

CERTIFIED GOVERNMENT FINANCE OFFICER

TREASURY MANAGEMENT EXAMINATION REVIEW COURSE

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INTRODUCTION

- **Examination Information**
- **Reference Materials**
- **Investment Policy & Regulations**
- **Investment Types**
- **Ratings And Duration**
- **Collection / Receipts / Cash Flow**
- **Managing Banking Services**

EXAMINATION INFORMATION

- **Investment Policy & Regulations** **40%**
- **Investment Types** **15%**
- **Ratings and Duration** **10%**
- **Collection / Receipts / Cash Flow** **15%**
- **Managing Banking Services** **20%**

REFERENCE MATERIALS

Florida Statutes

<http://www.leg.state.fl.us/>

Florida Statutes **Chapter 218** Part IV Investment of Local Government Surplus Funds (all sections)

(specifically)

Florida Statutes 218.415 Local government investment policies

REFERENCE MATERIALS

Governmental Accounting, Auditing, and Financial Reporting, **Using the GASB 34 Model 2005** – GFOA

Chapter 12 Transaction-specific and Account-specific Guidance

REFERENCE MATERIALS

Governmental Accounting and Financial Reporting
Standards - **GASB**

Statement 40, Deposit and Investment Risk
Disclosures

Statement 31, Accounting & Financial Reporting for
Certain Investments & for External Investment Pools

REFERENCE MATERIALS

Investing Public Funds - GFOA

Debt Issuance and Management: A Guide for Smaller Governments – GFOA

Sample Investment Policy - GFOA

<http://www.gfoa.org/services/specials/invplcy.shtml>

REFERENCE MATERIALS

Recommended Practice Statements, Cash Management - GFOA

<http://www.gfoa.org/services/rp/cash.shtml>

- **1995 Market Risk (Volatility) Ratings**
- **2002 Use of Derivatives by State and Local Governments for Cash Operating and Reserve Portfolios**
- **2002 Security Lending Programs--Master, Trust, Custodial and Safekeeping Considerations**
- **2002 Acceptance of Credit Cards**

REFERENCE MATERIALS

Recommended Practice Statements, Cash Management

- **2003 Revenue Policy: Cash Receipts Controls**
- **2007 Bank Account Fraud Prevention**
- **2007 Use of Local Government Investment Pools**
- **2007 Diversification of Investments in a Portfolio**

REFERENCE MATERIALS

Other Recommended Readings

- **An Introduction to Treasury Management Practices – GFOA**
- **Best Practices In Treasury Management – GFOA**
- **An Elected Official's Guide to Investing - GFOA**
- **Public Policy Statements – Cash Management – GFOA**

RISK

- **Call**
- **Counterparty Credit**
- **Credit or Default**
- **Custodial Credit**
- **Geo Political**
- **Interest Rate or Market**
- **Liquidity**
- **Reinvestment**
- **Safekeeping**

INVESTMENT POLICY & REGULATIONS

FLORIDA STATUTES

CHAPTER 218, PART IV - INVESTMENT OF LOCAL GOVERNMENT SURPLUS FUNDS

218.403 – Definitions

218.407 - Local government investment authority

218.415 – Local government investment policies

FLORIDA STATUTES

218.403 DEFINITIONS

Chief Financial Officer

The mayor, manager, administrator, clerk, comptroller, treasurer, director of finance, or other local government official, **regardless of title**, charged with administering the fiscal affairs of the government

FLORIDA STATUTES

218.403 DEFINITIONS

Current Expenses

expenses to meet known cash needs and anticipated cash-flow requirements for the short term

Governing Body

the body or board in which the legislative power of a unit of local government is vested

FLORIDA STATUTES

218.403 DEFINITIONS

Short Term

a maximum of 6 months of operations

Surplus Funds

any funds in any general or special account or fund of a unit of local government, or funds held by an independent trustee on behalf of a unit of local government, which in reasonable contemplation will not be immediately needed for the purposes intended

FLORIDA STATUTES

218.403 DEFINITIONS

Trust Fund

The pooled investment fund created by F.S. 218.405 and known as the Local Government Surplus Funds Trust Fund

