Greenville Utilities

AGENDA

Finance/Audit
Committee Meeting
October 10, 2018
Board Room-12:00 p.m.

Call to Order - Ascertain Quorum

Acceptance of the Agenda

1. Approval of Minutes
   [Tony Cannon]

   March 6, 2018

2. Implementation of a Pilot Electric Vehicle Charging Station Rebate Program
   [Tony Cannon]

3. Recommended Revisions to Utility Regulations Part C-Terms & Conditions of Water and/or Sewer Service, Section 19.0 – Water & Sewer Extensions and Services
   [Tony Cannon]

4. Annual Review of Investment Policy
   [Jeff McCauley]

5. Annual FY 2017-18 Audit Update
   [Jeff McCauley]

Adjournment

Greenville Utilities

Agenda Item # 1

Meeting Date: October 10, 2018

Board Committee:	**Finance /Audit Committee**
Item:	**Approval of Minutes**
Contact:	Tony Cannon
Explanation:	Finance/Audit Committee Meeting: March 6, 2018
Previous Board Actions:	
Fiscal Note:	
Recommended Action(s):	Approve minutes from the March 6, 2018 Finance/Audit Committee Meeting as presented or amended.

GREENVILLE UTILITIES COMMISSION
FINANCE/AUDIT COMMITTEE
GREENVILLE, NORTH CAROLINA
March 6, 2018

The Finance/Audit Committee of the Greenville Utilities Commission met on Tuesday, March 6, 2018, at 11:30 a.m. in the Board Room with the following members and others present.

Committee Members Present:
Parker Overton, Committee Chair
Rebecca Blount, Committee Vice-Chair
Minnie Anderson

Tommy Stoughton was absent.

Other Board Members Present:
Don Mills

GUC Staff Present:
Tony Cannon
Chris Padgett
Jeff McCauley
Keith Jones
Phil Dixon
Steve Hawley
Amy Wade
Lou Norris
Jonathan Britt
Roger Jones
Jason Manning
David Springer
Steve Porter

Others present included Ginger Livingston with The Daily Reflector.

Committee Chair Overton called the meeting to order at 11:00 a.m. and ascertained that a quorum was present.

A motion was made by Ms. Blount, seconded by Ms. Anderson, to accept the agenda as presented. The motion carried unanimously.

APPROVAL OF MINUTES (Agenda Item 1)

A motion was made by Ms. Blount, seconded by Ms. Anderson, to approve the October 16, 2017, Finance/Audit Committee minutes as presented. The motion carried unanimously.

END-OF-YEAR FORECAST/DRAFT REVENUE AND EXPENDITURES PROPOSAL FOR UPCOMING YEAR (Agenda Item 2)

Mr. Cannon's presentation focused on end-of-year performance for FY 2017-18 and the key elements of the proposed FY 2018-19 budget. These areas include current status, capital investment, five-year capital plans, rate models, and the long-term financial forecast. A memorandum and supplemental materials were provided in the agenda packet.

A highlight of the supplemental items include:

- End-of-year projections for FY 2017-18 (current year)
- FY 2018-19 forecast developed last year
- Proposed FY 2018-19 Budget
- FY 2019-23 Financial Forecasts
- FY 2019-23 Capital Improvement Plan

Key metrics, such as fund balance and debt service ratios, are also included in the materials.

End-of-Year Projections

The current budget adopted for FY 2017-18 provided appropriations of $9.6M in capital outlay improvements, more than $65M in operations, and transfers of $7.8M to rate stabilization and capital project funds. The FY 2017-18 original budget was 3.3% lower than the previous year's budget and maintained steady rates for customers with no increases in rates.

Total adjustments of $3.7M to the original budget are due to a $3.6M increase in natural gas purchasing during colder than expected weather in early January and a $3.3M increase in capital outlay improvements to meet customer demand and to repair critical infrastructure at the Water Treatment Plant. These adjustments are offset by a $2.2M reduction in transfers to capital projects and rate stabilization funds, and $1M less in contingencies. In addition, expenditures for supplies, salaries and administrative spending are projected to be slightly less than expected.

In reviewing the end-of-year forecast, the financial viability of each fund is considered to ensure that GUC is properly positioned to continue to meet its mission and future financial challenges. Key Performance Indicators such as end-of-year performance, debt service coverage, and fund balances are primary components of the review. These factors are also monitored by the Local Government Commission (LGC) and credit rating agencies in determining GUC's ability to borrow funds at a favorable interest rate.

