

THE BOARD OF SUPERVISORS OF THE COUNTY OF STANISLAUS  
ACTION AGENDA SUMMARY

DEPT: Treasurer-Tax Collector

BOARD AGENDA # \*B-6

Urgent

Routine

AGENDA DATE March 26, 2013

CEO Concurs with Recommendation YES  NO

4/5 Vote Required YES  NO

(Information Attached)

SUBJECT:

Acceptance of the County of Stanislaus Treasury Oversight Committee's Annual Audit and Certificates of Compliance, and Acceptance of the Treasury Pool Investment Policy and Delegation of Investment Authority

STAFF RECOMMENDATIONS:

1. Accept the Stanislaus County Treasury Pool's Annual Audit for year ending June 30, 2012 prepared by Brown Armstrong, Certified Public Accountants and reviewed for conformity with State Law by the Stanislaus County Treasury Oversight Committee.
2. Accept the Annual Certificates of Compliance from the Treasury Oversight Committee members for year-ending December 31, 2012.
3. Accept the Stanislaus County Treasury Pool Investment Policy, to be effective April 1, 2013, and delegate the Stanislaus County Treasurer the authority to invest funds as indicated in the Investment Policy as well as the authority to invest any other funds under the County control.

FISCAL IMPACT:

Total funds audited were \$957,926,517.23 for Fiscal Year 2011-2012. The acceptances of the audit report and certificates, and the Treasury Pool Investment Policy have no fiscal impact. Cost associated with this audit was funded in the Treasurer-Tax Collector's 2012-2013 Fiscal Year budget.

BOARD ACTION AS FOLLOWS:

No. 2013-124

On motion of Supervisor Withrow, Seconded by Supervisor Monteith  
and approved by the following vote,

Ayes: Supervisors: O'Brien, Withrow, Monteith, De Martini and Chairman Chiesa

Noes: Supervisors: None

Excused or Absent: Supervisors: None

Abstaining: Supervisor: None

1) X Approved as recommended

2) \_\_\_\_\_ Denied

3) \_\_\_\_\_ Approved as amended

4) \_\_\_\_\_ Other:

MOTION:

ATTEST: CHRISTINE FERRARO TALLMAN, Clerk

File No.

**DISCUSSION:**

In 1995, State law mandated each county and city to establish a Treasury Oversight Committee. The purpose of the Committee is to review and monitor the Treasurer's Investment Policy and reporting. The Treasury Oversight Committee must meet certain requirements and conditions placed on Committee members under this legislation.

In 1996, the Board of Supervisors passed a Resolution to establish the Stanislaus County Treasury Oversight Committee, membership, terms of members, organization, powers, and duties. Government Code Sections 27131 through 27132 specify the requirements and conditions placed on Committee members.

A requirement of the Committee is to annually have a compliance audit prepared. This audit was prepared by the Brown Armstrong, Certified Public Accountants. The Treasury Oversight Committee then reviewed the audit for year-ending June 30, 2012. The audit is now being forwarded to the Board of Supervisors for its review and acceptance.

The outside auditors found "In our opinion, management's assertion that the County TTC complied with the aforementioned requirements for the year ended June 30, 2012, is fairly stated, in all material respects".

At the January 24, 2013 Treasury Oversight Committee meeting, the Stanislaus County Treasury Pool Investment Policy was reviewed. The County Treasurer and Committee members recommended no changes.

**POLICY ISSUES:**

The Board is to consider whether to accept the Treasury Pool Investment Policy, and to delegate the Stanislaus County Treasurer the authority to invest funds as indicated in the Investment Policy as well as the authority to invest any other funds under the County control.

Approval of this agenda item will support the Board's priority of Efficient Delivery of Public Services.

**STAFFING IMPACTS:**

There is no staffing impact associated with this agenda item.