FLORIDA STATUTES

218.403 DEFINITIONS

Unit of Local Government

Any governmental entity within the state including: any county, municipality, school district, special district, clerk of the circuit court, sheriff, property appraiser, tax collector, supervisor of elections, authority, board, public corporations, or any other political subdivision of the state

QUESTION

FLORIDA STATUTES

218.407 LOCAL GOVERNMENT INVESTMENT AUTHORITY

- **Authorizes local governments to deposit in the Trust fund**
- **Establishes procedures for accounts and deposits**

FLORIDA STATUTES

218.415 LOCAL GOVERNMENT INVESTMENT POLICIES

- Written plan is **NOT** required
- The highest priority is the safety of principal and liquidity of funds
- Yield shall be secondary to the requirements for safety and liquidity

FLORIDA STATUTES

218.415 LOCAL GOVERNMENT INVESTMENT POLICIES

A Written Investment Policies MUST address the following 15 Points and be adopted by law or resolution by the Governing Body

FLORIDA STATUTES

218.415 LOCAL GOVERNMENT INVESTMENT POLICIES

SCOPE

- Applies to funds in excess of those required to meet current expenses
- **DOES NOT APPLY** to Pension funds, or funds related to debt where other policies or indentures apply

FLORIDA STATUTES

218.415 LOCAL GOVERNMENT INVESTMENT POLICIES

INVESTMENT OBJECTIVES

- The investment policy shall describe the investment objectives
- Investment objectives shall include safety of capital, liquidity of funds, and investment income, in that order

FLORIDA STATUTES

218.415 LOCAL GOVERNMENT INVESTMENT POLICIES

PERFORMANCE MEASUREMENT

- The investment policy shall specify performance measures that are appropriate for the nature and size of the portfolio

FLORIDA STATUTES

218.415 LOCAL GOVERNMENT INVESTMENT POLICIES

PRUDENCE AND ETHICAL STANDARDS

Prudent Person Rule

“Investments should 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 from the investment.”

FLORIDA STATUTES

218.415 LOCAL GOVERNMENT INVESTMENT POLICIES

LISTING OF AUTHORIZED INVESTMENTS

- The investment policy shall list investments authorized
- Investments not listed are prohibited
- If derivative products are authorized, sufficient understanding and expertise must be developed

(a “derivative” is defined as a financial instrument the value of which depends on, or is derived from, the value of one or more underlying assets or index or asset values)

FLORIDA STATUTES

218.415 LOCAL GOVERNMENT INVESTMENT POLICIES

LISTING OF AUTHORIZED INVESTMENTS (Continued)

- If the policy authorizes investments in reverse repurchase agreements or other forms of leverage, the policy must limit the investments to transactions in which the proceeds are intended to provide liquidity and for which the unit of local government has sufficient resources and expertise

FLORIDA STATUTES

218.415 LOCAL GOVERNMENT INVESTMENT POLICIES

MATURITY AND LIQUIDITY REQUIREMENTS

- The investment policy shall require that the investment portfolio is structured in such a manner as to provide sufficient liquidity to pay obligations as they come due
- To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash-flow requirements

FLORIDA STATUTES

218.415 LOCAL GOVERNMENT INVESTMENT POLICIES

PORTFOLIO COMPOSITION

- The investment policy shall establish guidelines for investments and limits on security **issues**, **issuers**, and **maturities**.
- Such guidelines shall be commensurate with the nature and size of the portfolio

FLORIDA STATUTES

218.415 LOCAL GOVERNMENT INVESTMENT POLICIES

RISK AND DIVERSIFICATION

- Investments should be diversified to the extent practicable to control the risk of loss resulting from overconcentration of assets in a specific maturity, issuer, instrument, dealer, or bank
- Diversification strategies shall be reviewed and revised periodically

QUESTION

FLORIDA STATUTES

218.415 LOCAL GOVERNMENT INVESTMENT POLICIES

AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS

- The investment policy should specify the authorized securities dealers, issuers, and banks from whom the unit of local government may purchase securities

FLORIDA STATUTES

218.415 LOCAL GOVERNMENT INVESTMENT POLICIES

THIRD-PARTY CUSTODIAL AGREEMENTS

- Securities should be held with a third party; and all securities purchased, and all collateral obtained, should be properly designated as an asset of the unit of local government
- No withdrawal of securities shall be made from safekeeping, except by an authorized staff member