GUC's current credit ratings are Aa2 rating with Moody's, AA- credit rating with Fitch, and A+ credit rating with S&P. These high ratings enable GUC to borrow funds at lower interest rates, thereby lowering the cost of borrowing for necessary investments in infrastructure to maintain our systems.

- **End-of-Year Forecast for Electric Fund After Transfers**
  Revenues for the Electric Fund are projected to end the year higher than budgeted, as higher volumes of kWh were delivered to customers due to weather and overall system

growth. The primary category requiring a budget adjustment is spending for capital outlay projects. It is anticipated the Electric Fund will end the fiscal year with $1.3M fund equity, debt service coverage ratio of 6.83x, and a fund balance of 18.3% or $32M.

- **End-of-Year Forecast for Water Fund After Transfers**
  It is projected that the Water Fund will end the fiscal year with approximately $200K fund equity, debt service coverage ratio of 1.84x, and a fund balance of 23.0% or $4.5M.

- **End-of-Year Forecast for Sewer Fund After Transfers**
  It is projected that the Sewer Fund will end the fiscal year with approximately $200K fund equity, debt service coverage ratio of 1.43x, and a fund balance of 24.7% or $5.6M.

- **End-of-Year Forecast for Gas Fund After Transfers**
  The revised budget for the Gas Fund reflects a $3.6M increase in purchased natural gas due to the extreme cold weather in early January. To minimize the impact on customer bills, rates were not adjusted to fully recover the margins eroded by the extremely high gas prices. It is projected that the Gas Fund will end the fiscal year with $1M fund deficit, debt service coverage ratio of 2.45x, and a fund balance of 32.5% or $12M.

- **End-of-Year Forecast for the Combined Enterprise Operation After Transfers**
  The combined funds are expected to realize revenues of almost $255M, an increase of $4.3M or 1.7%. Expenditures are projected to total approximately $254M, a $3.7M or 1.5% increase over the original budget. The combined funds' revenues (after transfers) are projected to end the year $680K higher than expenditures providing an increase in fund equity approximately $900K less than originally budgeted.

Proposed FY 2018-19 Budget

Mr. Cannon reported on the drivers and goals of each of the four funds and the highlights of the FY 2018-19 proposed budget are listed below.

- Expenditures budgeted for FY 2018-19 have increased by 0.67% or $1.68M when compared to the FY 2017-18 budget. Key points are:
  - $3.3M decrease in purchased commodities costs (electricity and gas)
  - No transfers to rate stabilization - $1.45M less than last year
  - $4.5M in transfers to capital projects
  - $2.3M increase in operations
- No rate adjustment for the Electric Fund.
- A 7.6% rate increase for the Water Fund, 1.2% greater than projected last year
- A 3.1% rate increase for the Sewer Fund, 4.3% less than projected last year
- No rate adjustment for the Gas Fund
- Funding for the employee market adjustment at 2.0% or $570K effective July 1, 2018
- Funding for the employee merit program at 1.5% or $435K
- Continuation of a self-insured health insurance plan which includes a high deductible Health Savings Account option

- Continuation of self-insured dental insurance plan
- Funding to bring replacements on board prior to the retirement of key personnel in order to facilitate succession planning, leverage the knowledge and experience of long-term employees for training on critical issues and ensure smooth transitions
- Existing positions have been reallocated and five permanent positions have been added to appropriately respond to needs within the combined enterprise operation
- Prefunding for Other Post-Employment Benefits (OPEB) $500K
- Investment of $10.8M for capital outlay in order to maintain system reliability and comply with regulatory requirements in the combined enterprise operation
- Annual turnover or transfer of $6.7M to the City of Greenville in accordance with the Charter issued by the North Carolina General Assembly

Additional components of the budget include:

- Implementing, as planned, the fifth year of the phase-in adjustment in Electric Fees related to outdoor lighting installation, temporary services, and installation of permanent underground services.
- Implementing System Development Fees and High Strength Waste Surcharges that are required effective July 1, 2018. The System Development Fees are a one-time charge assessed against new development as a way to pay for facilities needed to support growth or to recoup costs for existing facilities. The High Strength Waste Surcharges are assessed to Significant Industrial Users for pollutants that are removed during the treatment process and that increase the cost for treatment.

