



Lewis County Investment Policy

2026

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I. INTRODUCTION AND OVERVIEW

Lewis County was established in December of 1845 and has a current population of over 87 thousand people. 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. As the depository for all funds and fees collected by other county offices as well as those collected by the various districts, are forwarded to the treasurer for custody.

II. POLICY

The purpose of this policy is to provide guidance and direction as it relates to the overall objectives and philosophy while establishing guidelines and restrictions in compliance with all rules and regulations of the State and County. If any revisions of State law are enacted that create greater restrictions, adherence to those restrictions will be required as soon as the law is effective. The policy shall be updated to reflect the statutory changes as soon as reasonably possible. For any revisions of State law that provide opportunity for new allowable investment options or reduced restrictions in diversification, the limitations of this policy will remain in effect until options are reviewed and any policy changes are approved by the Finance Committee.

III. SCOPE

This investment policy applies to all financial assets of Lewis County and its' pool participants. These funds are accounted for in the Lewis County Annual Financial Report and include:

- General (Current Expense) Fund
- Special Revenue Funds
- Capital Projects Funds
- Enterprise Funds
- Internal Service Funds
- Trust and Agency Funds
- Debt Service Funds (Unless prohibited by Bond indentures)
- Any new fund created by County ordinance, unless specifically exempted
- Other Outside Districts that are accepted as Pool Participants

Distribution of allowable investment earnings will be made 100% to the Current Expense Fund (No. 0010), as per Washington statute RCW 36.29.020, except for the following funds and any fund identified by subsequent Resolution:

- 1) Veterans Relief Fund (No. 1030) as per RCW 73.08.080 and Lewis County Resolution 23-052;
- 2) Risk Mgt-LEOFF Fund (No. 5160) as per Lewis County Resolution 23-052;
- 3) Election Reserve Fund (No. 1580) HAVA Grant portion only as per Lewis County Resolution 23-052, and;
- 4) Communications Building and Equipment Fund (No. 3300).

Current Expense Fund (No. 0010)

Washington statute RCW 36.29.020 stipulates that the interest from funds of any municipal corporation invested by the treasurer shall be deposited in the current expense fund of the county and may be used for general county purposes, except for funds as may be prohibited by the state Constitution from being so invested or deposited.

- 1) Veterans Relief Fund (No. 1030) as per RCW 73.08.080 and Lewis County Resolution 23-052;
- 2) Risk Mgt-LEOFF Fund (No. 5160) as per Lewis County Resolution 23-052;
- 3) Election Reserve Fund (No. 1580) HAVA Grant portion only as per Lewis County Resolution 23-052;
- 4) Communications Building and Equipment Fund (No. 3300).

The Lewis County governing body has passed resolution 25-328 which stipulates that interest earnings generated by Communications Building and Equipment Fund (No. 3300) will be retained by that fund beginning January 1, 2026.

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

IV. INVESTMENT PHILOSOPHY

It is the philosophy of the Lewis County Treasurer (hereinafter referred to as the "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 utmost importance in order to provide sufficient liquidity and maintain principal. In general, it is the intention to hold securities until maturity. In certain circumstances it may be appropriate to sell a security prior to maturity, see Return on Investment in section V "Objectives" for more detail.

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

V. OBJECTIVES

The primary objectives, in priority order, of Lewis County investment activities shall be:

Safety: Safety of principal is the foremost objective of the Treasurer's investment program. Investments of the Lewis County Investment Pool will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To obtain this objective, maturity and sector diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. Maintaining sufficient liquidity for daily cash needs also provides protection against the need to prematurely sell a security.

Liquidity: The portfolio will remain sufficiently liquid to enable the pool participants to meet all cash requirements that can be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Participants in the Lewis County Investment Pool (LCIP) must notify the Investment Officer within 48 hours of any single day cash withdrawal from the pool which exceeds their usual bill paying by \$2 million. In addition, withdrawal from the LCIP requires written notification and subject to the guidelines within the authorized participation agreement. Since not all possible cash demands can 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, taking into account 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 that would improve the quality, yield, or target duration of the portfolio.
- Liquidity needs of the portfolio require that the security be sold early.

VI. GOVERNING AUTHORITY

Lewis County is led as an organization by an elected Board of County Commissioners. See the Revised Code of Washington (RCW) 36.32 for additional details regarding the roles and responsibilities of the County Commissioners. The Lewis County Treasurer is independently elected every 4 years with no term limits. The laws governing the duties of the Treasurer are outlined in RCW 36.29.