FLORIDA STATUTES

218.415 LOCAL GOVERNMENT INVESTMENT POLICIES

THIRD-PARTY CUSTODIAL AGREEMENTS (continued)

- Securities transactions between a broker-dealer and the custodian **MUST** be made on a “delivery vs. payment” basis

FLORIDA STATUTES

218.415 LOCAL GOVERNMENT INVESTMENT POLICIES

MASTER REPURCHASE AGREEMENT

- A Master Repurchase Agreement must be executed by all institutions and dealers prior to entering into a repurchase agreement/arrangement.
- All repurchase agreement transactions shall adhere to the requirements of the Master Repurchase Agreement

FLORIDA STATUTES

218.415 LOCAL GOVERNMENT INVESTMENT POLICIES

BID REQUIREMENT

The investment policy shall require that staff determine the approximate maturity date based on cash-flow needs and market conditions, analyze and select one or more optimal types of investment, and competitively bid the security in question when feasible and appropriate

FLORIDA STATUTES

218.415 LOCAL GOVERNMENT INVESTMENT POLICIES

INTERNAL CONTROLS

- The investment policy shall provide for a system of internal controls and operational procedures
- The officials responsible for making investment decisions shall establish a system of internal controls which shall be in writing and made a part of the operational procedures

FLORIDA STATUTES

218.415 LOCAL GOVERNMENT INVESTMENT POLICIES

INTERNAL CONTROLS

(continued)

- To be reviewed by independent auditors as part of any financial audit
- Designed to prevent losses of funds which might arise from fraud, employee error, misrepresentation by third parties, or imprudent actions

FLORIDA STATUTES

218.415 LOCAL GOVERNMENT INVESTMENT POLICIES

CONTINUING EDUCATION

- The investment policy shall provide for the continuing education of officials responsible for making investment decisions
- Officials must complete **8** hours of continuing education related to investment practices and products each year

FLORIDA STATUTES

218.415 LOCAL GOVERNMENT INVESTMENT POLICIES

REPORTING

- The investment policy shall provide for appropriate annual or more frequent reporting of investment activities to the legislative and governing body as well as being available to the public
- The report shall include securities in the portfolio by class or type, book value, income earned, and market value as of the report date

QUESTION

FLORIDA STATUTES

218.415 LOCAL GOVERNMENT INVESTMENT POLICIES

AUTHORIZED INVESTMENTS; WRITTEN INVESTMENT POLICIES

- SBA – Florida Prime
- SEC registered money market funds w/Highest Rating
- CDs in QPDs
- Direct obligations of the US Treasury
- Federal agencies and instrumentalities
- Rated or unrated bonds, notes, or instruments backed by full faith and credit of Israel

FLORIDA STATUTES

218.415 LOCAL GOVERNMENT INVESTMENT POLICIES

AUTHORIZED INVESTMENTS; WRITTEN INVESTMENT POLICIES (continued)

- Registered Investment Company or Trust investing in US Government obligations, or obligations of US Agencies or Instrumentalities. As long as they take delivery of the collateral
- Other investments authorized by the local Government

FLORIDA STATUTES

218.415 LOCAL GOVERNMENT INVESTMENT POLICIES

AUTHORIZED INVESTMENTS; NO WRITTEN INVESTMENT POLICY

- SBA – Florida Prime
- SEC registered money market funds - AAA Rated
- CDs in QPDs
- Direct obligations of the US Treasury

FLORIDA STATUTES

218.415 LOCAL GOVERNMENT INVESTMENT POLICIES

SECURITIES; DISPOSITION

Securities purchased must be properly earmarked and:

- If registered with the issuer or its agents, must be immediately placed in safekeeping
- If in book entry form, must be held for the credit of the governing body in an account separate and apart from the assets of the financial institution
- If physically issued it must be held in a safe

FLORIDA STATUTES

218.415 LOCAL GOVERNMENT INVESTMENT POLICIES

SALE OF SECURITIES

When the invested funds are needed for the purposes originally intended or for more optimal investments, they may be sold at the then-prevailing market price