**CONTACT PERSON:**

Gordon B. Ford, Treasurer-Tax Collector

Telephone: 209-525-4463

**COUNTY OF STANISLAUS, CALIFORNIA**

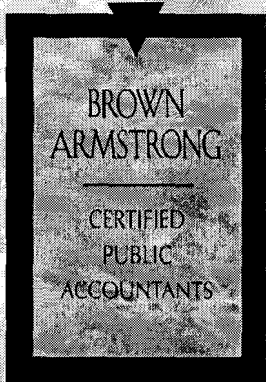
**TREASURER-TAX COLLECTOR  
TREASURY OVERSIGHT COMMITTEE  
AUDIT REPORT**

**JUNE 30, 2012**

COUNTY OF STANISLAUS, CALIFORNIA  
TREASURER-TAX COLLECTOR  
TREASURY OVERSIGHT COMMITTEE  
AUDIT REPORT  
JUNE 30, 2012

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# BROWN ARMSTRONG

*Certified Public Accountants*

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Stanislaus County  
Treasury Oversight Committee  
Stanislaus County, California

We have examined management's assertion, included in its representation letter dated November 1, 2012, that the County of Stanislaus Treasurer-Tax Collector (the County TTC) complied with the provisions of the California Government Code and the County TTC's Investment Policy during the year ended June 30, 2012. As discussed in that representation letter, management is responsible for the County TTC's compliance with those requirements. Our responsibility is to express an opinion on management's assertion about the County TTC's compliance based on our examination.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the County TTC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, management's assertion that the County TTC complied with the aforementioned requirements for the year ended June 30, 2012, is fairly stated, in all material respects.

We have also performed the procedures enumerated in the Procedures and Findings Section of this report, which were agreed to by the County TTC solely to assist you in evaluating internal control procedures in accordance with established policies, as of June 30, 2012. This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the County TTC (the specified user of this report). Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed are listed below and the results of those procedures are listed on pages 3 – 5.

These agreed-upon procedures do not constitute an audit or review of financial statements or any part thereof, the objective of which is the expression of an opinion or limited assurance on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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TEL 209.451.4833



REGISTERED with the Public Company  
Accounting Oversight Board and  
MEMBER of the American Institute of  
Certified Public Accountants

This report is intended solely for the use of the specified user listed above and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong  
Accountancy Corporation*

Bakersfield, California  
November 1, 2012

**COUNTY OF STANISLAUS, CALIFORNIA  
TREASURER-TAX COLLECTOR  
TREASURY OVERSIGHT COMMITTEE  
PROCEDURES AND FINDINGS  
JUNE 30, 2012**

Purchase and sale of Treasury investments is authorized, properly executed, valued, and recorded timely in the County's financial system.

We obtained a listing of all the purchases and sales of Treasury investments (from the SYMPRO report) for the period July 1, 2011, through June 30, 2012. We selected a sample and performed the following procedures:

1. Verify that the investment information as recorded in SYMPRO (CUSIP number, issuer, amount, settlement date, and maturity date) agree to the investment ticket.
2. Verify that the bids were received from two authorized brokers or financial institutions and the best price was selected (a tele-rate screen print indicating the market price at time of sale was accepted in lieu of documenting two separate bids). Note: Two bids are not required by the County of Stanislaus (the County) for investments in LAIF and investments in the overnight repo accounts which are used to gather interest and build funds that are reinvested into securities.
3. Determine that a written confirmation has been received from (1) the broker/dealer or financial institution and (2) the safekeeping agent. Perform the following:
  - a. Verify that the details on the confirmations agree to the details noted on SYMPRO Investment Portfolio Details Report.
  - b. If the deal has not yet been confirmed, confirm that appropriate follow-up action is performed in a timely manner and adequately documented.
4. Verify that the investment transaction (purchase/sale/maturity) was properly executed by tracing settlement to the bank and safekeeping statements.
5. Verify that the investments are the types authorized by law (Code Sections 53635 and 53601) and are in compliance with the County's Investment Policy regarding maturity restrictions and credit quality.
6. Determined the investment transactions were properly recorded in the County's financial system.

Result:

We found no exceptions as a result of the procedures performed.

The investments held by the Treasury are reconciled with custodian statements on a monthly basis, and reconciling items are resolved in a timely manner.

We selected the following two months of November 2011 and June 2012 SYMPRO Portfolio Investment Detail and performed the following procedures:

1. We traced and reconciled the investments, cost, par value, and fair market value to the County's financial system, the SYMPRO report, and to custodian statements and all reconciling items were resolved in a timely manner.

Result:

We found no exceptions as a result of the procedures performed.

**COUNTY OF STANISLAUS, CALIFORNIA  
TREASURER-TAX COLLECTOR  
TREASURY OVERSIGHT COMMITTEE  
PROCEDURES AND FINDINGS  
JUNE 30, 2012**

Adequate segregation of duties exists with respect to authorization of transactions, execution of trades, custody of investments, and recording of transactions.