VII. DELEGATION OF AUTHORITY

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

- A. The Treasurer will appoint an Investment Officer whose responsibilities will include initiating daily transactions in the investment portfolio based on liquidity and cash flow requirements of the pool participants and their respective funds. In addition, the Investment Officer shall establish written procedures for the operation of the investment program consistent with the investment policy.
- B. The Treasurer and Investment Officer will meet quarterly or as needed to discuss investment strategies, economic conditions, analysis of yield curve shifts, possible Federal Reserve Board Actions and other relevant information regarding investments.

VIII. INVESTMENT POLICY OVERSIGHT

RCW 36.48.070 establishes the three members of the County Finance Committee (the county treasurer, the county auditor, and the chair of the county legislative authority) and empowers them to approve investment policy and make rules and regulations 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 of the investment policy. This will include an annual review of the policy and a quarterly review of the portfolio performance and compliance status as reported in the monthly detail reports. See section XXIV Reporting for minimum reporting requirements.

IX. PROCEDURES

A. Pooling of Funds

- 1. Participants of the Lewis County Investment Pool (LCIP) will be established by way of Participant Agreements. These will serve as the authorization to pool the jurisdictions' money for the purposes of investment.
 - a. Participants may also request that the Treasurer purchase a security with a specific term and amount that is held outside the LCIP.
- 2. Investment income from funds that have been pooled in the LCIP will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.
 - a. Respective participation is determined by the average daily cash balance a fund maintains in the LCIP.
 - b. Average daily cash balance is calculated using the actual number of days in the month.
 - c. The total interest distributed in cash to Pool participants will be the actual interest received on securities held for the LCIP during the month of the interest allocation on an accrual basis.
 - d. 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 LCIP participants with the exception of large withdrawal requests made outside of normal spending patterns.
- e. Losses associated with withdrawal requests made outside of normal procedure will be handled according to the LCIP Participant Agreement.

B. Written Procedures

- 1. Day-to-day procedures concerning investment management and investment accounting are outside the scope of this policy. The Treasurer and Investment Officer will establish written procedures for the operation of the investment program consistent with this policy.

X. ETHICS AND CONFLICTS OF INTEREST

- A. The Treasurer and Investment Officer 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.
- B. The Treasurer and Investment Officer involved in the investment process shall refrain from personal business activity that conflicts with the proper execution of the investment program or impairs their ability to make impartial investment decisions.
- C. The Investment Officer 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 with regard to the timing of purchases and sales.
- D. Limitations on gifts accepted will be subject to the same restrictions as outlined in RCW 42.52.150

XI. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

- A. Selection of a primary bank for Lewis 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 circumstances including the rate negotiated with the bank and the current investment environment.
- B. The Treasurer will maintain a list of approved security broker/dealers and financial institutions authorized to provide investment services.
- C. 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 Lewis County must supply 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 questionnaire and a certification of having read the Lewis 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.

XII. SAFEKEEPING AND CUSTODY

A. 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.

B. Safekeeping

Securities will be held by an independent third-party custodian selected by the Treasurer.

XIII. 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.

XIV. AUTHORIZED INVESTMENTS

Lewis County is empowered by statutes (RCW 36.29, 39.58, 39.59, and 43.84.080) to invest in the following types of securities:

- U.S. Treasury Obligations
- 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 (Fannie Mae), Tennessee Valley Authority (TVA),
- Commercial Paper, purchased in the secondary market, and complying with the State Investment Board requirements, summarized as follows:
 1. Commercial paper must be rated with the highest short-term credit rating category of any two major Nationally Recognized Statistical Ratings Organizations (NRSROs) at the time of purchase. If the commercial paper is rated by more than two major NRSROs, it must have the highest rating from all of them.
 2. Commercial paper holdings may not have maturities exceeding 270 days.
 3. Any commercial paper purchased with a maturity longer than 100 days must also have an underlying long-term senior unsecured credit rating at the time of purchase in one of the three highest rating categories of an NRSRO.
 4. The percentage of commercial paper that may be purchased from any single issuer is 3 percent of the assets of the total portfolio.
 5. Commercial paper must be purchased in the secondary market and not directly from the issuers.
- Non-negotiable Certificates of Deposit of financial institutions which are qualified public depositories as defined by RCW 39.58 and in accordance with the restrictions therein. As required by RCW 39.58, certificates of deposit will be purchased only from those institutions approved by the Washington Public Deposit Protection Commission (PDPC) as eligible for deposit of public funds.

