CITY OF NEEDLES
ANNUAL STATEMENT OF INVESTMENT POLICY
Fiscal Year 2025-2026

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Policy

The City of Needles, including its component units Needles Public Utility Authority (NPUA) and Housing Authority of the City of Needles (HACN), shall invest public funds in such a manner as to comply with state and local laws; ensure prudent money management; provide for daily cash flow requirements; and meet the objectives of this Policy, in priority order of Safety, Liquidity and Return on investment.

Scope

This investment policy applies to all investment activities and financial assets of the City of Needles. The funds covered by this policy are accounted for and incorporated in the City of Needles Annual Comprehensive Financial Report (ACFR) and include General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds, Enterprise Funds, and Internal Service Funds.

Standard of Prudence

Pursuant to California Governmental Code Section 53600.3, the standard of prudence to be used by the City Treasurer shall be the "prudent investor" standard and shall be applied in the context of managing the overall portfolio. Persons authorized to make investment decisions on behalf of local agencies investing public funds are trustees and therefore fiduciaries subject to the prudent investor standard which states, "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency".

For local agency funds invested in the county treasury, California Government Code Section 27000.3, the County Treasurer serves as a fiduciary and is subject to the prudent investor standard.

Investment Objectives

Pursuant to California Government Code Section 53600.5, the primary objectives of the City's investment activities, in priority order, shall be:

1. **SAFETY**: Safety 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. To attain this objective, the City will diversify its investments by investing funds among a variety of securities with independent returns.

   The City shall minimize Credit Risk, the risk of loss due to the failure of the security issuer or backer, by:

- Limiting investments to the safest types of securities.
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business.
- Diversifying the investment portfolio to minimize the impact any single industry/investment class can have on the portfolio.

To minimize Interest Rate Risk, the negative impact of material changes in the market value of securities in the portfolio, the City shall:

- Structure the investment portfolio so that securities mature concurrent with cash needs to meet anticipated demands, thereby avoiding the need to sell securities on the open market prior to maturity.
- Invest operating funds primarily in shorter-term securities and the State of California Local Agency Investment Fund (LAIF).

2. **LIQUIDITY**: The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated without requiring a sale of securities.

3. **YIELD**: The City's investment portfolio shall have the objective of attaining a comparative performance measurement or an acceptable rate of return throughout budgetary and economic cycles. These measurements should be commensurate with the City's investment risk constraints identified in the investment policy and the cash flow characteristics of the portfolio. The core of investments is limited to relatively low risk securities in anticipation of earning a fair rate of return relative to the risk being assumed.

Authorized Dealers and Institutions

Pursuant to California Government Code Section 53601.5, the City Treasurer will maintain a list of approved financial institutions authorized to provide investment services to the public agency in the State of California to purchase, hold and sell securities allowable under this investment policy. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). The City's practices shall include the following:

1. A determination that all approved broker/dealer firms, and individuals covering the public agency, are reputable and trustworthy.
2. The broker/dealer firms should have the ability to meet all their financial obligations in dealing with public agency.
3. The firms, and individuals covering the agency, should be knowledgeable and experienced in Public Agency investing and the investment products involved.
4. No public deposit shall be made except in a qualified public depository as established by the established State laws.
5. All financial institutions and broker/dealers who desire to conduct investment transactions with the public agency may supply the City Treasurer with audited financial statements, proof of FINRA certification, trading resolution, proof of State of California registration, a

completed broker/dealer questionnaire, certification of having read the Public Agency's investment policy and depository contracts.

An annual review of the financial condition and registrations of qualified bidders may be conducted by the City Treasurer and a current audited financial statement requested for each financial institution and broker/dealer in which the City invests.

Authorized and Suitable Investments

From the governing body perspective, special care must be taken to ensure that the list of instruments includes only those allowed by law, under the relevant California Government Code Sections pertaining to local government investments. Local investment managers are required to be trained and competent to handle.

This investment policy authorizes the investment instruments for the City shown in the following table. The City is empowered by California statute to invest in each of these investment instruments.

Any security type or structure not specifically listed in the following table, even though it may be allowable under California statute, is prohibited under this policy.