We reviewed procedures with the Chief Deputy Treasurer and performed the following procedures:

1. We performed a walk-through of the Treasury department and documented all internal controls with respect to authorization of transactions, execution of trades, custody of investments, and recording of transactions.

Result:

We found no exceptions as a result of the procedures performed.

Compliance with California Government Code and the County of Stanislaus Treasurer-Tax Collector's Investment Policy.

We determined the County of Stanislaus Treasurer-Tax Collector was in compliance with its Investment Policy and California Government Code Section by performing the following procedures:

1. Obtain current listing of oversight committee members and determine the following:
  - a. The composition of the committee is in compliance with committee bylaws and S.B. No. 866 (Code Section 27132).
  - b. Each committee member has a completed and signed annual statement of compliance with limits on receipt of honoraria, gifts, and gratuities.
2. Obtain the current Investment Policy and determine that it includes the following criteria:
  - a. A list of securities or other instruments in which the County Treasury may invest, according to law, including the maximum allowable percentage by type of security.
  - b. The maximum term of any security purchased by the County Treasury.
  - c. The criteria for selecting security brokers and dealers from, to, or through whom the County Treasurer may purchase or sell securities or other instruments.
  - d. Limits on the receipt of honoraria, gifts, and gratuities from persons with whom the County Treasury conducts business by any member of the County Treasury Oversight Committee.
  - e. A requirement that the County Treasurer provide the County Treasury Oversight Committee with an investment report as required by the County Board of Supervisors.
  - f. The manner of calculating and apportioning the costs, authorized by Code Section 27013, of investing, depositing, banking, auditing, reporting, or otherwise handling or managing funds.



**COUNTY OF STANISLAUS, CALIFORNIA  
TREASURER-TAX COLLECTOR  
TREASURY OVERSIGHT COMMITTEE  
PROCEDURES AND FINDINGS  
JUNE 30, 2012**

- g. The terms and conditions under which local agencies and other entities that are not required to deposit their funds in the County Treasury may deposit funds for investment purposes.
  - h. Criteria for considering requests to withdraw funds from the County Treasury, pursuant to Code Section 27136. The criteria shall include an assessment of the affect of a proposed withdrawal on the stability and predictability of the investments in the County Treasury.
3. Obtain the Portfolio Master Summary for transaction testing. Scope will be two months.
- a. Determine that actual percentage composition of the portfolio does not exceed the maximum allowed percentage per the Investment Policy.
  - b. Determine that the investments are eligible investments.
  - c. Test maturity. Determine that no investment in the portfolio exceeded a maturity of greater than five years.
  - d. Determine that no more than 5% of total pooled assets are invested in one issuer at time of investment in each of the categories of medium-term notes, negotiable certificates of deposit and regular certificates of deposit. Determine that no more than 20% of total pooled assets are invested in one issuer at time of investment in the category of bankers acceptances.
4. Select a sample of investments to test compliance with minimum ratings and specific requirements related to the type of investment. Note: LAIF is limited to \$50 million.

Result:

We found no exceptions as a result of the procedures performed.

Validate the calculation of investment earnings and apportionment based on the average daily cash balance to the various funds maintained by the County.

We determined the calculation of investment earnings and apportionment was based on the average daily cash balance and that it was properly allocated to the County's funds by performing the following procedures:

- 1. Obtained the first and fourth quarter interest allocation summaries and randomly recalculating 100 of the County's funds to make sure the interest was properly allocated and was based on the funds average cash balance.
- 2. We determined the amount calculated on the interest allocation was properly recorded in the County funds and distribution report.

Result:

We found no exceptions as a result of the procedures performed.

STANISLAUS COUNTY TREASURY OVERSIGHT COMMITTEE  
ANNUAL CERTIFICATE OF COMPLIANCE

YEAR-ENDING: DECEMBER 31, 2012

In accordance with the Stanislaus County Treasury Pool Investment Policy and California Government Code Sections 27132.1, 27132.2, and 27132.3, I sign below in agreement with the following statements for the period noted above:

I have not been employed by an entity that has contributed to the campaign fund of any candidate for local treasurer or local legislative body for this period and three years prior.

I have not raised any money for a candidate for local treasurer or a member of the governing board of any local agency that has deposited funds in the County Treasury while a member of the committee.

I have not been employed with any bond underwriter, bond counsel, security brokerage or dealer, or leading banking institution (Bank of the West) during this period that has done business with Stanislaus County.

