



KITTITAS COUNTY

Investment Policy

Approved by the Kittitas County Finance Committee:

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1. Introduction and Overview

The County Treasurer holds a key position of public trust in the financial affairs of local government. Acting as the "bank" for the county, school districts, fire districts, water districts and other units of local government, the Treasurer's office receipts, disburses, invests, and accounts for the funds of each of these entities. In addition, the Treasurer is charged with the collection of various taxes that benefit a wide range of governmental units.

The purpose of this Investment Policy is to establish the investment objectives, delegation of authority, standards of prudence, eligible investments and transactions, internal controls, reporting requirements, and safekeeping and custodial procedures necessary for the prudent management and investment of public funds in the custody of the Kittitas County Treasurer.

2. Policy

It is the policy of the Kittitas County Treasurer's Office to invest public funds in a manner which will provide maximum security, while meeting daily cash flow demands, conforming to all state and local statutes governing the investment of public funds, and providing a market rate of return through budgetary and economic cycles. Should provisions of any state or local statutes change from those contained herein; such provisions shall be considered incorporated into policy. This policy shall remain in effect until the Kittitas County Finance Committee approves a subsequent revision.

3. Scope

This investment policy applies to all financial assets of Kittitas County and its districts. These funds are accounted for in Kittitas County's Comprehensive Annual Financial Report and include:

- General Fund
- Special Revenue Funds
- Capital Projects Funds
- Enterprise Funds
- Trust and Agency Funds
- Debt Service Funds (unless prohibited by Bond indentures)
- Any new fund created by County ordinance, unless specifically exempted

Should bond covenants be more restrictive than this policy, funds shall be invested in full compliance with those restrictions.

4. Investment Philosophy

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

The investment return achieved is intended to supplement revenue for County departments, agencies, and districts in which the Treasurer serves.

Managing cash flow is of the utmost importance to provide sufficient liquidity and maintain principal. In general, it is the intention to hold securities until maturity.

The objectives outlined below in this policy are a direct reflection of the overall philosophy.

5. Objectives

The primary objectives, in order of priority, of Kittitas County's investment activities shall be:

Safety: Safety of principal is the foremost objective of the Treasurer's investment program. Investments of Kittitas County and its districts will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To obtain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Liquidity: The portfolio will remain sufficiently liquid to enable the Treasurer to meet all cash requirements that might reasonably be anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity).

Return on Investment: The investment portfolio shall be designed with the objective of attaining a market rate of return through budgetary and economic cycles, considering the County's investment risk constraints and liquidity needs. Return on investments is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair rate of return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:

- A security with declining credit may be sold early to minimize the loss of principal.

- A security swap would improve the quality, yield, or target duration of the portfolio.
- Liquidity needs of the portfolio require that the security be sold early.

6. Prudence

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.

The standard of prudence to be used by investment officials shall be the “Prudent Person” standard and shall be applied in the context of managing an overall portfolio under prevailing economic conditions at the moment of investment commitments. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence, shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

In determining whether an Investment official has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the investment of all funds over which the official had responsibility rather than a consideration as to the prudence of a single investment, and, whether the investment decision was consistent with the written investment policy of the entity.

7. Governing Authority

Kittitas County is lead as an organization by an elected Board of County Commissioners. Revised Code of Washington (RCW) chapter 36.32 outlines the roles and responsibilities of the County Commissioners.

The Kittitas County Treasurer is independently elected every 4 years with no term limits. The laws governing the duties of the Treasurer are outlined in RCW chapter 36.29.

8. Delegation of Authority

Authority to manage the Kittitas County investment program is derived from RCW 36.29.020 and RCW 36.29.022.

The Kittitas County Treasurer will appoint a Finance Officer whose responsibilities will include initiating daily transactions in the investment portfolio based on liquidity and cash flow requirements of the county, its districts, and their respective funds. In addition, the Finance Officer shall establish written procedures for the operation of the investment program consistent with the investment policy.

No person may initiate investment transactions on behalf of the Treasurer without the express written consent of the Treasurer or the Finance Officer after consultation with the Treasurer.

