CITY OF SHERMAN
INVESTMENT POLICY
September 21, 2020

1.0 Policy

It is the policy of the City of Sherman, Texas, (City) to invest public funds in a manner which will provide the safest and most liquid opportunity with the highest investment return while meeting the daily cash flow demands of the City and conforming to the statutes governing the investment of public funds. This policy serves to satisfy the statutory requirements of defining and adopting a formal investment policy. The policy and strategy shall be reviewed by the Investment Committee and the City Council annually. Any modifications will be formally approved by the City Council. This investment policy, as approved, is in compliance with the provisions of the Public Funds Investment Act of the Texas Government Code Chapter 2256 (PFIA).

2.0 Scope

This policy applies to all aspects of investing the financial assets of the City. These funds are accounted for in the City's Comprehensive Annual Financial Report and include: General Fund, Special Revenue Funds, Debt Service Funds**,** Capital Project Funds, Enterprise Funds, Trust and Agency Funds, and any new fund created by legislative body, unless specifically exempted or excluded. To maximize investment earnings, funds will be pooled and earnings allocated to the various funds based on their balances and in accordance with generally accepted accounting principles.

This policy shall not govern funds which are managed under separate investment programs in accordance with Section 2256.004 of the Public Funds Investment Act. Such funds currently include the Perpetual Care Cemetery and Mausoleum Fund, Deferred Compensation Fund and Bond Proceeds.

2.1 Perpetual Care Cemetery and Mausoleum Fund: This fund is governed by a trustee agreement and the provisions of Sections 712.021 - 712.029 of the Health and Safety Code. The investment decisions are the responsibility of the trustee. Therefore, this fund is excluded from this investment policy.

2.2 Deferred Compensation: The City's deferred compensation plan qualifies under Internal Revenue Service Section 457 and, therefore, is exempt from the Public Funds Investment Act and this policy.

2.3 Bond Proceeds: Funds received from the sale of general obligation bonds or certificates of obligation will be segregated and will be invested under a separate strategy.

3.0 Objectives

The following are the primary investment objectives of the City of Sherman, in order of priority:

3.1 Safety: Safety of principal is the foremost objective of the City of Sherman's investment policy. Safety is defined as the undiminished return of the principal of the City's investments and deposits. Investment officers must have an adequate understanding of the suitability of individual investment instruments in light of the City's financial needs. This understanding is gained through experience of the investment officers and through training designed to increase the expertise of the investment officers.

3.2 Liquidity: Liquidity is important to ensure sufficient cash to meet all operating requirements. A liquid investment is one that can be easily and quickly converted into cash without a substantial loss of value.

3.3 Public Trust: All participants in the City's investment process shall perform their duties at the highest level of public trust. Investment officers shall avoid any transaction that might impair public confidence in the City's ability to govern effectively.

3.4 Yield: For the City of Sherman, the yield objective is secondary to those of safety and liquidity. Yield is defined as the rate of annual income return on an investment, expressed as a percentage. The one-year Constant Maturity Treasury rate or other Treasury-based rate which corresponds to the approximate weighted average of the portfolio will be a benchmark to promote a better understanding of portfolio performance.

4.0 Standards of Care

Persons who act in good faith and in compliance with this policy shall be relieved of any personal liability arising from the investment activities of the City of Sherman.

4.1 Prudence: Investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the persons' own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.

In determining whether an investment officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration: (1) the investment of all funds under the City's control over which the officer had responsibility rather than a consideration as to the prudence of a single investment; (2) whether the investment decision was consistent with this written investment policy of the City of Sherman; and (3) whether the decision might have impaired public confidence in the City's ability to govern effectively.

4.2 Ethics: Investment officers shall refrain from any activity that conflicts, or appears to conflict, with the officer's proper execution of the investment program or which could impair the officer's ability to make impartial investment decisions.

4.3 Conflicts of Interest: Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of investment programs, or which could impair their ability to make impartial investment decisions. Employees and investment officers shall disclose to the Texas Ethics Commission and the City Manager, and the City Manager discloses to the City Council if:

a) The officer has a personal business relationship with a business organization offering to engage in an investment transaction with the City; or

b) The officer is related within the second degree by affinity or consanguinity, as determined under Chapter 573 of the Texas Government Code, to an individual seeking to transact investment business with the City.