AUTHORIZED AND SUITABLE INVESTMENTS

INVESTMENT TYPE	MAXIMUM REMAINING MATURITY	MAXIMUM SPECIFIED % OF PORTFOLIO	MINIMUM QUALITY REQUIREMENTS	AUTHORIZED UNDER CALIF. GOVT CODE
State of California Local Agency Investment Fund (LAIF) (Limited under State law to $75 million per agency account)	N/A	None	None	16429.1
U.S. Treasury Obligations	5 years	None	None	53601(b)
U.S. Agency Obligations	5 years	None	None	53601(f)
State Obligations: California & Others	5 years	None	None	53601(c) 53601(d)
Local Agency (Municipal) Bonds	5 years	None	None	53601(a)
California Local Agency Obligations	5 years	None	None	53601(e)
Negotiable Certificates of Deposit	5 years	30%	None	53601(i)
Non-negotiable Certificates of Deposit (Traditional CDs)	5 years	None	None	53630 et seq.

Collateralization

Pursuant to California Government Code Section 53601, collateralization is required on certificates of deposit. To anticipate market changes and provide a level of security for all funds, the collateralization level will be 110% of the market value for Certificate of Deposits for all invested funds above the $250,000 FDIC insurance limit.

The City chooses to limit collateral to U.S. Treasury securities, Federal agency securities and state local agency investment pools. Collateral will always be held by an independent third party with whom the entity has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the entity and retained. The right of collateral substitution is granted.

Safekeeping and Custody

Pursuant to California Government Code Section 53608, all security transactions, including collateral for certificates of deposit, entered into by the City should be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third-party custodian designated by the City Treasurer and evidenced by safekeeping receipts.

California Government Code Section 53635.2 states that all local agency money may be invested in investments set forth in 53601 or deposited for safekeeping in state or national banks, public banks, savings associations, federal associations, credit unions, or federally insured industrial loan companies in this state. It also specifies certain requirements that such financial institutions must satisfy to hold local agency money.

The minimum legal requirement for an institution to receive local agency money, including deposits for the purchase of Non-negotiable Certificates of Deposits, is that the financial institution must receive an overall rating of not less than “satisfactory” from the appropriate federal supervisory agency for meeting the criteria specified in Section 2906 of Title 12 of the U.S. Code (Community Reinvestment Act of 1977). The Community Reinvestment Act of 1977 (Act) requires financial institutions to demonstrate their commitment to meeting the credit needs of local communities in which they are chartered to do business. For purposes of the Act, the appropriate federal supervisory agency includes:

- The Comptroller of the Currency with respect to national banks.
- The Board of Governors of the Federal Reserve System with respect to state-chartered banks that are members of the Federal Reserve system and bank holding companies.
- The Federal Deposit Insurance Corporation (FDIC) with respect to state-chartered banks, public banks, and savings banks that are not members of the Federal Reserve system and the deposits of which are insured by the FDIC.
- The Director of Office of Thrift Supervision with respect to savings associations (the deposits of which are insured by the FDIC) and savings holding companies.
- The National Credit Union Administration (NCUA) through the National Credit Union Share Insurance Fund (NCUSIF).

Diversification

The City will diversify investments by security type and institution. Except for LAIF and U.S. Treasury securities, no more than twenty percent (30%) of the City's total investment portfolio will be invested in a single security type or with a single institution.

Maximum Maturities

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than 5 years from the date of settlement, unless the City Council, NPUA Board, and HACN Board have granted express authority to make that investment. Additionally, reserve funds may be invested in securities exceeding 5 years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds. Forward settlement on new issues may not exceed 45 days from time of investment.

Performance Standards

The City's investment goal is to maintain maximum investment of all funds not required to meet immediate cash flow needs, using a passive investment strategy whereby securities are generally held to maturity. The investment portfolio shall be designed with the objective of obtaining a reasonable rate of return throughout budgetary and economic cycles and under current market conditions, commensurate with the investment risk constraints and the City's cash flow needs.

Securities shall not be sold prior to maturity with the following exceptions:

- A security with declining credit sold early to minimize loss of principal.
- A security swap that would improve the quality, yield, or target duration of the portfolio.
- Unforeseen liquidity needs of the portfolio require that the security be sold.

