Mason County, Washington
Investment Policy
MAY, 2014

1. Policy

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

2. Scope

This investment policy applies to all financial assets in the custody of the Mason County Treasurer (any reference made herein to “Treasurer” shall mean the Mason County Treasurer). Funds covered by this policy include all county funds created by the Mason County Commissioners, funds of other districts where the County Treasurer acts as ex-officio Treasurer and other funds otherwise established by state legislation. The financial assets of Mason County are accounted for in the Mason County Comprehensive Annual Financial Report and include the following.

Fund Types

- General / Current Expense Funds
- Special Revenue Funds
- Debt Service Funds
- Capital Project Funds
- Enterprise Funds
- Internal Service Funds
- Trust Funds
- Agency Funds
- Retirement/Pension Funds
- Any new fund created by the legislative body, unless specifically exempted

2.1 Funds set aside to defease County or any junior or special district debt in conjunction with an advance refunding agreement will be invested in accordance with appropriate bond documents and not necessarily in compliance with this policy.

2.2 In those cases where County funds or funds of any junior or special district are not required for immediate expenditure, and are in the custody or control of the Treasurer, and where the governing body of such district has not taken any action pertaining to the investment of such funds, the Treasurer may invest such funds or portion of them, for the benefit of the County current expense fund, under the criteria established in this policy.
3. 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. 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 or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

4. Objectives

The primary objectives, in priority order, of the County's and junior or special district investment activities shall be:

➢ Safety: Safety of the principal is the foremost objective of the investment program. Investments of the County shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain 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 County's investment portfolio will remain sufficiently liquid to enable the County to meet all operating requirements that might be reasonably anticipated.

➢ Return on Investment (Yield): The County's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the County's investment risk constraints and the cash flow characteristics of the portfolio.

5. Delegation of Authority

The authority to manage the County's investment program is vested in the Mason County Treasurer under the express authority granted in RCW 38.29.020. The County Treasurer shall establish written procedures for the operation of the investment program consistent with this investment policy. Procedures should include reference to: safekeeping, PSA master repurchase agreements, wire transfer agreements, custody agreements and investment related banking services contracts.

5.1 The Treasurer may appoint an Investment Officer whose responsibilities will include initiating daily transactions in the investment portfolio based on liquidity and cash flow requirements of the County, junior and special taxing districts and their respective funds.

5.2 No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.
5.3 Investments placed for the benefit of junior and special taxing districts shall be authorized by resolution of the governing body of such district or by an individual designated to have such authority. The Treasurer will select the specific investment instrument based on the amount and term of the investment instructions specified by the district.

6.0 Ethics and Conflict of Interest

6.1 Officers and employees involved in the investment process 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.

6.2 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. Employees and investment officials shall disclose to the County Treasurer any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any personal financial/investment positions that could be related to the performance of the County's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the County, particularly with regards to the timing of purchases and sales.

7.0 Authorized Financial Dealers and Institutions

The Treasurer will maintain a list of financial institutions authorized to provide investment services.

7.1 Selection of a primary bank to provide general banking services for Mason County will be made by the County Treasurer.

Pursuant to state statutes (RCW 39.58), the deposit of public funds and the placement of "investment deposits" (i.e. time deposits, money market deposit accounts and savings deposits of public funds), will be placed only with 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.

7.2 In addition, the Treasurer will maintain a list of approved security broker/dealers selected by credit worthiness.

7.2.1 Authorized broker/dealers must maintain an office in the State of Washington;

7.2.2 Authorized broker/dealers will be limited to primary dealers or other dealers that qualify under SEC Rule 15C3-1, the Uniform Net Capital Rule.

7.2.3 All approved firms and the individuals that represent them are required to read this policy and certify that they understand and will comply with the County's investment objectives and constraints.

7.2.4 Broker/Dealers that have been selected to provide investment services to the County are required to submit an audited financial statement, proof of National Association of Securities Dealers certification annually to the Treasurer.

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

State statutes and this investment policy limit the types of securities authorized for investment by the County. The principal governing statutes are RCW 39.59 and RCW 39.60. The Treasurer may further restrict eligible investments by this policy at his/her discretion. Authorized investments include (but are not limited to):

8.1 U.S. Treasury Securities

8.2 U.S. Agency Securities (i.e., obligations of any government sponsored corporation eligible for collateral purposes at the Federal Reserve)

8.3 Certificates of Deposit, Money Market Deposit Accounts and savings deposits with qualified depositories within statutory limits as promulgated by the PDPC at the time of investment

8.4 Bankers Acceptances (BA’s) purchased on the secondary market with a rating of A-1, P-1, it’s equivalent or better

8.5 General Obligation Bonds of a State or local government which have at the time of the investment one of the three highest credit ratings of a nationally recognized rating agency

8.6 Registered Warrants of a local government within Mason County, subject the compliance with RCW 39.56.030

8.7 The Washington State Local Government Investment Pool (LGIP)

8.8 Repurchase Agreements subject to the following:

8.8.1 Executed with a financial institution considered to be a qualified public depository in the State of Washington

8.8.2 A master repurchase agreement in conformance with the Public Securities Association (PSA) model agreement must be executed prior to entering into a repurchase agreement transaction.