4.4 Delegation of Authority: As originally granted by Resolution 3230, dated September 11, 1995, and modified by Resolution 5953 on April 6, 2015, the daily operation and management of the City of Sherman's investments are the responsibility of the following persons:

a) Investment Officers: The City Manager shall name two investment officers from among the employees with the following job titles: City Manager, Finance Director and Controller. The investment officers are authorized to deposit, withdraw, invest, transfer, or manage in any other manner, funds of the City of Sherman. Investments officers must disclose any business or personal relationships with business organizations offering to engage in an investment transaction with the City according to Section 2256.005.

b) Investment Committee: The Investment Committee shall consist of the City Manager and two members of the City Council as appointed by the Council. The committee shall annually approve the list of approved brokers, dealers and financial institutions, review and approve revisions to this policy, recommend investment strategies within this policy, and monitor investment results, controls, and compliance with this policy. The approved list of brokers, dealers and financial institutions is in Appendix B.

c) Other Investment Authorizations: The Accounting Assistant, Accountant and Chief Accountant are also authorized to deposit funds into the bank depository.

4.5 Quality and Capability of Investment Management: Recognizing that the investment officers of the City have many other duties and that they may lack formal education in investing, this policy allows the City to use only the more basic and easily understood types of investments available to local governments.

4.6 Training of Investment Officers: Investment training is required for all investment officers of the City. Within 12 months after assuming duties, each investment officer must complete initial training of at least 10 hours of instruction relating to the investment officer's respective responsibilities under the PFIA. Thereafter, each investment officer must attend an investment training session not less than once in a two-year period beginning on October 1st and receive not less than eight hours of instruction relating to investment responsibilities under the PFIA. Investment training sessions must be provided by approved sources include the Government Finance Officers Association (GFOA), the Governmental Finance Officers Association of Texas (GFOAT), the Government Treasurers' Organization of Texas (GTOT), the University of North Texas Center for Public Management, and the Texas Municipal League.

5.0 Strategies

The investment strategy is the logical product of the investment objectives. As such, it emphasizes low credit risk, diversification, and the management of maturities. The strategy also takes into account the expertise and time constraints of the investment officers. The allowable investments listed in Section 7 of this policy reflect the avoidance of credit risk. Diversification refers to dividing investments among a variety of securities offering independent returns. The management of maturities refers to structuring the maturity dates of the direct investments so that, while funds are initially invested for a longer period of time, some investments mature at regularly-recurring intervals.

A basic strategy governs the investment of all funds under this policy. A separate strategy applies to the investment of bond proceeds.

5.1 Depository Bank: Funds at the depository bank are to be managed to a level that minimizes the cost of the relationship to the City. In instances where the depository contract allows for the payment of fees by maintaining balances at the depository, every effort is to be made to minimize the amount of money held at the depository in excess of that needed to compensate the bank for its services. Concerns about safety are to be addressed by the pledging requirements of the depository, in accordance with state law. This strategy specifies that sufficient funds to support daily operations are maintained in the depository bank, but that any funds in excess of that are held to a minimum. In accordance with the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), the City will require that the bank's board of directors or a designated committee approve the depository agreement, including the pledge of collateral to secure with bank's obligations with respect to the deposits maintained at the bank by the City.

5.2 Other Financial Institutions: The City may invest in certificates of deposit with maturities of five years or less with a bank other than the Depository Bank. A laddered maturity strategy is used for these instruments and only funds whose expenditure is not anticipated during the term of the certificate are invested.

5.3 Investment Pools: An investment pool is an entity created to invest public funds jointly on behalf of the entities that participate in the pool and whose investment objectives in order of priority are safety, liquidity, and yield. Funds are usually available from investment pools on a next day basis, meaning the pools have a high degree of liquidity. Because of the size and expertise of their staffs, investment pools are able to prudently invest in a variety of the investment types allowed by state law. In this manner, investment pools achieve diversification. Funds that may be needed on a short-term basis but that are in excess of the amount maintained at the depository bank are available for deposit in investment pools.