Given this strategy, the basis used by the City to determine whether market yields are being achieved shall be to identify the quarter-to-date LAIF quarterly apportionment rate, the 90-day U.S. Treasury Bill and the two-year U.S. Treasury Note shall be considered useful benchmarks of the investment portfolio performance. Benchmarks may change over time based on changes in market conditions or cash flow requirements.

Delegation of Authority

The City Council, NPUA Board and HACN Board, as permitted under California Government Code Section 53607, delegates responsibility to invest or reinvest the funds of the City or to sell or exchange securities so purchased, to the City Treasurer for a period of one year.

The City Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of appointed subordinate officials or deputies, pursuant to California Government Code Section 41006, and their procedures in the absence of the City Treasurer.

Investment Procedures

The City Treasurer shall establish written investment procedures for the operation of the investment program consistent with State law and this policy. The procedures should include reference to safekeeping, master repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. *Such procedures shall include explicit delegation of authority to the persons responsible for investment transactions.* No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the City Treasurer.

Internal Controls

The City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, fraud, or misuse. Internal controls shall address:

1. Control of collusion
2. Separation of transaction authority from accounting and recordkeeping
3. Custodial safekeeping
4. Deliver versus payment (DVP)
5. Clear delegation of authority to subordinate staff members
6. Written confirmations of transactions for investments and wire transfers
7. Wire transfer agreements

Accordingly, the City shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

Ethics and Conflicts of Interest

Investment officials shall refrain from personal business activity that could conflict with proper execution and management of this policy and the investment program, or which could impair their ability to make impartial decisions. Investment officials must provide a public disclosure document by February 1 of each year or when material interest in financial institutions or personal investment positions require it. Furthermore, Investment officials must refrain from undertaking personal investment transactions with the same individual(s) employed by the financial institution with whom business is conducted on behalf of the City.

Review of Investment Portfolio

The securities held by the City must be in compliance with the stated Authorized and Suitable Investments at the time of purchase. Because some securities may not comply with the Authorized and Suitable Investments after the date of purchase, the City Treasurer shall review the portfolio monthly to identify any securities that do not comply. The City Treasurer shall report monthly to the City Council, NPUA Board and HACN Board any major and critical incidences of noncompliance identified through the monthly review of the portfolio.

Reporting

Pursuant to California Government Code Section 53607, the authority of the legislative body to invest or to reinvest funds of a local agency, or to sell or exchange securities so purchased, may be delegated for a one-year period by the legislative body to the City Treasurer of the local agency, who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires. The City Treasurer shall make a monthly report of those transactions to the legislative body. Subject to review, the legislative body may renew the delegation of authority pursuant to this section each year.

Further, the City elects under California Government Code Section 53646(b) that the City Treasurer is required to submit the report to the City Council, NPUA Board and HACN Board on a monthly basis, instead of quarterly. The monthly report shall be submitted within 45 days after month end pursuant to California Government Code Section 53646. Also under Section 53646, the monthly report shall contain the following:

- Type of Investment
- Issuer Name
- Date of Maturity
- Stated Yield
- Yield at 365
- Par Value
- Cost (or Book Value, if available) of all securities, investments and monies held
- Current market value of all investments held by the local agency and under management of any outside party that is not also a local agency or LAIF and the source of the valuation.
- Portfolio's compliance with the requirements of the investment policy or an explanation for non-compliance.
- A statement demonstrating that the City's expenditure requirements can be met during the next six months or an explanation of why sufficient money will not be available if that is the case.

Local agency funds that have been placed in LAIF, a FDIC insured bank deposits, National Credit Union Shared Insurance Fund-insured accounts in a credit union, accounts insured or guaranteed pursuant to California Financial Code Section 14858, or some combination of the above, may substitute the most recent account statement received from those entities in lieu of the information recommended above.

Investment Policy Adoption

Pursuant to California Government Code Section 53646 and, specifically with regard to the annual delegation of investment authority, California Government Code Section 53607, the City's investment policy shall be adopted by July 31 of each fiscal year by resolution of the City Council. The policy shall be reviewed annually by the City Treasurer and any modifications made thereto must be approved by the City Council, NPUA Board, and HACN Board.