9. Investment Policy Oversight

RCW 36.48.070 establishes the three members of the County Finance Committee and empowers them to approve investment policy and make rules and regulation for the carrying out of the provisions of RCW 36.48.010 through 36.48.060, not inconsistent with law.

The Finance Committee will provide oversight to the investment policy. This will include annual review of the policy and a quarterly review of the portfolio performance and compliance status as reported in monthly detail reports.

10. Ethics and Conflicts of Interest

Investment officials will recognize that the investment portfolio is subject to public review and evaluation. The overall program will be designed and managed with a degree of professionalism that is worthy of the public trust.

Officers and employees involved in the investment process shall refrain from personal business activity that may conflict with the proper execution of the investment program or may impair their ability to make impartial investment decisions.

Investment officials shall disclose to the Treasurer any material financial interests in financial institutions that conduct business with the County, and they will further disclose any personal financial or investment positions that could be related to the performance of the County portfolio, particularly regarding the timing of purchases and sales.

Limitations on gifts accepted will be subject to the same restrictions as outlined in RCW 42.52.150.

11. Authorized Financial Dealers and Institutions

Selection of a primary bank for Kittitas County general banking services will be made by the Treasurer. Banking Service charges may be reduced by the earnings credit balance. The amount of credit applied will vary based on a variety of circumstance including the rate negotiated with the bank and the current investment environment.

The Treasurer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness. These may include primary dealers or regional dealers that qualify under [Securities and Exchange Commission Rule 15C3-1](#) (uniform net capital rule).

Qualified broker/dealers and financial institutions will be reviewed and selected by the Treasurer on a routine basis. All brokers/dealers and financial institutions who desire to do business with Kittitas County must supply the Treasurer with the following:

1. Annual audited financial statements.
2. Proof of FINRA (Financial Industry Regulatory Authority) certification.
3. Proof of registration with the State of Washington.
4. A completed Broker/Dealer certification of having read the Kittitas County Investment Policy.

The Treasurer will conduct an annual review of the financial condition of the firms. A current audited financial statement is required to be on file for each financial institution and broker/dealer with whom the County invests.

12. Authorized and Suitable Investments

Kittitas County is empowered by statute (RCW [36.29](#), [39.58](#), [39.59](#), and [43.84.080](#)) to invest in the following types of securities:

- **U.S. Treasury Obligations**— securities issued or guaranteed by the U.S. Government, including U.S. Treasury obligations and any other obligations where the timely payment of principal and interest of which are guaranteed by the U.S. Government.
- **U.S. Government Agency obligations and U.S. Government Sponsored Enterprises (GSE's)** which may include but are not limited to the following: Federal Farm Credit Bank (FFCB), Federal Home Loan Bank (FHLB), Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), Student Loan Marketing Corporation (SLMA), Tennessee Valley Authority (TVA). An agency security is a low-risk debt obligation that is issued by a U.S. government-sponsored enterprise (GSE) or other federally related entity.
- **Supranational Bonds**—The institution must have the U.S. Government as its largest shareholder.
- **Corporate Notes** purchased on the secondary market, provided such investments adhere to the investment policies and procedures adopted by the State Investment Board.
- **Commercial Paper** purchased in the secondary market, and provided that the County Treasurer adheres with policies and procedures of the State Investment Board regarding commercial paper (RCW 43.84.080(5)).
- **Non-negotiable Certificates of Deposit** of financial institutions which are qualified public depositories as defined by RCW 39.59 and in accordance with the restrictions therein.

The maximum amount placed with any one depository will not exceed the net worth of the institution as determined by the PDPC.

- **Bonds of the State of Washington and any local government in the State of Washington**, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency.
- **General obligation bonds of a state other than the State of Washington and general obligation bonds of a local government of a state other than the State of Washington**, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency.
- **Washington State Local Government Investment Pool (LGIP)**. The Kittitas County Treasurer will keep on file the most recent LGIP Investment Policy, prospectus, and operations manual.