5.4 Federal Deposit Insured Corporation (FDIC) Insured Investment Accounts: FDIC insured investments are interest bearing deposit accounts which meet public funds investment objectives of safety, liquidity and yield, similar to investment pools. Accounts are subject to FDIC regulations which enable depositors to obtain FDIC insurance coverage. Funds are usually available on a next day basis, meaning they have a high degree of liquidity. Deposits are aggregated with other deposit sources. There is no market risk (par value--dollar in/dollar out) and yields are typically higher than other short term investments. Funds that may be needed on a short-term basis but that are in excess of the amount maintained at the depository bank are available for deposit in FDIC insured investment accounts.

5.5 Direct Investments: The City of Sherman purchases securities of the U.S. Treasury, U.S. Agencies, and direct obligations of this state, its agencies, counties, cities and other political subdivisions in the secondary market and in the primary market in the case of new issue offerings. For purposes of this policy, the term "U. S. Agencies" shall include obligations, including letters of credit, of the United States or its agencies and instrumentalities. The City employs a laddered maturity strategy for these instruments. With that method, some investments reach maturity at regularly-recurring intervals, enhancing liquidity. The investment officers must give consideration to the over-all liquidity of the portfolio before making a direct investment. Additionally, the City occasionally purchases a U. S. Treasury or Agency security with maturities as long as five years. See Section 5.6 below.

5.6 Hold until Maturity: The strategy of the City is to maintain enough liquidity in its portfolio that it never needs to sell a security. This will protect the principal of the investment against market risk. Should it become necessary to sell a security prior to maturity, the prior written consent of the City Manager must be obtained.

5.7 Investment of Reserve Funds: Up to one-third of the funds held in reserve are available for investment in Treasury or Agency securities with remaining maturities up to five years.

5.8 Separate Strategy for Bond Proceeds: Proceeds from the sale of general obligation bonds or certificates of obligation will be segregated from the other investments of the City. The basic intent is to match the availability of funds to the cash requirements of the capital projects. Therefore, the maturity limits of Section 7.8 do not apply. The following investments are available for this strategy: treasury securities, demand deposits, certificates of deposit, FDIC insured investment accounts and investment pools. Ten percent of anticipated costs of the projects must be kept in demand deposits or pooled investments to cover unanticipated cash demands. The remaining proceeds are to be invested so as to match anticipated demands for cash. Except for the requirement for demand deposits or investment pools above, there is no restriction on the percentage of the bond proceeds that may be invested in any authorized investment vehicle.

6.0 Authorized Financial Dealers and Institutions

6.1 Approved List of Investment Service Providers: All banking services will be governed by the depository contract. In addition, the Finance Director shall maintain a list of security brokers, dealers, financial institutions, and investment pools that are authorized by the Investment Committee and the City Council. To be eligible to be approved to do business with the City of Sherman, a seller of securities or financial institution must be a primary dealer, a regional dealer that qualifies under SEC Rule 15C3-1, be regulated by Federal banking authorities, or an investment pool that meets all the requirements of state law. More details on investment pool qualifications are listed in Section 7.4. Annually, the Investment Committee must review, revise and adopt a list of qualified brokers and financial institutions that are authorized to engage in investment transactions with the City. The approved list of financial institutions and broker/dealers can be found in Appendix B.

6.2 Acknowledgment of Investment Policy: A written copy of this investment policy shall be presented to any person or firm seeking to sell to the City any investment. A qualified representative of the business organization seeking to sell an investment shall execute a written instrument substantially to the effect that the registered principal has: (1) received and thoroughly reviewed the City's investment policy; and (2) acknowledged that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between the City and the organization. The City's investment officers are expressly prohibited from buying any security from a person or firm which has not delivered a document that complies with the requirements of this section of the investment policy to the City.

7.0 Authorized Investments, Including Diversification Limits and Maximum Maturities

Following is a list of investments that are authorized by this policy for inclusion in the City of Sherman's portfolio of investments. Also shown are the target and maximum percentages (portfolio cap) of that type of security and the maximum maturity that is allowable.

