances must be reviewed monthly to determine if the rating level has changed. The commercial paper and bankers acceptances should be reviewed for possible sale if the securities are downgraded below minimum acceptable rating levels.

3. **Marking to Market**. The market value of the portfolio shall be calculated no less often than quarterly, and a statement of the market value of the portfolio shall be issued at least annually to the City Council. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed.

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.

X. POLICY CONSIDERATIONS

1. **Exemption**. Any investment currently held that does not meet the guidelines of this Policy at the time of initial approval shall be exempt from the requirements of this Policy. At maturity or liquidation, such monies shall be reinvested only as provided by this Policy.

2. **Adoption**. This policy shall be adopted by resolution R 04 21 of the City Council effective April 12, 2004. The Director of Finance shall review the policy annually and recommended changes will be presented to the City Council for consideration.

XI. GLOSSARY OF TERMS

The following is a glossary of key investing terms, which appear in the City of Gladstone's Investment Policy.

Agency Securities--Securities issued or guaranteed by entities other than the U. S. Treasury such as government corporations and government sponsored enterprises. Securities issued by certain government corporations, such as Government National Mortgage Association (GNMA), are backed by the full faith and credit of the U.S. Government, and have an explicit payment guarantee from the U. S. Treasury. Issuers of Agency securities that are not guaranteed by the U. S. Treasury are required by law to disclose this to investors. Many senior debt obligations issued by U. S. Agencies have ratings that mirror the U. S. Government's ratings, an indication that it is believed (implied) the U.S. Treasury would lend payment support to a failing Agency, as evidenced by the bailout of FNMA and FHLMC during the credit crisis of 2008.

Appreciation--The increase in value of an asset.

Banker's Acceptance (BA)--A short-term financial instrument that is the unconditional obligation of the accepting bank. Banker's acceptances arise from transactions involving the import, export, transit, or storage of goods. There is no federal deposit insurance on banker's acceptances but they are considered to be safe short-term money market instruments.

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 a project.

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.

Callable Bond--A bond that the issuer has the right to redeem prior to maturity.

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.

Collateralization --The 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.

Commercial paper--An unsecured promissory note of a corporation with a fixed maturity of no more than 270 days and is normally sold at a discount.

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.

Cost--An amount paid or required in payment for a purchase of an investment.

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

Custodial Agent-An entity that holds collateral for deposits with financial institutions, investment securities, or securities underlying repurchase agreements.

Demand Deposit--A bank deposit that can be withdrawn by the depositor immediately and without advance notice.

Depository Financial Institution (Depository)--The place where a deposit is placed and kept.

Depository Security-Collateral pledged by a financial institution to guarantee deposits on hand, which exceed depository insurance.

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

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

Federal National Mortgage Association -- ("FNMA", or "Fannie Mae") 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 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 provide its members with access to reliable, economical funding and special affordable housing programs to stimulate the creation of affordable housing and improve the local business environment. Members must purchase stock in their district Bank.

Federal Home Loan Mortgage Corporation -- ("FHLMC" or "Freddie Mac") A stockholder-owned corporation chartered to improve the liquidity of the secondary mortgage market and to provide access to mortgage finance for low income families and underserved areas. Along with, FNMA, FHLMC is regulated by HUD.

GASB 31--Statement No. 31 of the Government Accounting Standards Board establishes accounting standards for securities owned by governmental entities.

General Obligation (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.

Governmental Accounting Standards Board (GASB) --The authoritative accounting and financial reporting standard-setting body for government entities.

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.

Missouri Statutes -- Written laws enacted by the Missouri 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.)

Municipal Note -- Short-term notes issued by municipalities in anticipation of tax receipts, proceeds from a bond issue, or other revenues.

Par Value -- The amount of principal which must be paid at maturity, also referred to as the face amount of a bond.

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 an asset is the excess of the amount realized over the adjusted basis of the asset; a realized loss occurs when an asset which was purchased at a level referred to as “cost” or “book value” is then disbursed for a value below its book value.

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.

Revenue Bonds -- A municipal bond secured by revenue from tolls, user charges, or rents derived from the facility financed.

Safekeeping --The holding of securities by a financial institution on behalf of the securities’ owners.

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.

Securities Swap -- Trading one asset for another.

Time Deposits -- Another term for 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, 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 bond in which the price has increased but, if the bond is not sold, the profit is considered an unrealized gain.

Weighted Average Maturity (WAM) -- The average maturity of all the securities that comprise a portfolio that is typically expressed in days or years.

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