FLORIDA STATUTES

218.415 LOCAL GOVERNMENT INVESTMENT POLICIES

PREEXISTING CONTRACT

Any public funds subject to a contract or agreement existing on October 1, 2000, may not be invested contrary to such contract or agreement

FLORIDA STATUTES

218.415 LOCAL GOVERNMENT INVESTMENT POLICIES

AUDITS

Certified public accountants conducting audits of local governments shall report, as part of the audit, whether or not the local government has complied with this section

FLORIDA STATUTES

218.415 LOCAL GOVERNMENT INVESTMENT POLICIES

AUTHORIZED DEPOSITS

Allows for the investment in CDARS – Certificate of Deposit Account Registry Service or other similar services

QUESTION

INVESTMENT PROGRAM COMPONENTS

Setting investment objectives

**Identifying and managing
investment assets**

Staffing

Investment Policy

Developing cash flows

**Performing broker-dealer due
diligence**

Implementing internal controls

**Selecting and purchasing
investments**

**Recording and accounting for
investments**

Monitoring the portfolio

Evaluating and reporting results

INVESTMENT POLICY

A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

INVESTMENT POLICY

- **Governing Authority**
 - **Legality**
- **Scope**
 - **Applicability**
 - **Exclusions**
 - **Pooling of funds**
 - **Arbitrage**

INVESTMENT POLICY

General Objectives in Priority Order

- **Safety**
 - Credit and interest rate risks
- **Liquidity**
 - Static & Dynamic
- **Yield**
- **Local considerations**

INVESTMENT POLICY

Standards of Care

- **Prudence “Prudent Person”**
- **Ethics and conflicts of interest**
- **Delegation of authority**

INVESTMENT POLICY

Delegation of Authority

- **Governing Body**
- **Investment Officer**
- **Investment Committee**
- **Investment Advisors/Managers**

INVESTMENT POLICY

INVESTMENT ADVISORS/MANAGERS

- Level of authority
 - Non-discretionary vs. discretionary
- RFP & selection criteria
- Advisory Agreement
- On-Going Review

INVESTMENT POLICY

- **RFP for INVESTMENT ADVISORS/MANAGERS**
 - RFP & selection criteria should include:
 - SEC licenses
 - quantitative information
 - organizational structure of firm & business affiliations
 - experience and depth of personnel
 - reporting standards
 - investment philosophy & portfolio management strategies
 - trading process
 - interviews with finalists
 - Understanding regulatory censure or litigation

INVESTMENT POLICY

ADVISORY AGREEMENT

- scope of services
- appointment of the investment adviser and fiduciary responsibilities
- establishment of account responsibilities
- definition of accounts and custody
- definition of discretionary or non-discretionary services with appropriate limitations
- definition of standards (Prudent Expert)
- establishment of objectives, restrictions and benchmarks

INVESTMENT POLICY

ADVISORY AGREEMENT (continued)

- definition and processing of transaction procedures in accordance with policy including brokerage limitations
- representations by entity and investment adviser
- determination of reasonable liability insurance for errors and omissions
- establishment of invoicing and payment
- procedure for termination by either party
- specifications related to nondiscrimination in contracting and ethics rules

INVESTMENT POLICY

ADVISORY AGREEMENT (continued)

- certification of the government's policy by the investment adviser
- all provisions of the RFP as part of the contract

INVESTMENT POLICY

Authorized Financial Institutions, Depositories, and Broker/Dealers

- **Authorized institutions, depositories and dealers**
 - **Broker**
 - **Dealer**
 - **Direct Issuer**
 - **Qualified Public Depositories (QPD)**
- **Minority and community financial institutions**

INVESTMENT POLICY

Safekeeping and Custody

- **Delivery vs. payment – DTC**
- **Safekeeping – 3rd Party Safekeeping Custodian**
- **Internal controls**

QUESTION

INVESTMENT POLICY

INTERNAL CONTROLS

- Are the responsibility of the Investment Officer
- Designed to provide reasonable assurance the assets are protected from loss, theft, or misuse.