7.1 Certificates of Deposit: These investments are permitted if invested through a broker or depository institution that has its main office or a branch office in this state and is eligible under Section 2256.010 of the Public Funds Investment Act.

7.2 Obligations of the United States Treasury: United States Treasury Bills, Notes and Bonds are authorized investments of the City of Sherman. For purposes of collateral against the City's investments, the maximum length of remaining maturity may be fifteen years, as long as the total market value of the securities pledged against the City's investments always exceeds those investments.

7.3 Obligations of Agencies or Instrumentalities of the United States: United States Agency securities, or other obligations, are authorized investments of the City provided that they are unconditionally guaranteed or insured by, or backed by the full faith and credit of the United States or its respective agencies and instrumentalities. For purposes of collateral against the City's investments, the maximum length of remaining maturity may be fifteen years, as long as the total market value of the securities pledged against the City's investments always exceeds those investments.

7.4 Investment Pools: Public funds investment pools which have been created to function as a money market mutual fund are authorized investments of the City provided that they meet the following criteria: (1) they are continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service; (2) they mark their portfolio to market daily; (3) they maintain a stable net asset value of no less than .995 and no more than 1.005; (4) they limit their investments to those allowable to local governments by state law; and, (5) they meet or exceed the initial and monthly disclosure requirements of applicable state law. Deposits in investment pools that contain commercial paper are not authorized.

7.5 Federal Deposit Insurance Corporation (FDIC) Insured Investment Accounts: Interest bearing deposit accounts subject to FDIC regulations are authorized investments of the City provided they meet the following criteria: (1) the funds are invested through a broker or depository institution that has its main office or a branch office in this state and is eligible under Section 2256.010 of the Public Funds Investment Act; and (2) the balances are maintained at or below levels which qualify for FDIC insurance coverage.

7.6 Repurchase Agreements; Bankers' Acceptances: These investment options are authorized for the City of Sherman only to the extent that they are contained in the portfolios of approved public funds investment pools in which the City invests. The direct investment in repurchase agreements and bankers' acceptances by the City of Sherman is not authorized. However, indirect investment in repurchase agreements by the City's depository under a sweep arrangement is allowable for purposes of this policy.

7.7 Direct Obligations of this State, its agencies, Counties, Cities and other political subdivisions: State agency means an office, department, commission, board or other agency that is part of any branch of state government, an institution of higher education, and any nonprofit corporation acting on behalf of any of those entities rated no lower than A or at an equivalent rating by at least one nationally recognized rating service.

7.8 Diversification Limits and Maximum Maturities: The City will diversify the portfolio at all times to ensure the reduction of risk while still maintaining reasonable rates of return and ensuring an adequate amount of liquidity. With the exception of authorized pools and FDIC insured investment accounts, no more than 50% of the total investment portfolio will be invested in a single security type, such as U.S. Agencies, U.S. Treasuries, obligations of the State of Texas and its subdivisions, Certificates of Deposits, etc.

The City will not invest in securities maturing more than five years from the date of purchase. The maximum average dollar-weighted maturity shall be 500 days.

8.0 Prohibited Securities

8.1 Allowed by State Law but Prohibited by This Policy: The following instruments are eligible for investment by local governments according to state law, but have been intentionally prohibited for the City by this policy: collateralized mortgage obligations; obligations of other states and their agencies, counties, cities, and other political subdivisions; bonds issued by the State of Israel; securities lending programs; guaranteed investment contracts; mutual funds; commercial paper; and investment pools except those pools which are created to function as money market mutual funds. This prohibition is in view of the time constraints on and the expertise level of the investment officers.

8.2 Expressly Prohibited by State Law and This Policy: The following securities are expressly prohibited by state law and this policy: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjust opposite to the changes in a market index (inverse floaters).

9.0 Collateralization

In accordance with Chapter 2257 of the Texas Government Code and the depository contract, all demand deposits and all time deposits will be collateralized by the pledging of investment securities or by letters of credit from Federal Home Loan Bank. If securities are used as collateral, the Finance Director or designee must approve the security prior to its pledging. Pledged securities shall always be held by a third party and evidenced by a current safekeeping receipt.