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

- General obligation (G.O.) bonds of the State of Washington and any local government in the State of Washington.
 1. Credit rating of Aa3 or better by Moody's, AA- or better by S&P or Fitch, or an equivalent rating by another NRSO.
 2. *Underlying* credit rating of A2 or better by Moody's, A or better by S&P or Fitch, or an equivalent rating by another NRSO

- 3. The percentage of G.O. bonds of the State of Washington or any local government, shall not exceed 5% of the total portfolio per issuer.
 - General obligation (G.O.) bonds of a state other than the State of Washington and G.O. bonds of a local government of a state other than the State of Washington.
 1. Credit rating of Aa3 or better by Moody's, AA- or better by S&P or Fitch, or an equivalent rating by another NRSO.
 2. Underlying credit rating of A2 or better by Moody's, A or better by S&P or Fitch, or an equivalent rating by another NRSO
 3. The percentage of G.O. bonds of a state other than the State of Washington or any local government of a state other than the State of Washington, shall not exceed 5% of the total portfolio per issuer.
 - Washington State Local Government Investment Pool (LGIP).
 - Interest bearing public fund depositories (money market savings accounts). Funds may only be placed in interest bearing depositories that are approved by the Washington Public Deposit Protection Commission (PDPC) as eligible for deposit of public funds.

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

- Other investments authorized by law.

XV. DIVERSIFICATION

It is the policy of Lewis County to diversify its investment portfolios. 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 Treasurer and investment officer for all funds. In establishing specific diversification strategies, the following constraints shall apply:

Authorized Investment Type	Max. % of Portfolio
Washington State Local Government Investment Pool	100%
U.S. Treasury Obligations	100%
Federal Agency securities	90%
Interest Bearing Depository	60%

Certificates of Deposit (CDs)	40%
Bonds of State of Washington or any local government in the State of Washington	40%
Bonds of other states or local governments other than in the State of Washington	40%
Commercial Paper	10%

XVI. SALE OF PORTFOLIO

Any major changes in Investment Strategy including the liquidation of 50% or more of the portfolio shall require a majority vote by the County Finance Committee.

XVII. MATURITIES

- A. 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 and public fund investment/money market accounts to ensure that appropriate liquidity is maintained to meet ongoing obligations.
- B. 20% of the portfolio, at the time of investment, will be comprised of investments maturing within a year.
- C. Remaining funds may be invested in authorized securities not to exceed five and one half (5.5) years in maturity, except when compatible with a specific fund's investment needs or authorized by the Treasurer.
 - 1. The time to maturity shall be calculated beginning with the settlement date of the purchase (not from the original trade date).
 - 2. Any participant with reserve funds, not needed for expenditures in the short term may authorize the Treasurer to invest such funds for a longer term. Authorization for longer term investments will be made by way of Board resolution, or written request signed by authorized representative with a copy of Board minutes showing approval of requested purchase.
 - 3. Ownership of longer-term investments will be specific to the participant rather than held in the pool and will be subject to the Participant Agreement.
 - 4. Any purchases made with maturities purchased for the portfolio that are longer than five and one half (5.5) years must have the prior written approval of the Treasurer, subject to subsequent review and approval by the County Finance Committee.
- D. 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.

XVIII. CREDIT DOWNGRADES

In the event an investment in the LCIP has a material credit quality downgrade and is rated below investment grade by Standard & Poor's, Moody's and/or Fitch, the LCIP will seek options to recover

principal by first seeking options that allow for the recovery of the principal value of the investment over time, thereby avoiding a realized loss. Any selected option must be justified in terms of risk, cost/benefit, and legal soundness.

If a loss must be realized, the loss will be distributed in a manner that is fair and equitable to current pool members, as well as protecting new monies entering the pool. The realized loss will be allocated based on each pool member's average balance and netted with earnings.