I have not received more than \$50.00 during the above period in honoraria, gifts or gratuities from advisors, brokers, dealers, bankers, or other persons with whom the Stanislaus County Treasury conducts business.

In agreement with the above statements, I sign and date below:

Signature:  Date: 1-24-13

Printed Name: Dan Gatti

Title: K-12 Schools Prep.

STANISLAUS COUNTY TREASURY OVERSIGHT COMMITTEE  
ANNUAL CERTIFICATE OF COMPLIANCE

YEAR-ENDING: DECEMBER 31, 2012

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In agreement with the above statements, I sign and date below:

Signature: Lauren Klein Date: 1/24/13

Printed Name: Lauren Klein

Title: County Auditor - Controller

STANISLAUS COUNTY TREASURY OVERSIGHT COMMITTEE  
ANNUAL CERTIFICATE OF COMPLIANCE

YEAR-ENDING: DECEMBER 31, 2012

In accordance with the Stanislaus County Treasury Pool Investment Policy and California Government Code Sections 27132.1, 27132.2, and 27132.3, I sign below in agreement with the following statements for the period noted above:

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I have not been employed with any bond underwriter, bond counsel, security brokerage or dealer, or leading banking institution (Bank of the West) during this period that has done business with Stanislaus County.

I have not received more than \$50.00 during the above period in honoraria, gifts or gratuities from advisors, brokers, dealers, bankers, or other persons with whom the Stanislaus County Treasury conducts business.

In agreement with the above statements, I sign and date below:

Signature:  Date: 1-24-13

Printed Name: Terry Swakula

Title: Public Representative

**THE STANISLAUS COUNTY TREASURY POOL INVESTMENT POLICY**

Proposed Effective Date: April 1, 2013

Prepared by: Gordon B. Ford, Stanislaus County Treasurer/Tax Collector

Approved by the Stanislaus County Treasury Pool Oversight Committee on January 24, 2013

Request for Approval by the Stanislaus County Board of Supervisors on March 26, 2013

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## **PURPOSE AND SCOPE**

The purpose of the Stanislaus County Treasury Pool Investment Policy ("Policy") is to provide guidance of the investment of funds in excess of the current day's necessary expenditure which by California State law ("Law") and local ordinance are entrusted to and delegated to the Stanislaus County Treasurer for investment.

The scope of this policy applies solely to funds deposited with the Stanislaus County Treasurer for operating needs as part of the Stanislaus County Treasury Pool ("Pool") of funds. Local legislative and directive bodies such as the Board of Supervisors, various school boards, district boards and special agency boards which by Law have authority to invest funds entrusted to such bodies outside of the Pool (including but not limited to employee retirement funds and bond proceeds) are not constrained to adhere to this policy for investment of funds outside of the Pool.

## **OBJECTIVE**

The primary objective of the investment of short term operating funds is to maintain the principal of such funds (safety) in investment vehicles which are easily converted to cash (liquidity) while obtaining a competitive market rate of return (yield) for the risk taken at the time of investing.

Safety of principal is of paramount importance. Investments will only be made in securities, which have a very high probability of maintaining the principal invested. Only highly rated or strongly collateralized investments will be made. Diversification by type of investment, issuer and maturity to minimize the risk of loss of principal due to credit deterioration or interest rate volatility will be made. Sales of securities before maturity may be made if at a gain, to avoid an anticipated default of payment by the issuer of interest or principal or if such sale will allow investment in a higher yielding vehicle and any loss upon sale can be more than compensated by additional interest earnings within a six month period. Sale of securities also may be made for efficiency if due to the growth in the size of the portfolio any investment is less than one-fourth of one percent of the total portfolio.

To achieve appropriate liquidity needs the Pool's investments must be in maturity ranges which meet normal, anticipated disbursement requirements of all depositors as can be determined by historical disbursement patterns as well as communicated forecasts by depositors. Unanticipated cash disbursement needs require that investments be easily convertible to cash by maintaining shorter maturities in highly traded securities.

To achieve a competitive market rate of return or yield, individual investment decisions must be made on a competitive basis. Due to the primary need of maintaining the purchasing power and cash availability of depositors' funds, the portfolio's yield will normally be lower than that of higher-risk, longer maturity investment pools. An earnings rate goal for the fund will generally achieve a yield, which is 100 basis points higher than inflation.