13. Diversification

It is the policy of Kittitas County to diversify its investment portfolio. To eliminate risk of loss resulting from the over-concentration of assets in a specific maturity, issuer, or class of securities, all cash and cash equivalent assets in all funds shall be diversified by maturity, issuer, and by the class of security. Diversification strategies shall be determined and revised periodically by the Finance Officer for all funds. In establishing specific diversification strategies, the following constraints shall apply (see table). Any major changes in investment strategy including the liquidation of the portfolio shall require a majority vote by the Kittitas County Finance Committee.

Type of Security	Maximum Percentage Permitted	Issuer % per Issuer Type	Minimum Credit Standards	
			Minimum S&P Credit Standards	Minimum Moody's Credit Standards
U.S. Treasuries	100%	-	-	-
Federal Agency Securities	100%	40%	-	-
Supranational Agency Notes	15%	5%	A-	A3
Commercial Paper & Notes Combined	20%	3%	Short Term: A1 Long term: A-	Short Term: P1 long term: A3
Municipal Bonds-Total	35%	5%	A-	A3
<i>Municipal Bonds-WA Based</i>	20%	5%	A-	A3
<i>Municipal Bonds-non-WA based</i>	15%	5%	A-	A3
Non-negotiable Certificates of Deposit	40%	5%	PDPC approved banks only	PDPC approved banks only
Washington State Local Government Investment Pool (WA LGIP)	100%	-	-	-
Public Depositories	40%	*	-	-

* Not to exceed net worth of institution as determined by the PDPC

If changes in the value of the overall portfolio result in a securities category going over the allowed limit per this policy the county shall not be required to sell securities from that category to bring it within the allowed limit per the policy.

14. Credit Monitoring

Credit ratings will be monitored on a quarterly basis and declining credit investments held by the county will be reported to the Treasurer's Finance Committee at its quarterly meeting. It is in the best interest of the County to seek out ratings of A or higher. If changes in the credit rating of an investment fall below stated policy, the county shall not be required to sell the security.

15. Safekeeping and Custody

Delivery vs. Payment: All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited with a third-party custodian prior to the release of funds. Non-negotiable CD's and LGIP transactions are not handled on a DVP basis, and therefore exempt from this process.

Safekeeping: Securities will be held by an independent third-party custodian selected by the Treasurer. Safekeeping receipts will be evidence of all transactions.

16. Maturities

The County's objective is to hold investments to maturity. To the extent possible and to preclude sales of securities that could result in a loss, investments will be made to coincide with anticipated cash flow requirements. Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as the Local Government Investment Pool (LGIP) and/or money market accounts to ensure that appropriate liquidity is maintained to meet ongoing obligations.

Satisfying this requirement, remaining funds may be invested in authorized securities not to exceed five years in maturity, except when compatible with a specific fund's investment needs.

To ensure additional liquidity and provide for ongoing market opportunity the weighted average maturity and modified duration of the overall portfolio shall not exceed three years without the prior written approval of the Treasurer. The county will not directly invest in securities maturing more than five years from the date of purchase. Reserve funds may be invested in securities that exceed five years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of these funds.

17. Internal Control

The Finance Officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets are protected from loss, theft, or misuse. The Treasurer's Office and County Finance Committee will perform a monthly internal audit as well as the annual audit performed by the State Auditor's Office. These reviews will provide internal control by assuring compliance with policies, procedures, and prudent industry practices.

The internal controls shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial Safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers
- Development of a wire transfer agreement with the lead bank and third-party custodian

18. Performance Standards/Benchmarks

The investment portfolio will be managed to the highest professional standards in accordance with the parameters specified within this policy. The investment portfolio will be designed to obtain an average rate of return during budgetary and economic cycles, consistent with the investment objectives and cash flow needs.

A series of benchmarks reflective of the actual securities purchased, the risk undertaken, and that contains a similar weighted average maturity as the portfolio will be used to evaluate overall portfolio performance.

19. Accounting Standards

Pooled investments will be carried at amortized cost. Premiums or discounts on investments purchased at a price other than par will be accreted monthly over the expected life of the investment. Interest earnings will be accrued and credited monthly. Accrued interest earnings are recognized only in the Kittitas County Annual Financial Report.