Glossary

ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR): The official annual report of the public agency. It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

AGENCIES: Federal agency securities and/or Government Sponsored Enterprises (GSE) which include Federal Home Loan Bank (FHLB), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal Farm Credit Bank (FFCB), and Federal Agricultural Mortgage Association (Farmer Mac).

ASK: The price at which securities are offered for sale; also known as offering price.

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

BID: The price offered by a buyer of securities. When selling a security, a bid is asked.

BOOK VALUE: The value at which a debt security is shown on the holder's balance sheet. Book value is often acquisition cost plus or minus amortization and accretion, which may differ significantly from the security's current market value.

BROKER: A broker brings buyers and sellers together for a commission.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a Certificate. Large- denomination CDs are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

CREDIT QUALITY: The measurement of the financial strength of a bond issuer. The measurement helps an investor understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by a Nationally Recognized Statistical Rating Organization (NRSRO)**.**

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.

CURRENT YIELD (CURRENT RETURN): A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

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

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and 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 securities by sector, maturity and quality ratings offering independent returns.

DURATION: A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices.

FACE (PAR) VALUE: The amount of principal that must be paid at maturity. Also referred to as the face amount of a bond, normally quoted in $1,000 increments per bond.

FEDERAL CREDIT AGENCIES: Agencies of the Federal Government set up to supply credit to various classes of institutions and individuals, e.g., savings and loan associations, small-business firms, students, farmers, farm co-operatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): The federal agency that insures bank deposits up to $250, 000 per deposit at participating banking institutions. To increase consumer confidence in the banking system, the previous $100,000 insurance limit was temporarily increased to $250,000 in 2008, extended to 2013, and then permanently increased on July 21, 2010, with the passage of the Wall Street Reform and Consumer Protection Act.

FEDERAL FARM CREDIT BANKS FUNDING CORPORATION (FFCB): A government-sponsored enterprise (GSE) created by Congress in 1916 as the funding arm of the Farm Credit System. FFCB provides credit and liquidity to the agricultural industry. It issues discount notes and coupon securities that are used to provide loans and credit to farmers, ranchers, and rural communities. Although not backed by the full faith and credit of the federal government, these U.S. Agency securities are considered very safe from default risk.

FEDERAL AGRICULTURAL MORTGAGE CORPORATION (FAMC): A government-sponsored enterprise (GSE) that operates as a secondary market for agricultural loans and rural infrastructure, created by Congress under the Agricultural Credit Act of 1987 in response to the national farm crisis of the 1980’s. Also known as Farmer Mac, it is organized under the Farm Credit Administration. FAMC issues discount notes, coupon securities, and mortgage-backed securities. Although not backed by the full faith and credit of the federal government, these U.S. Agency securities are considered very safe from default risk.

FEDERAL HOME LOAN BANKS (FHLB): A government-sponsored wholesale banks (currently eleven regional banks) that lend funds in the housing market and provide correspondent banks services to member commercial banks, thrift institutions, credit unions and insurance companies. FHLB issues discount notes, coupon securities, and mortgage-backed securities. Although not backed by the full faith and credit of the federal government, these U.S. Agency securities are considered very safe from default risk.

FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC): FHLMC, a government-sponsored enterprise (GSE) like FHLB, was established to provide credit and liquidity in the housing market. Commonly known as Freddie Mac, FHLMC issues discount notes, coupon securities, and mortgage-backed securities. Although not backed by the full faith and credit of the federal government, these U.S. Agency securities are considered very safe from default risk.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, government-sponsored enterprise (GSE) like FHLB and FHLMC, was established to provide credit and liquidity in the housing market. FNMA was created in 1938 during the Great Depression and is the largest single provider of residential mortgage funds in the United States. Commonly known as Fannie Mae, it operates under the auspices of the Department of Housing and Urban Development (HDD). FNMA issues discount notes, coupon securities, and mortgage-backed securities. Although not backed by the full faith and credit of the federal government, these U.S. Agency securities are considered very safe from default risk.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the 1 2 Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FINANCIAL INDUSTRY REGULATORY AUTHORITY (FINRA): A private corporation that acts as a self-regulatory organization (SRO) of all stock market operations in the United States, including brokerage firms and exchange markets. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