10.0 Safekeeping

All investment transactions entered into by the City, other than those with investment pools, certificates of deposit and FDIC insured investment accounts, shall be conducted on a delivery-versus-payment basis. Securities shall be held by a third party custodian and evidenced by current safekeeping receipts.

11.0 Internal Control

The Finance Director shall establish a system of internal controls designed to prevent the loss of public funds due to fraud, error, misrepresentation, unanticipated market changes, or imprudent actions. The system shall contain, but is not limited to, the following items:

11.1 Competitive Bids: Generally, securities will be purchased using competitive offerings. The Finance Director or designee shall make their best effort to obtain at least three offers from firms listed on the approved list of brokers and dealers. Offers shall be in writing and may be delivered to the City in person, or by fax or email. The award shall be on the basis of the best value to the City. Records of the offers and award shall be maintained by the Finance Director or designee.

The City recognizes that a competitive offering process is not always necessary or is not always in the best interest of the City. Accordingly, new issue offerings may be purchased directly from an approved broker/dealer in the primary market.

11.2 Delivery-Versus-Payment: The safekeeping agent must receive all investments, other than investment pool funds, certificates of deposit and FDIC insured investment accounts, before funds are released for their purchase.

11.3 Compliance Audit: In conjunction with its annual financial audit, the City shall require a compliance audit of management controls on investments and adherence to this policy.

11.4 Collateral: Evidence of pledged collateral shall be maintained by the Finance Director or designee. Collateral shall be reviewed weekly to assure that the market value of the pledged securities is adequate.

11.5 Other Components: Internal control shall address separation of transaction authority from accounting and recordkeeping, clear delegation of authority to subordinate staff members, and written confirmation of transaction for investments and wire transfers.

Other sections of this policy contain aspects of internal control procedures. These include holding securities until maturity, providing adequate training for all investment officers, requiring vendors to meet minimum qualifications before selling securities to the City, disclosing personal or business relationships between investment officers and vendors, and regular reporting of investments to the City Council.

12.0 Valuation

The market value of each investment in the City's portfolio will be calculated quarterly, on the following basis:

12.1 Investment Pools: Monthly statements are received from the investment pools which show the amount on deposit and the market value of the pool as a percentage of the book value. The market value of the investment pools will be the product of these two figures.

12.2 Treasury Notes: The market value of Treasury Notes will be obtained from the City's third-party securities custodian.

12.3 Treasury Bills: The market value of Treasury Bills will be obtained from the City's third-party securities custodian.

12.4 Agencies of the United States and the State of Texas: The market value of Agency securities and direct obligations of this state, its agencies, counties, cities and other political subdivisions will be obtained from the City's third-party securities custodian.

13.0 Credit Ratings

The credit rating of each investment in the City's portfolio will be determined quarterly from Standard and Poor's, Moody's or other nationally recognized rating agencies. All prudent measures will be taken to liquidate an investment that is downgraded to less than the required minimum rating.

14.0 Performance Standards

For each of the City's investment objectives, following are the performance standards:

14.1 Safety: All investment principal is maintained.

14.2 Liquidity: Sufficient cash is maintained or can be generated to pay all current obligations without selling direct securities or incurring loss of principal.

14.3 Yield: Yield on the portfolio of City funds, excluding demand deposits at the bank depository, should approximate the Treasury-based yield having similar weighted-average maturities.

15.0 Reporting

No less than quarterly, the investment officers shall prepare, sign, and present to the City Council a report of the City's investments in compliance with section 2256.023 of the Public Funds Investment Act.

16.0 Investment Policy Adoption and Revision

The City Council shall adopt the written investment policy by resolution. Annually the City Council shall review the investment policy and strategy. Revisions to the policy shall be made by City Council resolution.

APPENDIX A

GLOSSARY OF COMMON TREASURY TERMINOLOGY

Agencies: Federal agency securities.

Amortized cost: Cost of investments adjusted for amortized premiums and discounts.

Asked: The price offered for securities.