Investments not part of the KCIP will also be carried at amortized cost. Returns on non-pooled investments will be withdrawn and credited back to the originating fund as often as is done by the financial institution or as often as transactions occur. Interest earnings on investments in either the LGIP or the KCIP will be automatically reinvested into the pool.

20. Reporting

At least quarterly, a report will be submitted to the Kittitas County Finance Committee for their review, summarizing the current position of the portfolio for Kittitas County. The Treasurer and Finance Officer shall report to the committee current investment strategy being followed, recent economic conditions, and market developments which have a bearing on this strategy. This report will be prepared in a manner which will allow the Finance Committee to ascertain whether investment activities during the reporting period have conformed to the investment policy. At a minimum, the report will include:

- Portfolio Summary- which will include weighted average maturity, asset allocation by type, maturity distribution, aggregate book and market yields, and current and 12-month average of KCIP stats.
- A listing of individual securities held at the end of the reporting period by authorized investment category
- Performance of portfolio and its appropriate benchmark(s)
- Compliance of investments
- A monthly and quarterly breakdown of portfolio transactions
- Investment Income

21. Business Continuity

The Treasurer shall implement procedures that will maintain continuity of investment and other related operations while also maintaining appropriate internal controls.

Written procedures and documentation will be maintained that provide detailed guidance and instruction in the case of absence of the Finance Officer. The Treasurer will be expected to maintain the investment portfolio in the Finance Officers absence unless otherwise arranged.

22. Investment Procedures

- A. Kittitas County Investment Pool (KCIP) Procedure
 - a. Participants in the KCIP will be established by way of a Participation Agreement. This will serve as the authorization to pool the districts money for the purpose of investment.
 - i. Participants may also request that the Treasurer purchase a security with a specific term and amount that is held outside the KCIP.
 - 1. Operating terms and conditions for the KCIP are listed in detail in within the *Kittitas County Investment Pool Operating Terms and Conditions* document, provided to all KCIP participants and available upon request or on the [Kittitas County Treasurer](#) web page.
 - b. Investment income from funds that have been pooled in the KCIP will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.
 - i. Respective participation is determined by the average daily cash balance a fund maintains in the KCIP.
 - ii. Average daily cash balance is calculated using the actual number of days in the month.
 - iii. The total interest distributed to Pool participants will be the actual interest received on securities held by the KCIP during the month of the interest allocation on an accrual basis.
 - iv. Gains and losses on securities sold early will be factored into the total interest allocation during any month these gains and losses are realized and will be distributed to all KCIP participants, except for large withdrawal requests made outside of normal spending patterns.
 - 1. Losses associated with withdrawal requests made outside of normal procedure will be handled according to the KCIP Operating Terms and Conditions Agreement.
- B. Written Procedures
 - a. Day-to-day procedures concerning investment management and investment accounting outside the scope of this policy will be created and maintained by the Treasurer and Finance Officer. These procedures will be crafted to be consistent with this policy and the agreement maintained between the districts.

23. Training Expectations

Finance Officer

- A. The Finance Officer is expected to participate in ongoing training and education as it related to investment best practices and evolving economic conditions.
- B. The Finance Officer is encouraged to maintain membership with local and national organizations that provide support, training, and networking with finance and investment professionals.
 - a. Examples of local organizations include Washington Public Treasurer’s Association (WPTA); Washington Finance Officers Association (WFOA); Washington State Association of County Treasurers (WSACT)
 - b. Examples of nation organizations include Government Finance Officers Association (GFOA); Government Investment Officers Association (GIOA)
- C. At a minimum, the Finance Officer should review and be informed of any rules, regulations, and reputable guidelines/best practices associated with managing the investments including, but not limited to:
 - a. The Kittitas County Investment Policy
 - b. Revised Code of Washington (RCW)
 - c. Kittitas County ordinances and resolutions
 - d. KCIP Operating Terms and Conditions and Participant Agreements
 - e. Washington State Treasurer’s Guide to Public Funds Investing
 - f. State Investment Board Commercial Paper & Corporate Notes Policy

Treasurer

- A. It is expected that the Treasurer will, at a minimum, have or gain an understanding of the overall philosophy and strategy of the Kittitas County investment program.
- B. The Treasurer is encouraged to maintain involvement with the Washington State Association of County Treasurers (WASCT) to stay informed of statewide issued related to investing public funds.
- C. The Treasurer shall be familiar with the terms and condition of the Participant Agreement with each entity.