8.8.3 The use of Repurchase Agreements should be limited to the investment of "overnight " (including weekends) but in no case shall exceed a maximum maturity of 5 days.

8.8.4 Collateralization is required on repurchase agreements. (See Section 9)

9.0 Collateralization

Collateralization is required on repurchase agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of the market value of principal and accrued interest.

The County chooses to limit collateral to the following:

9.1 Collateral for repurchase agreements shall be U.S. Treasury or Agency securities with a term of maturity not to exceed five (5) years.

9.1.1 Collateral is to be delivered to and held in a custodial account by an independent third party with whom the Treasurer has a current custodial agreement. A clearly
marked evidence of ownership (safekeeping receipt) must be supplied to the Treasurer and retained. The right of substitution is granted.

10. **Safekeeping and Custody**
All security transactions, including collateral for repurchase agreements, entered into by the Treasurer shall be conducted on a **delivery versus-payment (DVP)** basis.

10.1 Securities purchased by the Treasurer, will be delivered against payment and held in a custodial safekeeping account. The Treasurer will designate a third party custodian and safekeeping receipts will evidence all transactions.

10.2 Certificates of Deposit, transaction receipts for Money Market Deposit Accounts or Savings Deposit Accounts, and Registered Warrants (of districts in the County) will be held by the Treasurer.

11. **Diversification**
Mason County will diversify its investments by security type and institution. With the exception of US Treasury securities and authorized pools, no more than 50% of the entity’s total investment portfolio will be invested in a single security type or with a single financial institution.

12. **Maximum Maturities**
To the extent possible, the County or junior and special districts will attempt to match its investments with anticipated cash flow requirement, in order to preclude the sale of securities that could result in a loss.

12.1 Unless matched to a specific cash flow the County and junior or special purpose districts will not directly invest in securities maturing more than five (5) years from the date of purchase.

12.2 At the time of investment, no securities or investment instruments shall have a maturity exceeding five (5) years, except when compatible with a specific fund’s investment needs. Maturities in excess of three (3) years must have the prior written approval of the Treasurer.

12.3 To provide for ongoing market opportunity, investment maturities should be laddered or staggered to avoid the risk resulting from over concentration of portfolio assets in a specific maturity.

12.4 The average maturity of the portfolio shall not exceed three years (3) without the written approval of the County Treasurer.

12.5 All interest earnings (less treasurer’s fee) shall be credited as revenue to the fund from which the investment was purchased unless otherwise directed by resolution.

12.6 Investment fees shall be charged to every fund for every maturing investment, at the rate of 5% of the interest to a maximum of $50.00 per fund. The treasurer (RCW 36.29.020) may waive fees under $10.00.
13. **Internal Controls**

The Treasurer shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

13.1 Such reviews may result in recommendations to change operation procedures to improve internal controls. Controls shall be designed to protect against loss of public funds due to fraud, error, misrepresentation or imprudent actions.

14. **Performance Standards / Benchmarks**

The investment portfolio will be designed to obtain an average rate of return during budgetary and economic cycles, consistent with investment objectives and cash flow needs.

The county investment strategy is passive. Given this strategy, the basis used by the Treasurer to determine performance levels will be the average 90-day Treasury bill rate for the corresponding time period.

15. **Reporting**

The Treasurer shall provide the County Finance Committee and County Legislative Body consistent periodic reporting. These reports shall provide an accurate and meaningful representation of the investment portfolio, its performance versus the established benchmark, and proof of compliance with the investment policy.

Quarterly reports will include:
- A listing of individual securities held at the end of the reporting period.
- Average life and final maturity of all investments listed.
- Coupon, discount or earnings rates.
- Par value, amortized book value and market value.
- Percentage of the portfolio in each investment category.
- Measurement of the portfolio against the 90-Treasury Bill Rate
16. **Investment Policy Adoption**
The County's investment policy shall be adopted by resolution of the entity's statutory governing body (Finance Committee, pursuant to RCW 36.48.070) The policy shall be reviewed on an annual basis by the approving authority and the same authority must approve any modifications.

Approved and adopted this 2 day of June, 2014

Mason County Finance Committee  
Ellisabeth (Lisa) Frazier, Mason County Treasurer  
Chairperson

Karen 
Karen Herr, Mason County Auditor  
Secretary

Terri Jeffreys, Mason County Commissioner Chair  
Committee Member
Glossary

**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. The full faith and credit of the U.S. Government back Federal agencies. Federally Sponsored Agencies (FSA's) are backed by each agency with a market perception that there is an implicit government guarantee. (See also Federal Agency Securities and Government Securities)

**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.

**Bank Wire** - An electronic transfer of funds between two financial institutions.

**Bankers Acceptances (BA's)** - Bankers Acceptances generally are created on a letter of credit issued in a trade transaction, either foreign or domestic. BA's are short-term, non-interest bearing notes sold at a discount and redeemed by the accepting bank at maturity for full face value.