GOVERNMENT NATIONAL MORTAGE ASSOCIATION (GNMA): GNMA, known as Ginnie Mae, is a government-owned corporation. GNMA is a key player in the housing finance system and supports affordable housing initiatives. GNMA issues securities backed by pools of mortgages that are insured or guaranteed by federal agencies, including the Federal Housing Administration (FHA) and Department of Veterans Affairs (VA). Payment of principal and interest on securities issued by GNMA are guaranteed directly by the full faith and credit of the U.S. Government. This level of backing makes them comparable to U.S. Treasuries in terms of safety.

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

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. Internal controls should address the following points:

- <u>Control of collusion</u> - Collusion is a situation where two or more employees are working in conjunction to defraud their employer.

- <u>Separation of transaction authority from accounting and record keeping</u> - 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.

- <u>Custodial safekeeping</u> - 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.

- <u>Avoidance of physical delivery securities</u> - Book-entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.

- <u>Clear delegation of authority to subordinate staff members</u> - Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.

- <u>Written confirmation of transactions for investments and wire transfers</u> - 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.

- <u>Development of a wire transfer agreement with the lead bank and third-party custodian</u> - The designated official should ensure that an agreement will be entered into and will address the following points: controls, security provisions, and responsibilities of each party making and receiving wire transfers.

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 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 Local Agency Investment Fund. This fund enables local governmental agencies to remit money not required for immediate needs to the State Treasurer for the purpose of investment. 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 Fund and the length of time such amounts remained therein. Prior to the distribution, the State's costs of administering the program are deducted from the earnings.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MATURITY (OR MATURITY DATE): The date upon which the principal or stated value of an investment becomes due and payable.

NATIONALLY RECOGNIZED STATISTICAL-RATING ORGANIZATION (NRSRO): Standard and Poor's, Moody's, and Fitch Financial Services are examples of such organizations.

OFFER: An indicated price at which market participants are willing to sell a security or commodity. Also referred to as the "Ask" or "Ask Price".

PAR VALUE: The amount of principal that must be paid at maturity. Also referred to as the face amount of a bond, normally quoted in $1,000 increments per bond.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions 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 face amount or par value of a debt instrument. (2) One who acts as a dealer buying and selling for his own account.

PRUDENT PERSON RULE: An investment standard. In some states, the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state — the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

PUBLIC BANK: A corporation, organized as either a nonprofit mutual benefit corporation or a nonprofit public benefit corporation for the purpose of engaging in the commercial banking business or industrial banking business that is wholly owned by a local agency, as specified, local agencies, or a joint powers authority.

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 the current income return.

REINVESTMENT RISK: The risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by that holding.

RISK: Degree of uncertainty of return on an asset.

SAFEKEEPING: 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 vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15C3-1: See Uniform Net Capital Rule.

SECONDARY MARKET: A market is made for the purchase and sale of outstanding issues following the initial distribution.

SWAP: Trading one asset for another.

TREASURY BILLS: Short-term U. S. government non-interest-bearing discounted debt securities with maturities of no longer than 1 year and issued in minimum denominations of $10, 000. Auctions of 3-and 6-month bills are weekly, while auctions of 1 -year bills are monthly. The yields on these bills are monitored closely in the money markets for signs of interest rate trends. Treasury Bills are backed by the full faith and credit of the federal government.

TREASURY BONDS: Long-term coupon-bearing U.S. Treasury securities issued as a direct obligation of the U.S. Government and having an initial maturity of more than 10 years and issued in minimum denominations of $1,000. Treasury Bills are backed by the full faith and credit of the federal government.

TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as a direct obligation of the U.S. Government and having an initial maturity of from 1 to 10 years and issued in denominations ranging from $1,000 to $1 million or more. Treasury Bills are backed by the full faith and credit of the federal government.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission (SEC) Rule 15C3-1 outlining requirements that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

VOLATILITY: A degree of fluctuation in the price and valuation of securities.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security. (b) NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.