Bid: The price offered by a buyer of securities.

Book value: A term synonymous with amortized cost.

Broker: A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; he does not position. In the money market, brokers are active in markets in which banks buy and sell money and in interdealer markets.

Certificate of Deposit (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's 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.

Commercial Paper (CP): An unsecured short-term promissory note issued by corporations, with maturities ranging from 2-270 days.

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 Risk: The risk of loss of principal and interest due to a failure of the security or broker.

Dealer: A dealer, as opposed to a broker, acts as a 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 (also called free). 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.

Discount: The difference between the cost price of a security and its value at maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

Discount Securities: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g., U.S. Treasury bills.

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 and individuals, e.g., small business firms, students, farmers, farm cooperatives, and exporters.

Federal Deposit Insurance Corporation (FDIC): A federal agency that insures bank deposits, currently up to $250,000 per deposit.

Federal Funds Rate: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

Federal Home Loan Banks (FHLB): The institutions that regulate and lend savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-a-vis member commercial banks.

Federal National Mortgage Association (FNMA): FNMA, like GNMA, was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development, H.U.D. It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

Federal Open Market Committee (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve 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.

Federal Reserve System: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C. 12 regional banks and about 5,700 commercial banks that are members of the system.

Government National Mortgage Association (GNMA or Ginnie Mae): Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government, Ginnie Mae securities are backed by FHA, VA or FMHM mortgages. The term pass-through is often used to describe Ginnie Maes.

Laddered Portfolio: Investment portfolio with securities in each maturity range (e.g. monthly) over a specified period of time.

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 Government Investment Pool (LGIP): The aggregate of all funds from political subdivisions that are placed in custody for investment and reinvestment.

Market Risk: The risk that the market value and interest earnings of an investment or a portfolio will fall due to changes in general interest rates.

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

Master Repurchase Agreement: To protect investors, many public investors will request that repurchase agreements be preceded by a master repurchase agreement between the investor and the financial institution or dealer. The master agreement should define the nature of the transaction, identify the relationship between the parties, establish normal practices regarding ownership and custody of the collateral securities during the term of the investment, provide remedies in the case of default by either party and clarify issues of ownership. The master repurchase agreement protects the investor by eliminating the uncertainty of ownership and hence, allowing investors to liquidate collateral if a bank or dealer defaults during the term of the agreement.

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, commercial paper, bankers' acceptances, etc.) are issued and traded.

Offer: The price asked by a seller of securities.

Open Market Operations: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

Portfolio: Collection of securities held by an investor.

Primary Dealer: A group of government securities dealers that 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.

Prudent Person Rule: An investment standard. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

Qualified Public Depositories: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

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

Repurchase Agreement (RP or REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money,that is, increasing bank reserves.

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.

Treasury Bills: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months or one year.

Treasury Bonds: Long-term U.S. Treasury securities having initial maturities of more than ten years.

Treasury Notes: Intermediate term coupon bearing U.S. Treasury securities having initial maturities from one to ten years.

Unrealized Gains (Losses): Increases (decreases) in the value of investments representing the difference between the amortized cost of the investments and their current market value. Increases (decreases) in value are caused primarily by changes in market interest rates subsequent to purchasing investments.

Weighted Average Rate of Return: Rate of return calculated based on interest earnings and the length of actual holding for each individual security.

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 of 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.

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

APPENDIX B

APPROVED LIST OF BROKER/DEALERS AND FINANCIAL INSTITUTIONS

Local Government Investment Pools:

TexPool
Houston, TX

TexStar
Dallas, TX

TexasTERM
Austin, TX

Depository Bank:

Simmons Bank
Sherman, TX

Other Financial Institutions:

BOK Financial Securities, Inc.
Sherman, TX

Brokers/Dealers:

FHN Financial Capital Markets, Inc.
Houston, TX

Hilltop Securities, Inc.
Dallas, TX

Investors Brokerage of Texas
Waco, TX

SAMCO Capital Markets, Inc.
Dallas, TX

Stifel Investment Services
Hauppauge, NY

Vining Sparks, IBG, LP
Frisco, TX