INVESTMENT POLICY

Internal Controls Include, but are not limited to:

- Separation of Transaction Authority from Accounting
- Custodial Safekeeping (DVP)
- Avoidance of Physical Delivery
- Confirmations of Transaction/Wires
- Dual Authorization of Wire Transfers
- Staff Training and Monitoring of Procedures
- Documentation
- Clear Delegation of Authority

INVESTMENT POLICY

Suitable and Authorized Investments

- **Investment types**
- **Collateralization**
- **Repurchase agreements**
 - **Master repurchase agreement**

INVESTMENT POLICY

Investment Parameters

- **Diversification / Asset Allocation**
 - **Covariance**
- **Maximum maturities**
- **Competitive bids**

INVESTMENT POLICY

PASSIVE MANAGEMENT STRATEGY

Minimizes the training and labor effort to attain market - average portfolio performance

- **Managed assets**
- **Laddered maturities**
- **Barbell maturities**
- **Horizon investing**
- **Rolling T-bills**

INVESTMENT POLICY

ACTIVE MANAGEMENT STRATEGY

increase portfolio performance by exceeding market-average rate of return

- **Market-timing**
- **Money-market arbitrage**
- **Downgrade investment quality**
- **Swaps**
- **Yield curve analysis**

INVESTMENT POLICY

Reporting

- **Methods**
- **Performance standards**
- **Marking to market**

INVESTMENT POLICY

Reporting

- **PORTFOLIO RETURNS**
 - Effective rate of return
 - Risk adjusted return
 - Total return

- **INVESTMENT RETURNS**
 - Coupon yield
 - Current yield
 - Discount yield
 - Horizon yield
 - Option adjusted yield
 - Yield to maturity
 - Yield to call

INVESTMENT POLICY

Reporting

Benchmarks

A passive portfolio that represents the expected returns and expected risks that correspond to the investment objectives

- **Maturity structure**
- **Investment quality**
- **Market exposure**

INVESTMENT POLICY

Interim Reporting

- **Frequency**
 - **Staff availability**
 - **Complexity**
- **In conformance with law**
- **In conformance with preference**

Annual Reporting

- **In conformance with law**
- **Overall performance appraisal by class**
- **Economic outlook**
- **Interest rate trends**
- **Investment manager's portfolio outlook**

INVESTMENT POLICY

Other Policy Considerations

- **Exemptions**
- **Amendments**
- **Approval of Investment Policy**
- **List of Attachments**
- **Other Documentation**

INVESTMENT POLICY

FINANCIAL REPORTING - GASB 31

Establishes fair value standards for investments in interest-earning investment contracts, external investment pools, open-end mutual funds, debt securities, equity securities

- Report investments at fair value on the balance sheet**
- Report all investment income, including changes in fair value, as revenue on the operating statement**

INVESTMENT POLICY

FINANCIAL REPORTING - GASB 40

Addresses common deposit and investment risks related to credit risk (custodial credit risk and concentration of credit risk), interest rate risk, and foreign currency risk

INVESTMENT POLICY

GASB 40 – Credit Risk Disclosure

Dissimilar Investments should not be aggregated

Custodial Credit Risk - Disclosed when securities are uninsured and not collateralized, or collateralized with securities held by the counterparty, or collateralized with securities held by the counterparty's trust department but not in the governments name.

Treasury Securities are exempt

INVESTMENT POLICY

GASB 40 – Credit Risk Disclosure – Cont.

Concentration of Credit Risk – Disclose by amount and issuer, investments in any one issuer that represents more than 5% of the Portfolio.

Investments in mutual funds and investment pools are excluded in addition to Treasuries

INVESTMENT POLICY

GASB 40 – Interest Rate Risk

Methods to identify and Manage Interest Rate Risk:

- Segmented Time Distribution
- Specific Identification
- Weighted Average Maturity
- Duration
- Simulation

The Last QUESTION

CERTIFIED GOVERNMENT FINANCE OFFICER

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FEDERAL RESERVE SYSTEM

- **FEDERAL RESERVE ACT OF 1913**
- **BOARD OF GOVERNORS**
- **FEDERAL OPEN MARKET COMMITTEE**

FEDERAL RESERVE SYSTEM

FEDERAL RESERVE ACT OF 1913

“... to provide for the establishment of federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes.”