XIX. INTERNAL CONTROL

The investment 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 is subject to an annual independent review of its internal control by the Washington State Auditor based on their audit plan as developed by the regional audit staff. The Treasurer's accounting staff also provide regular ongoing oversight as they review all investment transactions. Investment transactions are reviewed daily in comparison to the investment activity report and matched to the bank activity during the daily bank reconciliation. They also provide secondary authorization for any resulting wire transfers. The purposes of any procedures in place to establish internal controls shall reflect the following objectives:

- Prevent collusion
- Separation of transaction authority from accounting and recordkeeping
- Reconciliation and review of Custodial Safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members as determined in section VII
- Documented confirmation of transactions for investments and wire transfers reviewed by staff not regularly responsible for bank reconciliation or back up for investment recordkeeping

XX. PERFORMANCE STANDARDS/BENCHMARK

The investment portfolio will be managed 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 appropriate benchmarks reflective of the actual securities being purchased, the risks undertaken, and that contain a similar weighted average maturity as the portfolio will be used to evaluate overall performance.

XXI. TRANSACTION PARAMETERS

- A. When conducting trades of securities in the bond market, three price points should be obtained to determine fair price achieved. Price points include:
 1. Comparable bonds (new issue or secondary) with current price
 2. Run list from another broker

3. Comparable maturity matched Treasury Note
4. Current LGIP rate
5. Bid/Offer from other brokers

Exception: For agency bonds in Syndicate, reference to the new issue and syndicate status on the trade ticket is sufficient.

XXII. CALCULATION PARAMETERS

- A. For the purposes of periodic reporting or mark to market, a comparison of the book value vs. market value is done. When calculating book value, securities with premiums and discounts are amortized and accreted yield to worst.
- B. The weighted average maturity is calculated based on final maturity.

XXIII. ALLOCATION OF EARNINGS

Earnings are allocated monthly based on the average cash balance each fund maintains in the LCIP. See section IX "Procedures" A. (2) for more detail.

XXIV. REPORTING

- A. At least quarterly, a report will be submitted to the Lewis County Finance Committee for their review summarizing the current position of the portfolio for Lewis County.
 1. The Treasurer shall report to the committee current investment strategy being followed, recent economic conditions, and market developments which have a bearing on this strategy.
 2. The 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 to the committee will include:
 - a. Asset allocation
 1. Dollar and percentage of security types, issuers, and maturities
 - b. Portfolio performance
 1. Total earnings reported as a rate and as total dollars earned
 2. Mark to Market percentage comparing book value to market value
- B. The monthly statement of fund activity provided to pool participants will include:
 1. Interest earnings shown as a dollar amount of revenue added to their fund(s) balance.
 2. The yield of the portfolio is also reported on the monthly statement.
- C. The Treasurer is responsible for the investment portion of the Lewis County Annual Comprehensive Financial Report.

XXV. INVESTMENT FEES

RCW 36.29.020 allows the charging of an investment fee for providing service of investing funds. Five percent of the interest or earnings, with an annual maximum of fifty dollars, on each transaction

authorized by each resolution of the governing body shall be paid as an investment service fee. If the fee amounts to five dollars or less, the County Treasurer may waive such fee.

RCW 28A.320.320 allows the charging of an investment fee for school districts. Five percent of the interest or earnings, with an annual minimum of ten dollars or annual maximum of fifty dollars, on any transactions authorized by each resolution of the board.

RCW 36.29.024 allows the charging of investment fees which reimburse the Treasurer's Office for the actual expenses incurred in administering the investment function under a local pooling program.

This fee is allocated to pool participants in a manner which equitably reflects the differing amounts and differing periods of time the amounts were placed in the county pool. Any investment fees collected in excess of actual expenses will be rebated to the pool participants at least on an annual basis.

XXVI. BUSINESS CONTINUITY

- A. The Treasurer shall implement procedures that will maintain continuity of operations related to the investment program while also maintaining proper internal controls. Some examples include:
 1. Bloomberg Anywhere is a service utilized which allows the investment officer to access investment data and conduct trades with brokers even when working remotely.
 2. Centralized investment software that allows back up personnel to access data for conducting daily funding and accounting of investment settlements
 - a. Report of daily transactions to and from safekeeping
 - b. Recording of deposits and withdrawals to and from LGIP
 - c. Journal entry of net investment and cash activity related to investments
- B. Written procedures and documentation will be maintained that provide guidance and instruction in the absence of the investment officer.