In summary, Mr. Cannon added that the proposed FY 2018-19 is a balanced budget and he asked for the Finance/Audit Committee to endorse the end-of-year projections and the proposed preliminary budget.

Following discussion, it was the consensus of the Finance/Audit Committee to move forward with appropriate actions related to the current end-of-year fiscal forecast and preparation of the proposed preliminary FY 2018-19 budget as presented.

<u>RECOMMENDATION TO AWARD AUDITING SERVICES CONTRACT (Agenda Item 3)</u>

Mr. McCauley stated in accordance with GUC's Charter, a single auditing firm is used to perform the City's and GUC's audit. The costs associated with the audit are based on hours expended for each organization. In 2015, a five year engagement contract for auditing services was awarded to Cherry Bekaert, LLP, but subject to approval of a contract on an annual basis. Last year's audit fee was $38,500 and the projection under the five year plan for the fiscal year 2018 audit was $41,500. Cherry Bekaert, LLP is proposing that the audit fee for fiscal year 2018 be decreased to $39,000, which is $2,500 or 6 percent below the original projection.

A motion was made by Ms. Blount, seconded by Ms. Anderson, to concur with the proposed revised pricing of the auditing services contract with Cherry Bekaert, LLP to $39,000 for fiscal year 2018 and recommends similar action by the Board. The motion passed unanimously.

ADJOURNMENT

A motion was made by Ms. Anderson, seconded by Ms. Blount, to adjourn the meeting. The motion carried unanimously and the Finance/Audit Committee meeting adjourned at 12:08 p.m.

Respectfully submitted,

Amy Carson Wade
Executive Secretary

Agenda Item # 2

Meeting Date: October 10, 2018

Board Committee:	**Finance /Audit Committee**
Item:	**Implementation of a Pilot Electric Vehicle Charging Station Rebate Program**
Contact:	Tony Cannon
Explanation:	The Greenville Utilities Commission proposes implementation of an Electric Vehicle Supply Equipment (EVSE)/Plug-In Electric Vehicle (PEV) Charging Station Pilot Rebate Program, effective November 1, 2018. Rebates will be available to eligible electric customers as reimbursement for part of the cost of EVSE/PEV Charging Station infrastructure and installation as follows: \$1,000 for single-port Level 2 Electric Vehicle Charging Stations and \$1,500 for dual-port Level 2 Electric Vehicle Charging Stations. Rebate(s) will be awarded, as approved by the Greenville Utilities Commission, on a first-come, first-served basis until rebate funds are exhausted. No more than four Station rebates will be awarded per property/premise, and the maximum total value of rebates awarded per fiscal year as part of the program will be \$30,000.00. To be eligible to receive one or more rebates, the Customer must submit a complete and accurate rebate application form with attachments to the Commission. EVSE must be purchased and installed prior to submitting a rebate application. Submittals must be received by the Commission within 6 months of installation. EVSE or installation costs incurred prior to July 1, 2018 are ineligible for the rebate. PEV Charging Stations will not be separately metered; energy used to charge a PEV will be included on the Customer's monthly electricity bill.
Previous Board Actions:	N/A
Fiscal Note:	
Recommended Action(s):	Approve implementation of the proposed pilot Electric Vehicle Charging Station Rebate Program as presented and recommend similar action be taken by the Board.