FEDERAL RESERVE SYSTEM

BOARD OF GOVERNORS

- **Seven members**
- **Nominated by the President**
- **Confirmed by the Senate**
- **14 year terms**

FEDERAL RESERVE SYSTEM

FEDERAL OPEN MARKET COMMITTEE

- **Twelve members**
 - **Seven members of Board of Governors**
 - **President of the NY Federal Reserve Bank**
 - **Four rotating members from remaining 11 Federal Reserve Banks each serving a one-year term**

FEDERAL RESERVE SYSTEM

FEDERAL OPEN MARKET COMMITTEE

Foster the long-run objectives of price stability and sustainable economic growth through monetary policy

- **Bank Reserve Requirements**
- **Discount Rate**
 - **Rate on loans by federal reserve banks to member banks**
- **Open Market Operations**
 - **Buy and sell US Treasuries**

QUESTION

INVESTMENT TYPES

INVESTMENT TYPES

US Treasury Bills

- **Issued at discount**
- **Mature in 1 year or less**
- **Interest paid at maturity**
- **Credit/Default Risk free**
- **Highly liquid**
- **Issued and mature on Thursday**
- **Carry lowest rates of return, normally**
- **Backed by full faith and credit of the US government**

INVESTMENT TYPES

US Treasury Bills (continued)

- **Discount\$ = Term X Discount% / 360**
- **Dollar Price = \$100 – Discount\$**
- **Yield = Earnings / Price**
- **Bond Eq Yld = Discount\$ / Dollar Price X 365 / Term**

INVESTMENT TYPES

US TREASURY NOTES AND BONDS

- **Coupon bearing**
- **Mature from 2 to 30 Years**
- **Interest paid semi-annually**
- **Credit risk free**
- **Very liquid**
- **Carry incrementally higher rates of return than Bills, normally**
- **Backed by full faith and credit of the US government**

INVESTMENT TYPES

Federal agency securities

- Debt instruments issued by US government agencies, departments, government sponsored corporations and related instrumentalities**

Federal Agencies

Instrumentalities

INVESTMENT TYPES

FEDERAL AGENCIES

- Instruments backed by full faith and credit of US government
- Generally higher interest rates than comparable Treasuries
- Generally long-term instruments
- Subject to liquidity and market risks
 - Small Business Administration
 - Face value and interest
 - Export-Import Bank
 - Face value and interest
 - Government National Mortgage Association
 - Principal and interest

INVESTMENT TYPES

FEDERAL INSTRUMENTALITIES

- **Government sponsored enterprises**
- **Established to implement federal lending programs**
- **Carries an implied backing of the federal government**
- **Backed by full faith and credit of the issuing agency**
- **Generally higher interest rates than comparable Treasuries**
- **Short and long term instruments**
 - **Federal Farm Credit Banks**
 - **Federal Home Loan Banks**
 - **Federal Home Loan Mortgage Corporation**
 - **Federal National Mortgage Corporation**

QUESTION

INVESTMENT TYPES

INVESTMENT POOLS

Allow units of local government to pool funds to achieve a potentially higher rate of return

- **State-run pools**
- **Pools operated by a political subdivision**
- **Pools operated for profit by third-parties**

INVESTMENT TYPES

INVESTMENT POOLS

Before Investing

- **Review the Policies of the Pool**
 - **Does it cover everything a policy should**
 - **Is it Compatible with the local government investment policy**
- **Know how do they calculate and report interest**
- **Know the withdrawal requirements**
- **Know the costs!**

INVESTMENT TYPES

REPURCHASE AGREEMENTS

- **Master Repurchase Agreement**

- **Repurchase Agreement**
 - **Short-term investment**

- **Reverse Repurchase Agreement**
 - **Used in practice to leverage borrowed cash for higher yielding securities due to longer maturities or increased risk**
 - **Or any other cash/liquidity need**

INVESTMENT TYPES

OTHER SECURITIES

- **Asset-backed Securities**
- **Banker's Acceptance**
- **Money Market Mutual Funds**
- **Certificates of Deposit**
- **Commercial Paper**
- **Mortgage-backed Securities**
- **CMO**
- **Zero-coupon Securities**
- **Odd lot**

INVESTMENT TYPES

DERIVATIVES

A financial instrument the value of which depends on, or is derived from, the value of one or more underlying assets or index or asset values.