Finance Committee

- A. It is expected that, at a minimum, all members of the Finance Committee read the [Washington State Treasurer’s Guide to Public Funds Investing](#)
- B. It is strongly encouraged that any new member of the Finance Committee attends a public funds investment training within 6 months of becoming a member. Recommendations of current, relevant trainings available can be made by the Finance Officer.

24. Investment Policy Adoption

The Kittitas County Investment Policy shall be adopted by a majority vote of the County Finance Committee. The policy shall be reviewed on an annual basis by the committee, and any modifications must be approved by said committee.

This investment policy has been adopted by a majority vote of the Kittitas County Finance Committee on October 20th, 2022.

Glossary

ACCRUED INTEREST - The interest that adds up (accrues) each day between coupon payments. If you sell a bond before it matures or buy a bond in the secondary market, you most likely will catch the bond between coupon payment dates.

AGENCY - A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government. Federally Sponsored Agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee. (Also see FEDERAL AGENCY SECURITIES and GOVERNMENT SECURITY)

AMORTIZATION - In portfolio accounting, periodic charges made against interest income on premium bonds in anticipation of receipt of the call price at call or of par value at maturity.

ASSET - Available property, as for payment of debts

AVERAGE MATURITY - A weighted average of the expiration dates for a portfolio of debt securities. An income fund's volatility can be managed by shortening or lengthening the average maturity of its portfolio.

BASIS POINT - A measure of an interest rate, i.e., 1/100 of 1 percent, or .0001.

BID - The indicated price at which a buyer is willing to purchase a security or commodity. When selling a security a bid is obtained. (See Offer)

BOND - A long-term debt security, or IOU, issued by a government or corporation that generally pays a stated rate of interest and returns the face value on the maturity date.

BOOK VALUE - The amount at which an asset is carried on the books of the owner. The book value of an asset does not necessarily have a significant relationship to market value.

BROKER - A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides.

CERTIFICATES OF DEPOSIT - Certificates of Deposit, familiarly known as CDs, are certificates issued against funds deposited in a bank for a definite period of time and earning a specified rate of return. Certificates of Deposit bear rates of interest in line with money market rates current at the time of issuance.

COMMERCIAL PAPER: An unsecured short-term promise to repay a fixed amount on a certain future date. Commercial paper usually matures from 2 to 270 days and is traded on a discount basis. This debt instrument, issued by banks, companies and other borrowers, uses only their credit ratings to back the security.

CORPORATE BOND/NOTE – A debt security issued by a corporation. The backing for the bond is usually the payment ability of the company, which is typically money to be earned from future operations. Corporate bonds are considered higher risk than government bonds. As a result, interest rates are almost always higher, even for higher credit quality companies. Most corporate bonds have maturities greater than one year. Corporate debt that matures in less than one year is typically called commercial paper.

COMPETITIVE BID PROCESS - A process by which three or more institutions are contacted to obtain interest rates for specific securities.

CREDIT QUALITY - The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the

lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

CREDIT RISK - The risk that another party to an investment transaction will not fulfill its obligations. Credit risk can be associated with the issuer of a security, a financial institution holding the entity's deposit, or a third-party holding securities or collateral. Credit risk exposure can be affected by a concentration of deposits or investments in any one investment type or with any one party.

CUSTODIAN - An independent third party (usually bank or trust company) that holds securities in safekeeping as an agent for the county.

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

DELIVERY - The providing of a security in an acceptable form to the County or to an agent acting on behalf of the County and independent of the seller. Acceptable forms can be physical securities or the transfer of book entry securities. The important distinction is that the transfer accomplishes absolute ownership control by the County

DELIVERY VS PAYMENT - There are two methods of delivery of securities: Delivery vs. payment and delivery vs. receipt (also called free). Delivery vs. payment is delivery of securities with an exchange of money for the securities. Delivery vs. receipt is delivery of securities with an exchange of a signed receipt for the securities.