Agenda Item # 3

Meeting Date: October 10, 2018

Board Committee:	**Finance/Audit Committee**
Item:	Recommended Revisions to Utility Regulations Part C – Terms & Conditions of Water and/or Sewer Service, Section 19.0 – Water & Sewer Extensions and Services
Contact:	Tony Cannon
Explanation:	The Greenville Utilities Commission implemented Water and Sewer System Development Fees on July 1, 2018 in accordance with the requirements of N.C. General Statute Chapter 162A, Article 8 and correspondingly eliminated Sewer Acreage Fees. Prior to July 1, as part of GUC's practice of cost sharing with developers for the installation of water or sewer extensions to new developments, Sewer Acreage Fees due from the developer were eligible for use by the developer as all, or a portion of, the developer's cost share. Under the new fee structure, a revision to this practice is necessary for continuing similar partnerships with developers to support system expansions. In response, GUC proposes to incorporate into the existing 'up to 50%' cost participation for approved extensions an additional credit to developers for the value of anticipated System Development Fees to be collected from the associated development. The proposed revised language is attached. GUC will continue to require the developer to enter into a contract agreement with the Commission setting forth the scope of the proposed installation, the estimated cost and the plan or schedule for sharing of costs. Additionally, actual funding participation shall be based on documented final project costs and be subject to the availability of funds.
Previous Board Actions:	N/A
Fiscal Note:	N/A
Recommended Action(s):	Approve revising the Greenville Utilities Commission's cost participation for approved water and sewer extensions to be up to 50% of the project cost plus the value of anticipated System Development Fees to be collected from the associated development and associated revisions to Part C -Terms & Conditions of Water and/or Sewer Service, effective November 1, 2018, and recommend that similar action be taken by the Board.

GUC Utilities Regulations

Terms and Conditions of Service

Proposed Revisions

19.2.4. Prior to the installation of any water or sewer facilities involving any shared cost by the Commission, the developer shall enter into a contract agreement with the Commission setting forth the scope of the proposed installation, the estimated cost and the plan or schedule for sharing of costs. Actual funding participation shall be based on documented final project costs. Subject to funds being available, the Commission may cost participate in an approved extension up to 50% of the project cost plus the value of anticipated system development fees to be collected from the associated development. A preliminary plat will be required to determine the number and size of connections used in calculating the system development fee value.

Greenville Utilities

Agenda Item # 4

Meeting Date: October 10, 2018

Board Committee:	**Finance/Audit Committee**
Item:	Annual Review of Investment Policy
Contact:	Jeff McCauley
Explanation:	It is the policy of GUC to invest public funds in a manner which will provide the highest return with the maximum security while meeting the daily cash flow demands of GUC and conforming to all state and local statutes governing the investment of public funds. To that end, GUC's Investment Policy requires that a review of the investment policy be conducted on an annual basis by the Finance/Audit Committee.
Previous Board Actions:	November 16, 2017 – The recommended revisions to the Investment Policy were approved by the Board. August 9, 2016 – The Investment Policy was reviewed with no changes by the Finance/Audit Committee.
Fiscal Note:	N/A
Recommended Action(s):	Review of Investment Policy

GREENVILLE UTILITIES COMMISSION

INVESTMENT POLICY

I. POLICY

It is the policy of Greenville Utilities Commission to invest public funds in a manner which will provide the highest return with the maximum security while meeting the daily cash flow demands of Greenville Utilities Commission and conforming to all state and local statutes governing the investment of public funds.

II. SCOPE

These investment policies apply to all cash-related assets included within the scope of the Commission's audited financial statements and held directly by the Commission.

Funds of the Commission will be invested in compliance with the provision of North Carolina General Statutes 159-30.

Deposits into trustee held funds including proceeds from debt financings and investments into the Other Post Employment Benefits Trust Fund (OPEB) are excluded from the scope of this policy.

III. OBJECTIVES

The Commission's investment objectives, in priority order are:

Safety: Safety of principal is the foremost objective of the investment program. Investments of the Greenville Utilities Commission shall be undertaken in a manner that seeks to ensure the preservation of capital in the total portfolio.

Liquidity: The Director of Financial Services shall assure that funds are constantly available to meet immediate payment requirements including payroll, accounts payable and debt service.

Yield: The investment portfolio shall be designed with the objective of regularly exceeding the average return on 90 day U.S. Treasury Bills.

*The 90 day T bill is considered a benchmark for risk-free investment transactions and therefore represents a minimum standard for the portfolio's rate of return.

IV. PRUDENCE

Investments shall be made with judgement and care under circumstances then prevailing which persons of prudence, discretion and intelligence exercise, in the management of their own affairs, not for speculation, considering safety of capital as well as the probable income to be received.

The standard of prudence to be used by investment officials shall be the “prudent person” described above, and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security’s performance provided that deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

*This is a realistic standard of knowledge and professional expertise to expect from a reasonably well informed person who will be responsible for managing the Commission’s investments.

V. RESPONSIBILITY

The authority for investing the funds of Greenville Utilities Commission lies with the Chief Financial Officer and the Director of Financial Services. The primary authority is the Chief Financial Officer. The Director of Financial Services is charged with the day-to-day operations of the Commission’s investment portfolio, including the placement of purchase and sell orders with dealers and financial institutions and the preparation of reports as required.