## **INVESTMENT AUTHORITY AND STANDARDS OF CARE**

The daily investment of Pool funds has been delegated to the Stanislaus County Treasurer/Tax Collector ("Treasurer") pursuant to Government Code section 27000.1 and 53607. This is an annual delegation given to the Stanislaus County Treasurer/Tax Collector by the Stanislaus County Board of Supervisors each year and can be revoked by the Stanislaus County Board of Supervisors at any time. The Treasurer is responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinates. All transactions must comply with Law and be in conformity with this Policy. The Treasurer shall have written policies and procedures to insure investment compliance including:

- A listing of authorized financial institutions and broker/dealers. Broker/dealers may include "primary" or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule) with a minimum capitalization of \$10,000,000 and have at least one major office of operation within the State of California. Broker/dealers must have broker/dealer staff who have at least five years experience in Pool investment transactions with California local government investment officials. Broker/dealers must supply the following:
  1. Financial Industry Regulatory Authority (FINRA)
  2. Proof of California State registration
  3. Verification of review of and willingness to comply with this Policy
- Broker/dealers are prohibited from making political contributions to any candidate for the Board of Supervisors or Treasurer/Tax Collector, which exceed the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board.
- Internal controls as approved and monitored by the Stanislaus County Auditor-Controller in accordance with Law and which address control to avoid or detect collusion, appropriate separation of duties, custodial safekeeping, avoidance of physical delivery of securities, clear delegation of investment authority and responsibilities, written confirmation (acceptable via fax) by Treasurer for investments which mature in more than one year, and an appropriate wire transfer arrangement between a lead banking institution and the third party custodian.
- All investments shall be made with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims. Financial market security transactions will be executed by delivery versus payment and the securities will be held by a third party custodian.



### **INVESTMENT AUTHORITY AND STANDARDS OF CARE** (Continued)

- To avoid even the appearance of a conflict of interest, all officers and employees involved in the investment process shall refrain from personal business activity which in any way could hinder the proper execution and management of the investment program or impair anyone's ability to make an impartial decision.
- Pursuant to Government Code Sections 27132.1, 27132.2 and 27132.3 Committee members are prohibited from:
  1. Being an employee of an entity which has contributed to the campaign fund of any candidate for local treasurer or legislative body either during membership or three years prior to membership
  2. Raising any money for a candidate for local treasurer or governing board
  3. Securing employment with bond underwriters, bond counsel, security brokerages or dealers, or like financial services while a Committee member or for three years after leaving the Committee.
- A limit of \$50 per calendar year is placed on the receipt of honoraria, gifts and gratuities from advisors, brokers, dealers, bankers or other persons with whom the County Treasury conducts business by any member of the Committee, the County Treasurer and any staff involved in the investment process. Beginning in 2004, an annual certification of compliance as prepared by the Treasurer shall be submitted by Committee members.
- The acceptance of transportation or meals and refreshments received during regularly scheduled conferences (such as the California Association of County Treasurers and Tax Collectors – CACTTC) are not prohibited by this policy.

### **AUTHORIZED INVESTMENTS**

Pursuant to Government Code Section 53601 and 53635, investments will only be made in authorized securities with a maturity date of five (5) years or less from the transaction settlement date. All investments (except in mutual funds) must be in securities which have a positive return if held to maturity. The following instruments are authorized for investment (and other instruments are prohibited):

- a) Bonds issued by Stanislaus County or by a department, board agency or authority of Stanislaus County.
- b) United States (U.S.) notes, bonds, bills or certificates of indebtedness or those for which the faith and credit of the U.S. are pledged for the payment of principal and interest.