DEPOSITARY - A person to whom something is entrusted, a depository.

DEPOSITORY BANK - A local bank used as the point of deposit for cash receipts.

DEPOSITORY INSURANCE - Insurance on deposits with financial institutions. For purposes of this policy statement, depository insurance includes: a) Federal depository insurance funds, such as those maintained by the Federal Deposit Insurance Corporation (FDIC) AND Federal Savings and Loan Insurance Corporation (FSLIC); and b) Public Deposit Protection Commission.

DISCOUNT - 1. (n.) selling below par; e.g., a \$1000 bond selling for \$900. 2. (v.) anticipating the effects of news on a security's value; e.g., "The market had already discounted the effect of the labor strike by bidding the company's stock down."

DIVERSIFICATION - Dividing available funds among a variety of securities and institutions to minimize market risk.

EARNINGS CREDIT: A daily calculation of interest that a bank pays on customer deposits.

EFFECTIVE RATE - The yield you would receive on a debt security over a period of time taking into account any compounding effect.

FACE VALUE - The value of a bond stated on the bond certificate; thus, the redemption value at maturity. Most bonds have a face value, or par, of \$1,000.

FEDERAL AGENCY SECURITIES - Several government-sponsored agencies, in recent years, have issued short and long-term notes. Such notes typically are issued through dealers, mostly investment banking houses. These Federal government-sponsored agencies were established by the U.S. Congress to undertake various types of financing without tapping the public treasury. In order to do so, the agencies have been given the power to borrow money by issuing securities, generally under the authority of an act of Congress. These securities are highly acceptable and marketable for several reasons, mainly because they are exempt from state, municipal and local income taxes. Furthermore, agency securities must offer a higher yield than direct Treasury debt

of the same maturity to find investors, partly because these securities are not direct obligations of the Treasury.

The main agency borrowing institutions are the Federal National Mortgage Association (FNMA), the Federal Home Loan Bank System (FHLB), and the Federal Farm Credit Bank System (FFCB).

FEDERAL DEPOSIT INSURANCE (FDIC) - A Federal institution that insures bank deposits. The current limit is up to \$100,000 per depository account.

FEDERAL FARM CREDIT BANK – FFCB – The Farm Credit System is a nationwide network of borrower-owned lending institutions and specialized service organizations. Established by Congress in 1916 as the authority for certain predecessor entities, the System is the oldest of the Government-sponsored enterprises. Throughout its long history, the fundamental purpose of the System has remained the same: To provide American agriculture with sound and dependable credit at competitive interest rates. Currently, there are three Farm Credit Banks and one Agricultural Credit Bank providing funds and support services to approximately 78 locally owned Farm Credit Associations and numerous cooperatives nationwide. Approximately 40 percent of the real estate and non-real estate credit needs of U.S. agriculture are met by the System

FEDERAL FUNDS RATE - The rate of interest at which Fed Funds are traded between banks. Fed Funds are excess reserves held by banks that desire to invest or lend them to banks needing reserves. The particular rate is heavily influenced through the open market operations of the Federal Reserve Board. Also referred to as the "Fed Funds rate."

FEDERAL HOME LOAN BANK SYSTEM - FHLB – Created by the Federal Home Loan Bank Act of 1932 to increase the amount of funds available for lending institutions who provide mortgages and similar loan agreements to individuals. Having served its original objectives well, the FHLB system now primarily focuses on increasing the amount of loanable funds available for affordable housing and community development projects. It continues to have a material impact on housing and development financing offering funds to member institutions at rates that are usually lower than commercially competitive prices. The 11 banks of the FHLB Bank System are owned by over 7,300 regulated financial institutions from all 50 states, U.S. possessions, and territories.