- **Put option**
- **Call option**

Securities Lending

QUESTION

**RATINGS
AND
DURATION**

CREDIT RATINGS

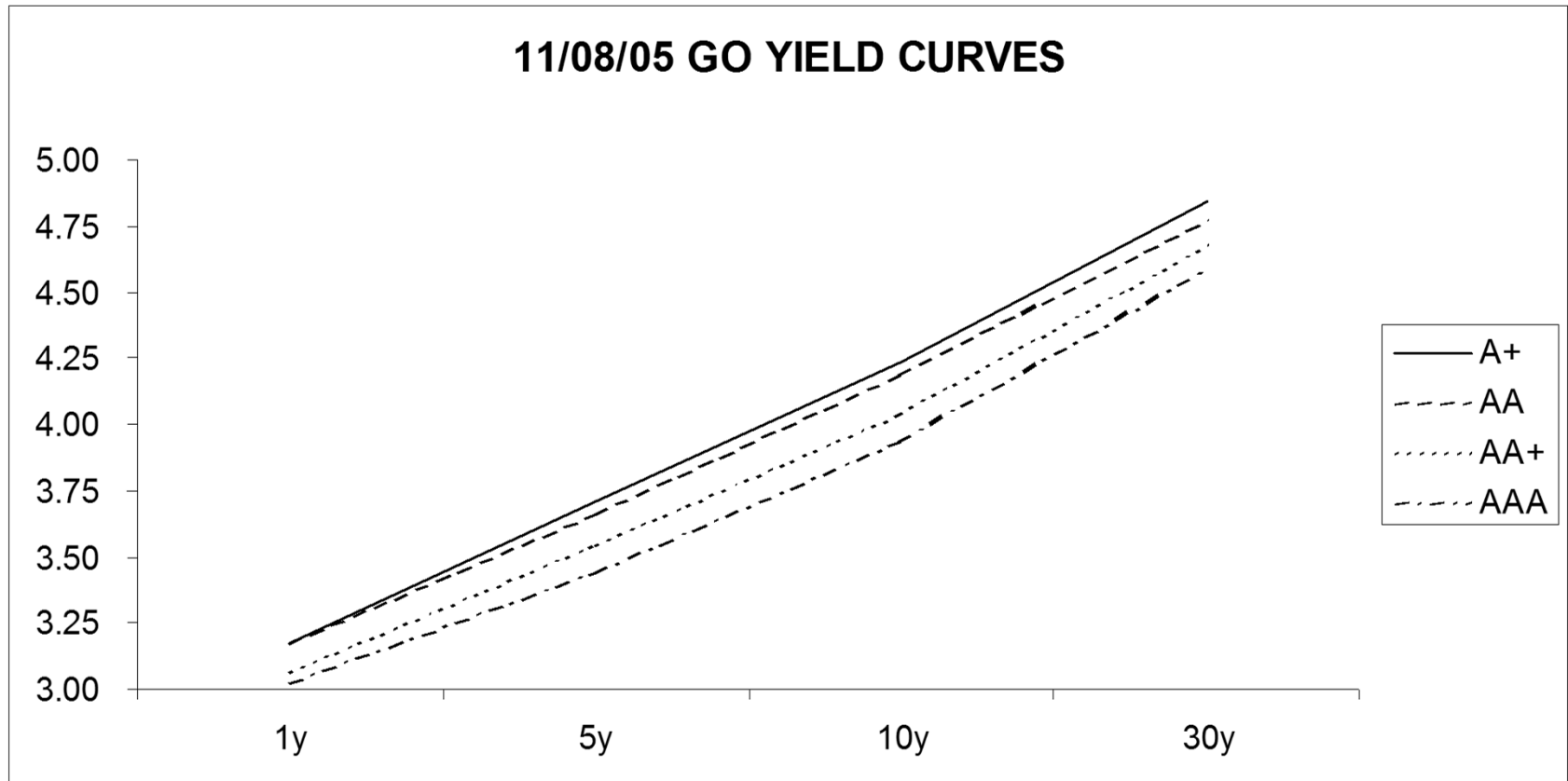
Investment Grade

AAA	Extremely strong financials or insured
AA	Very strong financials
A	Strong financials
BBB	Good financials

Non-investment Grade

BB	Marginal financials
B	Weak financials
CCC	Very weak financials
CC	Extremely weak financials
R	Under supervision

RATINGS & The Yield Curve



DURATION

Measure of the timing of cash flows from a fixed-income Security and a useful indicator of price volatility.