**AUTHORIZED INVESTMENTS** (Continued)

- c) California State registered warrants, treasury notes or bonds
- d) California local agency bonds, notes, warrants or other indebtedness and the California State Local Agency Investment Fund (LAIF).
- e) Obligations issued by banks for cooperatives, federal land banks, federal intermediate credit banks, federal home loan banks, the Federal Home Loan Bank (FHLB) Board, the Tennessee Valley Authority (TVA), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), issuances or guaranteed instruments, and obligations of U.S. federal agencies or a U.S. government-sponsored enterprise. Investment in Small Business Administration (SBA) notes is prohibited.
- f) Bankers' Acceptances (BAs) which are eligible for purchase by the Federal Reserve System and which do not have a maturity date longer than 180 days from the settlement date. At the time of investment, no more than 40% of the Pool may be invested in BAs with a maximum 20% of the Pool in BAs of one commercial bank.
- g) Commercial paper (CP) of "prime" quality (rated A-1 by Moody, P-1 by Standard and Poor's Corporation or F-1 by Fitch) of a U.S. corporation having assets in excess of \$500,000,000 and a long term debt rating of "A" or higher. The maturity date may not exceed 180 days from the settlement date nor represent more than 10% of the total outstanding CP issuance of the corporation. No more than 15% of the Pool may be invested in CP unless the dollar weighted average maturity is 31 days or less in which case the total invested may be 30% of the Pool. Commercial Paper must be 3(a)3 only, no 144a paper and not be split rated below A-1, P-1 or F-1.
- h) Negotiable certificates of deposit (NCDs) issued by a nationally or state chartered bank or state licensed branch of a foreign bank. No more than 30% of the Pool may be invested in NCDs with no more than 5% of the Pool invested in any one bank's NCD.
- i) Repurchase agreements (REPOs) with an approved broker/dealer of any security authorized by Government Code section 53601 with a market value of 102% of the agreement and a term of not more than 90 days. Reverse repurchase agreements are prohibited.

### **AUTHORIZED INVESTMENTS** (Continued)

- j) Medium Term Notes (MTNs) of U. S. corporations or depository institutions which have maturities of five years or less from the settlement date. The notes must be rated "A" or higher by Standard and Poor's (or other equivalent rating). No more than 30% of the Pool shall be invested in MTNs with no more than 5% of the Pool invested in the MTNs of any one corporation at the time of the investment. All MTNs must be non-callable. No investment shall be made in private placement MTNs or MTNs with split ratings below a Standard and Poor's rating of A- or its equivalent.
- k) Diversified management company shares (mutual fund/MF) which invest in instruments authorized in Government Code section 53601 (a) to (l) inclusive. The company must have the highest rating by two of three recognized rating agencies or have an investment adviser registered with the Securities and Exchange Commission (SEC) with at least five years of experience investing in securities authorized by Government Code section 53601 (a) to (m) inclusive and with assets under management in excess of \$500,000,000. At the time of MF shares purchase no more than 15% of the Pool may be invested in these securities with no more than 5% in any one mutual fund.
- l) Certificates of Deposit (CDs) in banks which are 110% collateralized by the institution with government securities. At the time of investment, no more than 5% of the Pool may be invested in any one bank's CDs.

### **NON-AUTHORIZED INVESTMENTS**

- a) Investment in securities which are commonly referred to as "derivatives" such as interest only strips on mortgage pools, options, puts, inverse floaters or other speculative investments are prohibited.

## **REPORTING REQUIREMENTS**

A monthly report shall be prepared by the Treasurer no later than 30 days following the end of the monthly reporting period. A copy of the report will be forwarded to Committee members, and the Treasurer will maintain a file of their acceptance. The report will be forwarded to the Board of Supervisors for final review and acceptance. The report will be provided through the web site.

The monthly report shall include:

- A concise management summary of Pool activity and position rendered with statements of review and reconciliation with custodial records, source of market valuation, ability to meet next six (6) month's expenditures and for compliance with this Policy by the Treasurer and Board of Supervisors' approval.
- A detailed listing of securities held at the end of the month grouped by investment type (e.g. BA, CD, CP) and delineated as follows:
  - Issuing agency (e.g. U.S. Government, FNMA, GE Capital)
  - Date purchased (settlement date)
  - Date of maturity
  - Par Value
  - Book Value
  - Market value
  - Stated rate (coupon rate)
  - Yield-to-Maturity
  - Days-to-Maturity
- A detailed listing of security transactions during the report period (purchases, sales and maturities) grouped by investment type and to include the following:
  - Date of transaction
  - Issuing agency (e.g. U.S. Government, FNMA, GE Capital)
  - Purchase, Deposit, Sale, Maturity or Withdrawal Amount
  - Stated rate (coupon rate)
  - A summary of Pool position by investment type dollar amount, percentage of total portfolio and average weighted maturity showing compliance with Policy limitations.
  - A summary by investment type of purchases and sales/maturities and ending position.

### **ANNUAL AUDIT**

An annual audit shall be conducted to insure that investment transactions are in compliance with Law and this Policy. The audit shall be supervised by a Certified Public Accountant (CPA) who shall render an opinion to the Committee. The opinion shall be forwarded to the Board of Supervisors for review and acceptance. The selection of the CPA shall be by the Stanislaus County Auditor-Controller as a Committee member.