FEDERAL HOME LOAN MORTGAGE CORPORATION - FHLMC (Freddie Mac) - is a stockholder-owned, government-sponsored enterprise chartered by Congress in 1970 to keep money flowing to mortgage lenders in support of homeownership and rental housing for middle income Americans. FHLMC purchases, guarantees, and securitizes mortgages to form mortgage-backed securities. The mortgage-backed securities that it issues tend to be very liquid and carry a credit rating close to that of U.S. Treasuries.

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 RESERVE SYSTEM - The central bank of the United States which has regulated credit in the economy since its inception in 1913. Includes the Federal Reserve Bank, 14 district banks and the member banks of the Federal Reserve, and is governed by the Federal Board.

FINANCIAL INSTITUTIONS - Establishments that include the circulation of money, the granting of credit, the making of investments, and the provision of banking facilities.

FISCAL AGENCY - A financial institution that handles certain bond and coupon redemptions on behalf of the entity.

GINNIE MAES (GNMAs) - Mortgage securities issued and guaranteed, as to timely interest and principal payments, by the Government National Mortgage, an agency within the Department of Housing and Urban Development (HUD).

GOVERNMENT SECURITY - Any debt obligation issued by the U.S. government, its agencies or instrumentalities. Certain securities, such as Treasury bonds and GNMA's, are backed by the government as to both principal and interest payments. Other securities, such as those issued by the Federal Home Loan Mortgage Corporation, or Freddie Mac, are backed by the issuing agency.

LIQUIDATION - Conversion into cash.

LIQUIDITY - Refers to the ease and speed with which an asset can be converted into cash without a substantial loss in value.

LOSS - The excess of the cost or book value of an asset over selling price.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP) - The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARK-TO-MARKET - An adjustment in the valuation of a securities portfolio to reflect the current market values of the respective securities in the portfolio. This process is also used to ensure that margin accounts are in compliance with maintenance.

MARKETABILITY - Ability to sell large blocks of money market instruments quickly and at competitive prices.

MARKET RISK - The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value. The risk that the market value of an investment, collateral protecting a deposit, or securities underlying a repurchase agreement will decline.

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

MATURITY - The time when a security becomes due and at which time the principal and interest or final coupon payment is paid to the investor.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO) - A credit rating agency that issues credit ratings that the U. S Securities and Exchange Commission permits other financial firms to use for certain regulatory purposes.

NET WORTH - A financial institutions available funds after their total liabilities have been deducted from their total assets.

OFFER - The indicated price at which a seller is willing to sell a security or commodity (See BID). When buying a security an offer is obtained.

PAR VALUE - The nominal or face value of a debt security; that is, the value at maturity.

PORTFOLIO - Collection of securities held by an investor.

PREMIUM - The amount by which a bond sells above its par value.

PRIMARY DEALERS - A pre-approved bank, broker/dealer or other financial institution that can make business deals with the U.S. Federal Reserve, such as underwriting new government debt.

These dealers must meet certain liquidity requirements as well as provide a valuable flow of information to the Fed about the state of the worldwide markets.

PRIME RATE - The interest rate a bank charges on loans to its most credit worthy customers. Frequently cited as a standard for general interest rate levels in the economy.

PRINCIPAL - An invested amount on which interest is charged or earned.

PRUDENCE - The ability to govern and discipline oneself using reason. Shrewdness in the management of affairs. Able to use skill and good judgment in the use of resources.

PRUDENT PERSON RULE – “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, but for investment, considering the probable safety of their capital as well as the probable income to be derived.” (RCW 43.84.061)

PUBLIC FUND INTEREST BEARING INVESTMENT ACCOUNTS - Bank accounts with Qualified Public Depositories which pay a rate of interest on the balance maintained. Used in diversifying the investment portfolio and most commonly used as part of a liquidity portfolio.

QUALIFIED PUBLIC DEPOSITORY - 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.

REGIONAL DEALER: Comprised mainly of broker dealer firms whose financial advisors operate as independent contractors.

REGISTERED SECURITY - A security that has the name of the owner written on its face. A registered security cannot be negotiated except by the endorsement of the owner.

REPRICING - The revaluation of the market value of securities.

SAFEKEEPING - A service to customers rendered by banks for a fee whereby all securities and valuables of all types and descriptions are held in the bank's vaults for protection, or in the case of book entry securities, are held and recorded in the customer's name and are inaccessible to anyone else.