Measured in years: in percentage terms the change in value of a security given a 100 bps change in yield

- **Term to maturity**
- **Coupon rate**
- **Yield to maturity**

QUESTION

**COLLECTIONS
&
CASH FLOW**

COLLECTIONS & CASH FLOW

Collections

- **Central cashier and cash collection**
- **Remote cashier and cash collection**
- **Lockbox collection**
- **Fed wires**
- **e-check applications**
- **Internal Controls**

COLLECTIONS & CASH FLOW

Collections

- **Credit cards**
 - **Merchant fees**
 - **Interchange fees**
- **Accounts receivable**
 - **Terms**
- **Returned payments**

COLLECTIONS & CASH FLOW

Collections

- **Float**
 - **Administrative float**
 - **Time to process a receipt**
 - **Collection float**
 - **Time to deposit a receipt**
 - **Mail float**
 - **Time the receipt is in the mail**
 - **Availability Float**
 - **Time between the deposit and when funds become available**

COLLECTIONS & CASH FLOW

CASH FLOW FORECAST

- **Analysis of cash balances over time**
 - **Inflows**
 - **Outflows**

COLLECTIONS & CASH FLOW

CASH FLOW FORECAST

- **Helps Determine**
 - **Liquidity Needs**
 - **Core Fund - Available for longer term investing**
 - **Maximum Maturity**

The amount of surplus funds available to invest and for how long

QUESTION

MANAGING BANKING SERVICES

MANAGING BANKING SERVICES

CONTRACTS

- **General Banking Services Agreement**
- **Funds Transfer Schedules**
- **ACH Fraud Control Agreement**
- **Positive Pay Agreement**
- **Deposit Agreement**

MANAGING BANKING SERVICES

General Banking Services Agreement

indicates the bank acts as agent in custody of government funds, collecting and transferring amounts;

indicates the priority of controlling agreements;

describes fees, warranties, limitations of liability, term,

change provisions, governing law, notices and insurance

MANAGING BANKING SERVICES

Positive Pay Agreement

Positive Pay Agreement sets forth default preferences

- “Pay All Checks” will cause the bank to report all mismatched checks and require the government to provide a do not pay response, or else all checks will be paid;
- “Return All Checks as Unauthorized” will cause the bank to report all mismatched checks and require the government to provide a pay order before any checks will be paid

MANAGING BANKING SERVICES

ACCOUNT BALANCES

- Available balance
- Average daily balance
- Compensating balance
- Sweep
- Cash concentration accounts
- Zero-balance accounts

MANAGING BANKING SERVICES

RECONCILIATION SERVICES

- **Deposit reconciliation service**
- **Check reconciliation service**
- **Positive pay**
- **Reverse positive pay**

MANAGING BANKING SERVICES

BANKING CHARGES

- **Account analysis**
- **Fee for service**
- **Compensating balance**

MANAGING BANKING SERVICES

REPORTING

- **Bank reconciliation**
- **Proof of Cash Statement**

MANAGING BANKING SERVICES

OTHER BANKING SERVICES

- Electronic Benefits Transfer
- Remote Deposit Capture
 - Accounts Receivable Conversion
 - Back Office Conversion

MANAGING BANKING SERVICES

BENEFITS OF REMOTTE DEPOSIT CAPTURE

- Simplified processing of Deposits
- Reduced Costs
- Accelerated clearing of checks
- Improved availability of funds
- Added Convenience
- Reduced return items risks
- Item archive
- Digitized format and reporting

MANAGING BANKING SERVICES

PUBLIC DEPOSITS

- QPD can fail
- QPD can get bought by another bank
- Form 1295 and Annual report
- F.S. 280

The Last QUESTION

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