The Director of Financial Services is the Investment Officer for the Commission and prepares cash flow forecasts and budgets as needed to assist in the decision making process for the placement of the Commission’s funds to achieve the best yields while meeting the cash flow requirements of the Commission.

VI. INVESTMENT DIVERSIFICATION

Diversification to avoid undue risk is achieved by varying the type of investment to ensure liquidity, purchasing from sound and different financial institutions and brokers to reduce the chance of loss, and varying maturity length to ensure availability of funds to meet cash needs.

The funds of the Commission may be invested in the instruments, as allowed by North Carolina General Statutes 159-30, in the following percentages that are listed in table 1. If applicable, the table also defines other restrictions to reduce risk in the Commission’s portfolio.

Table 1

INSTRUMENT	MAXIMUM % OF PORTFOLIO	Other Restrictions
U.S. TREASURY OBLIGATIONS (BILLS, NOTES, BONDS)	100%	None
U.S. GOVERNMENT AGENCY SECURITIES ALLOWED BY STATE STATUTES	100%	No more than 50% of the Commission's total portfolio may be invested in any one agency
NORTH CAROLINA CAPITAL MANAGEMENT TRUST (LOCAL GOVERNMENT POOL)	100%	None
MONEY MARKET ACCOUNTS	100%	No more than 50% of the Commission's total portfolio may be invested in any one financial institution
CERTIFICATES OF DEPOSIT (BANKS AND SAVINGS AND LOAN ASSOCIATIONS)	70%	No more than 50% of the Commission's total portfolio may be invested in any one financial institution
BANKER'S ACCEPTANCES (BA'S)	45%	No more than 25% of the Commission's total portfolio may be invested in any one entity
COMMERCIAL PAPER (CP)	50%	No more than 25% of the Commission's total portfolio may be invested in any one entity
STATE OF NORTH CAROLINA AND LOCAL GOVERNMENT SECURITIES WITH AAA RATING OR BETTER	20%	None

With respect to those instruments that are allowed under the state statutes the following have been omitted from this list and will not be purchased unless this investment policy is amended to include those instruments. They are:

- Repurchase agreements
- Commingled investment pool established by G.S. 160-A-464
- Participating shares in a mutual fund for local government
- Evidences of ownership of future interest and principal payments of direct obligations of the U.S. government

Relative safety and liquidity of each investment type determine the appropriate percentage of the portfolio. Investments are arranged approximately by level of risk, with the safest investments first. State and local government securities with a AAA rating are low risk but also low interest.

VII. DIVERSIFICATION BY MATURITY

Recognizing the Commission's need for funds is not constant, the Director of Financial Services shall schedule investments in coordination with all funds such that there is as little idle cash as practical. Investments shall be limited to maturities not exceeding five years. Maturities should be selected in consideration of the Commission's cash flow requirements.

Investments in Treasuries, Agencies and Instrumentalities may be purchased with maturities exceeding 3 years. All others (with maturities greater than 3 years) are prohibited without the expressed approval of the Commission Board.

Length of Maturity is calculated to be the number of days from the date of the purchase of the investment to the maturity date of the investment.

VIII. COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS

Before the Commission invests any surplus funds in secondary market investments, competitive bids shall be obtained. Records will be kept of the bids offered, the bids accepted, and a brief explanation of the decision made.

IX. QUALIFIED INSTITUTIONS

The Commission shall maintain a listing of all authorized dealers and financial institutions which are approved for investment purposes. Written procedures and criteria for selection of financial institutions will be established by the Director of Financial Services. Any firm is eligible to apply to provide investment services to the Commission and will be added to the list if the selection criteria are met. Additions or deletions to the list will be made by the Director of Financial Services. Firms performing investment services for the Commission shall provide their most recent financial statements upon request.

X. INVESTMENT POOLS / MUTUAL FUNDS

A thorough investigation of the pool/fund is required prior to investing, and on a continual basis. The following information should be available to the Investment Officer.