SALLIE MAES - Pooling of student loans guaranteed by the Student Loan Mortgage Association (SLMA) to increase the availability of education loans. The SLMA purchases the loans after buying them on the secondary market from lenders. SLMA stock is publicly traded.

SECURITIES - Bonds, notes, mortgages, or other forms of negotiable or non-negotiable instruments.

SECURITIES AND EXCHANGE COMMISSION – (SEC) - A U.S. government agency that oversees securities transactions, activities of financial professionals and mutual fund trading to prevent fraud and intentional deception. The SEC consists of five commissioners who serve staggered five-year terms. No more than three of the commissioners may belong to the same political party.

SETTLEMENT DATES - The day on which payment is due for a securities purchase. For stocks and mutual funds bought through an investment dealer, settlement is normally five business days after the trade date. Bonds and options normally settle one business day after the trade date mutual fund shares purchased directly by mail or wire settle on the day payment is received.

STRIPPED TREASURIES - U.S. Treasury debt obligations in which coupons are removed by brokerage houses, creating zero-coupon bonds.

SUPRANATIONAL INSTITUTIONS (SUPRA'S) – An international organization, or union, whereby member states transcend national boundaries or interests to share in the decision making and vote on issues pertaining to the wider grouping. It is formed by two or more central governments through international treaties. The purpose for creating a supranational is to promote economic development for the member countries. The International Bank for Reconstruction and Development (World Bank), the Inter-American Development Bank (IADB), IFC (International Finance Corporation) and ADB (Asian Development Bank) are examples of supras.

THIRD-PARTY SAFEKEEPING - A safekeeping arrangement whereby the investor has full control over the securities being held and the dealer or bank investment department has no access to the securities being held.

TREASURY BILLS - Treasury bills are short-term debt obligations of the U.S. Government. They offer maximum safety of principal since they are backed by the full faith and credit of the United States Government. Treasury bills, commonly called "T-Bills," account for the bulk of government financing, and are the major vehicle used by the Federal Reserve System in the money market to implement national monetary policy. T-Bills are sold in three, six, nine, and twelve-month bills. Because treasury bills are considered "risk-free," these instruments generally yield the lowest returns in the major money market instruments.

TREASURY NOTES AND BONDS - While T-Bills are sold at a discount rate that establishes the yield to maturity, all other marketable treasury obligations are coupon issued. These include Treasury Notes with maturities from one to ten years and Treasury Bonds with maturities of 10-30 years. The instruments are typically held by banks and savings and loan associations. Since Bills, Notes and Bonds are general obligations of the U.S. Government, and since the Federal Government has the lowest credit risk of all participants in the money market, its obligations generally offer a lower yield to the investor than do other securities of comparable maturities.

VENDOR - A business or individual who provides a service or product at a cost.

YIELD - The rate at which an investment pays out interest or dividend income, expressed in percentage terms and calculated by dividing the amount paid by the price of the security and annualizing the result.

YIELD BASIS - Stated in terms of yield as opposed to price. As yield increases for a traded issue, price decreases and vice versa. Charts prepared on a yield basis appear exactly opposite of those prepared on a price basis.

YIELD SPREAD - The variation between yields on different types of debt securities; generally, a function of supply and demand, credit quality and expected interest rate fluctuations. Treasury bonds, for example, because they are so safe, will normally yield less than corporate bonds. Yields may also differ on similar securities with different maturities. Long-term debt, for example, carries more risk of market changes and issuer defaults than short-term debt and thus usually yields more.

ZERO-COUPON BONDS - Securities that do not pay interest but are instead sold at a deep discount from face value. They rise in price as the maturity date nears and are redeemed at face value upon maturity.

Kittitas County Finance Committee Certification



Amy Cziske, Kittitas County Treasurer,
Chair of the Kittitas County Finance
Committee



Laura Osiadacz, Kittitas County
Commissioner, Member of the Kittitas
County Finance Committee



Jerry V. Pettit, Kittitas County Auditor,
Secretary of the Kittitas County Finance
Committee