### **INVESTMENT POOL EXPENSES**

The expenses of administration of the Pool shall be borne by all depositors by the utilization of investment earnings to offset the costs. Total costs shall not exceed 25 basis points (0.25%) of the average Pool daily balance for any fiscal year. Costs include normal Treasury costs for staff and support services in the areas of handling, safekeeping and depositing monies received; investment transactions and custodial safekeeping of securities; bank services; accounting, reporting and auditing of deposit and investment transactions; informational and educational materials and services related to financial markets, investments and individual business and governmental entities' financial condition; and other duties and costs related to the management of Pool funds. Appropriate costs normally charged as "Treasury/org 30400" on the Stanislaus County Auditor-Controller's records will incorporate and clearly define the Pool expenses.

## **AGENCIES' VOLUNTARY DEPOSITING AND WITHDRAWAL**

"Voluntary" agency depositing is discouraged due to the potential volatility of depositing and withdrawal, which may occur. The Pool is designed as an operating fund for Stanislaus County and entities, which are required to deposit by Law or have historically utilized the efficiencies of the Treasury by Law.

Only those agencies which use the Treasury for operational purposes due to their ties to Stanislaus County departmental functions, area schools or special public districts and are either required or allowed to deposit funds in the County Treasury are allowed to be participants in the Pool.

Withdrawals from the Pool for investment purposes outside of the Pool by non-County member agencies may be done if the following conditions are met:

- The agency has provided the Treasurer with legal authority that it can invest funds outside of the Pool
- The agency shows evidence of maintaining a minimum cash balance of one month's normal payroll expenditures for 30 days prior to the date of request as verified by the Stanislaus County Auditor-Controller
- The agency withdraws a minimum of \$1,000,000 and will continue to maintain its Pool cash balance of one month's normal payroll costs
- The agency makes its request in writing signed by an authorized representative of the agency's board on a form provided by the Treasurer
- The agency must allow two business days for each five million dollar or increment thereof which is being withdrawn (e.g. a \$15,000,000 withdrawal would require that the Treasurer receive a completed request form with appropriate signatures and verifications 6 business days before the funds are released)

If the withdrawing agency's Pool cash balance falls below one month's payroll expense, the Treasurer may demand that funds be retrieved to restore the Pool cash balance to such level.

Reinvestment of funds from external investments (e.g. California State Local Agency Investment Fund) may be done without the above procedures. The Treasurer's Office may verify telephonically with the Auditor's Office that the agency has one month's payroll expenditures as cash in the Pool exclusive of the redemption of the external investment funds.

## **AGENCIES' VOLUNTARY DEPOSITING AND WITHDRAWAL** (Continued)

The agency's request may be denied or delayed if multiple requests are received or abnormally high disbursements are experienced by the Pool resulting in unusual demands for cash outflow. Any agency request, which results in an immediate liquidation of investment securities at a loss, will only be honored after the agency has acknowledged and approved to bear the loss incurred. No request can be honored which will adversely affect the stability and predictability of the investments in the Pool.

## **INVESTMENT EARNINGS APPORTIONMENT AND RATE**

Beginning July 1, 2001, the Pool's investment earnings shall be apportioned by the following method. The investment earnings which have been received in cash and accumulated from the beginning to the end of each calendar quarter shall be apportioned to each cash balance account maintained within the Pool. The apportionment of earnings to any particular cash balance account will be in direct proportion of that account's average daily cash balance to the entire Pool's average daily cash balance for that same quarter. For example, if the earnings received for the quarter ending March 31 were \$5,000,000, and if the County General Fund's average daily cash balance were \$10,000,000 and if the entire Pool's average daily cash balance were \$500,000,000, then the amount of earnings to apportion to the County's General Fund would be \$100,000 (calculated as  $\$5,000,000 \times \$10,000,000 / \$500,000,000$ ). Cash balance accounts shall be maintained in and earnings apportionment shall be performed by the Stanislaus County Auditor-Controller's Office. The cash earnings apportionment rate is calculated as the investment earnings received in cash for the quarter divided by the average daily cash balance for the entire Pool times four (4). In the above example, the cash earnings apportionment rate is 4% ( $\$5,000,000 / \$500,000,000 \times 4$ ).