- A description of eligible investment securities, and a written statement of investment policy and objectives.
- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
- A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
- A fee schedule, and when and how is it assessed.
- Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

XI. SAFEKEEPING AND COLLATERALIZATION

Investment securities purchased by the Commission shall be delivered by either book entry or physical delivery, and held in third party safekeeping by a bank designated as primary agent. The trust department of the bank designated as primary agent may be considered to be a third party for the purposes of safekeeping of securities purchased from that bank. The purchase and sale of all securities will be on a payment versus delivery basis. The primary agent shall issue a safekeeping receipt to the Investment Officer listing the specific instrument, rate, maturity, and other pertinent information.

Deposit-type securities (i.e. certificates of deposit, money market accounts, and checking accounts) shall be 100% collateralized as required by North Carolina General Statutes.

XII. ACCOUNTING METHOD

Investments will be recorded at cost. Realized gains or losses from investments will be credited or charged to interest income at the time of maturity or sale. For instruments purchased at a price greater than par or less than par and not sold, the purchase price premium or discount will be accounted for in accordance with generally accepted accounting principles (GAAP). Investments will be reported annually at market value.

XIII. REPORTING REQUIREMENTS

The Chief Financial Officer and/or the Director of Financial Services shall submit an Annual Statement of Investment Policy to the Commission, noting compliance with Commission policies. This statement shall be filed by no later than August 31 of each year.

The General Manager\CEO and appropriate Finance Department staff will review the Investment Policy with the Finance/Audit Committee annually by no later than October 31 of each year.

The Chief Financial Officer and/or the Director of Financial Services shall provide the Commission with a monthly investment report, which will provide, at a minimum, the following information.

CUSIP Number
Issuer or Broker/Dealer (Financial Institution)
Type of Investment
Effective Yield
Purchase Date
Maturity Date
Cost
Par Value
Where Held (Safekeeping)

The monthly investment report shall include all investments held in the Commission's portfolio as of the end of the month, and shall be issued with the monthly financial report. Market values shall be reported semi-annually.

Any investment that does not meet policy guidelines due to Board adopted changes will be temporarily exempted for a period not to exceed six months. Investments must come in conformance with the policy within six months of the policy's adoption or the Board must be presented with a plan through which investments will come into conformance.

If a violation does occur, the Chief Financial Officer and/or the Director of Financial Services shall report such violation in a timely manner to the General Manager\CEO along with a plan to address the violation. The violation and plan will then be reported to the Board.

XIV. INTERNAL CONTROLS

The Director of Financial Services shall maintain a system of written internal controls, which shall be reviewed by the independent auditor. The controls shall be designed to prevent loss of public funds due to fraud, error, misrepresentation or imprudent actions.

XV. ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the General Manager\CEO any material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the Commission. This disclosure need not include normal banking or brokerage relationships that are at normal market rates and conditions available to the general public.

XVI. POLICY REVIEW AND ADOPTION

This investment policy may be reviewed by the Board of Commissioners of Greenville Utilities Commission at their pleasure and amended and adopted at any time.

Last Revised: November 16, 2017

GLOSSARY

AGENCIES: Federal agency securities and/or Government-sponsored enterprises.

ASKED: The price at which securities are offered.

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

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

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 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.

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.

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

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DISCOUNT: The difference between the cost price of a security and its 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., S&L's, 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): 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, 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 (HUD). 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 5700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit 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 back by the FHA, VA or FmHA mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

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.

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

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. (When you are buying securities, you ask for an offer.) See Asked and Bid.

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 who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

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.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

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

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

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

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 coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to ten years.

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

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

Greenville Utilities

Agenda Item # 5

Meeting Date: October 10, 2018

Board Committee:	**Finance/Audit Committee**
Item:	Annual FY 2017-18 Audit Update
Contact:	Jeff McCauley
Explanation:	The fiscal year-end audit has been progressing nicely. Staff has been providing the auditors with information in a timely manner. At this time the auditors have not made staff aware of any auditing issues and it is anticipated that the Commission will receive a clean audit opinion. Staff is on track to deliver the audited financial statements to the State Treasurer's Office by October 31, 2018. Presentation of the full audit report to the Board will be scheduled to occur in November. Based on Generally Accepted Accounting Principles (GAAP) the Commission generated $17.9 million in net income for fiscal year-ended June 30, 2018. A presentation on the status of the audit will be provided at the Finance/Audit Committee meeting.
Previous Board Actions:	Approved Audit Contract in March 2018
Fiscal Note:	N/A
Recommended Action(s):	N/A