XXVII. TRAINING REQUIREMENTS/EXPECTATIONS

A. Investment Officer training

1. It is expected that the investment officer would participate in regular ongoing training and education as it relates to investment best practices and economic conditions.
2. The investment officer is encouraged to maintain involvement with local and national organizations that provide support, training, and networking with finance and investment professionals.
 - a. Examples of organizations may include but are not limited to: Washington Public Treasurers Association, Washington Finance Officers Association, Government Investment Officers Association, Government Finance Officers Association, Washington State Association of County Treasurers.
3. At a minimum, the investment 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. This investment policy
 - b. Revised Code of Washington
 - c. Participant Agreements
 - d. Lewis County ordinances and resolutions
 - e. State Treasurer's Guide to Public Fund Investing
 - f. State Investment Board Commercial Paper & Corporate Notes Policy
 - g. GASB Statements that relate to investments

B. Treasurer Training

1. It is expected that the Treasurer will at a minimum have or gain an understanding of the overall philosophy and strategy of the investment program.
2. The Treasurer is encouraged to maintain involvement with the Washington State Association of County Treasurers in order to stay informed of statewide issues related to investing public funds.
3. The Treasurer shall be familiar with the terms and conditions of the Participant Agreements with each entity.

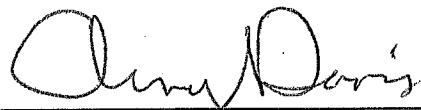
C. Finance Committee Training

1. It is expected that at a minimum, any new member of the Finance Committee attends public fund investment related training within 6 months of becoming a member. Recommendations of current relevant training available can be made by the Investment Officer.
2. It is strongly encouraged that some form of refresher training be attended by any members of the Finance Committee at least once each year.

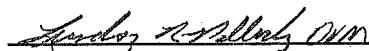
XXVIII. INVESTMENT POLICY ADOPTION

Lewis County's 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 must approve any modifications.

This investment policy has been adopted by majority vote of the County Finance Committee at its meeting on January 21, 2026.



Arny Davis, Lewis County Treasurer and
Chairman Lewis County Finance Committee



Lindsey R. Pollock, DVM, County Commission Chair and
Member Lewis County Finance Committee



Larry Grove, Lewis County Auditor and
Secretary Lewis County Finance Committee

DEFINITIONS

ACCRUED INTEREST - The interest accumulated on a bond since issue date or the last coupon payment. The buyer of the bond pays the market price and accrued interest, which is payable to the seller.

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.

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 - 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.

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 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.

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

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

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.

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).

FNMA - FEDERAL NATIONAL MORTGAGE ASSOCIATION - issues notes tailored to the maturity needs of the investor. Maturities range from 30 days up to 10 years. These notes are made attractive by their denominations from \$5,000 to \$1 million.

FFCB - FEDERAL FARM CREDIT BANK - Government -sponsored institution that consolidates the financing activities of the Federal Land Banks, the Federal Intermediate Credit Banks, and the Banks for Cooperatives.

FHLB - FEDERAL HOME LOAN BANK SYSTEM - consists of twelve Federal Home Loan Banks, issues, in addition to long-term bonds, coupon notes with maturities of up to one year. Their attractiveness stems from their investment denominations of \$10,000 to \$1 million.

FEDERAL HOME LOAN BANKS (FHLB) - The institutions that regulate and lend to savings and loan associations

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

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.

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

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 Ginnie Maes, 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.

INVESTMENT OFFICIAL- Any person delegated responsibility for making decisions related to the investment purchases, managements, strategy, and/or policy.

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.

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.

Public Fund Investment/Money Market Account- An interest bearing account such as a Public Funds Investment Account, also known as a NOW account, that meets the requirements for public funds deposits provided by a bank approved by the Public Deposit Protection Commission.

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.

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.

POOL PARTICIPANT – Any fund that selects to participate either by statute or voluntarily in the Lewis County Investment Pool (LCIP).

PORTFOLIO - Collection of securities held by an investor.

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

PRIMARY DEALERS - 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.

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

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

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.

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.

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.

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 supra's.

SYNDICATE-Temporary alliance of businesses that joins together to manage a large transaction, which would be difficult, or impossible, to effect individually. An underwriting syndicate usually breaks up 30 days after the sale is complete, or if the securities cannot be sold at the offering price. Until syndicate is broken, bonds can only be sold at the initial agreed upon offering price.

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.

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.