## **EXEMPTIONS AND AMENDMENTS**

Any investment currently held prior to the adoption of changes to the Investment policy that does not meet the newly revised guidelines of this Policy shall be exempted from the requirements of this policy. Upon that investment's maturity or liquidation, the monies received shall be invested in accordance with this Policy.

This Policy shall be reviewed on an annual basis. Any changes must be prepared by the Treasurer, reviewed and approved for propriety by the Committee and approved by the Stanislaus County Board of Supervisors.

## GLOSSARY

**Bankers' Acceptance (BA):** A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

**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 securities pledged by a bank to secure public money deposits.

**Coupon:** The annual rate of interest that a bond issuer promises to pay the bondholder on the bond's face (or par) value.

**Dealer:** A dealer acts as a principal in all transactions, buying and selling for his own account.

**Delivery Versus Payment:** The delivery of securities with an exchange of money for the securities.

**Derivatives:** Financial instruments with return profiles linked to or derived from the movement of one or more underlying indices or securities. These instruments may include a leveraging factor. Also they include financial contracts based on notional amounts the value of which are derived from underlying indices or securities (such as interest rates, foreign exchange rates, equities or commodities).

**Diversification:** Dividing investment funds among a variety of securities offering independent returns.

**Federal Credit Agencies:** Agencies of the Federal government set up to supply credit to various classes of institutions (e.g. small business firms, farmers, farm cooperatives and exporters).

**Federal Home Loan Banks (FHLB):** Government sponsored wholesale banks (currently 12 regional banks) which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

**Federal National Mortgage Association (FNMA):** FNMA was chartered under the Federal National Association Act in 1938 and is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). FNMA is the largest single provider of residential mortgage funds in the U.S. FNMA is a corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are highly liquid and widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

**Liquid Asset:** A liquid asset is one that can be converted easily and rapidly into cash without a short-term substantial loss in value. Liquid securities have a narrow spread between bid and asked prices at reasonable sizes.



## **GLOSSARY** (Continued)

**Local Agency Investment Fund:** The California pool of local agency assets, which is managed by the State Treasurer. Limits apply to each agency's deposit of general fund reserves, however no limits on amount of deposit apply to bond proceeds. Funds are still quite liquid in this pool.

**Market Value:** The price at which a security is trading and could presumably be purchased or sold.

**Master Repurchase Agreement:** A written contract covering all future transactions between the parties to a repurchase agreement which establishes each party's rights in the transactions.

**Maturity:** The date upon which the principal or stated value of an investment becomes due and payable.

**Money Market:** The market in which short term debt instruments (Bills, CP, BAs, etc.,) are issued and traded.

**Negotiable CD (Certificate of Deposit):** A large denomination time deposit with a specific maturity evidenced by a certificate. These are traded like other fixed income securities. (see also "Certificate of Deposit")

**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 (SEC)-registered securities broker-dealers, banks and a few unregulated firms.

**Repurchase Agreement (REPO):** A holder of securities sells these securities to an investor with an agreement to repurchase the securities at a fixed price on a fixed date. The security buyer in effect lends to the security seller cash money for the period of the agreement and the terms of the agreement are structured to compensate the security buyer for this transaction.

**Safekeeping:** A service 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:** The trading arena of securities subsequent to the initial distribution of those securities.

**Securities and Exchange Commission:** The Federal Agency created by Congress to protect investors in security transactions by administering securities legislation.

**Structured Notes:** Notes issued by government sponsored enterprises (such as FHLB and FNMA) and corporations which have imbedded options (e.g. call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. The securities market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the overall yield curve.

## **GLOSSARY** (Continued)

**Treasury Bills:** A non-interest bearing discount security issued by the U.S. Treasury to finance national debt. Most bills are issued to mature in three (3), six (6) or twelve (12) months.

**Treasury Bonds:** Medium-term interest-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two (2) to ten (10) years.

**Uniform Net Capital Rule (SEC Rule 15C3-1):** SEC requirement that member firms as well as non-member broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of fifteen (15) to one (1); also called "net capital rule" and "net capital ratio." Indebtedness covers all money owed to a firm including margin loans and commitments to purchase securities. Liquid capital includes cash and assets easily converted into cash.

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

**Yield to Maturity:** The annual rate of return on invested dollars or cash outflow exclusive of transactional interest (including any purchase with a discount or premium) given the stated interest income and maturity value of the investment as the anticipated cash inflows.