**Basis Point** - A measure of 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 Entry Securities** – U.S. government and federal agency securities that do not exist in definitive (paper) form; they exist only in computerized files maintained at the Federal Reserve Bank.

**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.

**Certificates of Deposit** - A deposit of funds, in a bank or savings and loan association, for a specified term that earns interest at a specified rate or rate formula.

**Credit Risk** - The risk that a debtor will fail to make timely payments of principal or interest when due.

**CUSIP Number** - A nine-digit alpha/numeric combination established by the Committee on Uniform Securities Identification Procedures that is used to identify publicly traded securities. Each publicly traded security receives a unique CUSIP number when the security is issued.

**Custodian** - An independent third party (usually a bank or trust company) that holds securities in safekeeping for a client (county).

**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. The important distinction is that the transfer accomplishes absolute ownership control by the County.

**Delivery vs. Payment (DVP)** - The simultaneous exchange of securities and cash. The safest method of settling either the purchase or sale of a security. In a DVP settlement, the funds are wired from the purchaser's account and the security is delivered from the seller's account in simultaneous, interdependent wires.

**Depository Bank** - A local bank used as the point of deposit for cash receipts.
Discount - The amount by which the price of a security is less than its par value.

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

Face Value - The value stated on the “face” of a bond; thus the redemption value at maturity. In debt securities the term is interchangeable with “par”.

Federal Agency Securities - Securities issued by a government-sponsored agency. These agencies were created by Congress to undertake various types of financing without tapping the public treasury. In order to do so, Congress gave these agencies the power to borrow money by issuing securities. These securities are backed by the issuing agency and are not direct government obligations; however, there is a market perception that there is an implicit government guarantee. These agencies include the Federal National Mortgage Association (FNMA), the Federal Home Loan Bank System (FHLB), and the Federal Farm Credit System (FFCB).

Federal Funds - Short-term investments/borrowings between banks. Despite its name, these transactions are not loans to or from the federal government. Nor do they include any guarantee or backing from the federal government. They are called “federal funds” because the parties exchange the funds by transferring balances from the lender’s account with its Federal Reserve District Bank to the borrower’s account with its Federal Reserve District Bank.

Federal Funds Rate - The rate at which banks borrow from one another, generally, as an overnight loan.

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

Government Securities – Any debt obligation issued by the U.S. government, its agencies or instrumentalities. The U.S. Government as to principal and interest payments backs certain securities, such as Treasury bonds and Government National Mortgage Association Notes (GNMA or Ginnie Maes). Other securities, such as those issued by the Federal Home Loan Mortgage Corporation, or Freddie Mac, are backed by the issuing agency.

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 its 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.

Master Repurchase Agreement – An agreement between the investor and the dealer or financial institution. This agreement defines the nature of the transactions, identifies the relationship between the parties, establishes normal practices regarding ownership and custody of the collateral securities during the term of the investment, provides for remedies in the event of a default by either party and otherwise clarifies issues of ownership.

Maturity – The date upon which the principal or stated value of an investment becomes due.

Offer – The indicated price at which a seller is willing to sell a security or commodity. When buying a security an offer is obtained. (See Bid)
Par Value – The nominal or face value of a debt security; that is, the value at maturity.

Premium – The amount by which a bond sells above its par value.

Prime Rate – The interest rate a bank charges on loans to its most creditworthy customers. Frequently cited as a standard for general interest rate levels in the economy.

Principal – An amount upon which interest is charged or earned.

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.

Repurchase Agreement (REPO) – A form of secured, short-term borrowing in which a security is sold with a simultaneous agreement to buy it back from the purchaser at a future date. Every transaction where a security is sold under an agreement to be repurchased is a repo from the seller/borrower’s point of view and a reverse repurchase agreement from the buyer/lender’s point of view.

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 vault 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.

Settlement Date - The day on which the payment and the security actually change hands. (See Trade Date)

Spread – The difference between two prices or two rates. Bankers have many different and highly specific usages of this term. For example, traders use spread to mean the difference between bid and asked prices for a security. Underwriter’s use spread to mean the difference between the price realized by the issuer and the price paid by the investor. Bank analyst’s use spread to mean the difference between the average rates paid on a bank’s assets and the average rate paid on the bank’s liabilities. In asset liability management, spread most often refers to the difference between two rates or yields.

Step-Ups – A form of callable security for which the coupon rate increases if the security is not called.

Strips – Principal and interest cash flows due from any interest bearing security can be separated into different financial instruments. A process called “stripping” does this. Each coupon payment is separated from the underlying investment to create a separate security. For example, a five-year note can be separated into 11 pieces: 10 semiannual coupon payments and the final principal payment. Each of those 11 pieces is a separate cash flow that can be purchased or sold just like a Treasury bill. The cash flows are sold at a discount. The amount of the discount and the time until the cash flow is paid determine the investor’s return.

Trade Date – The day on which a buyer and seller agree upon a transaction.

Third Party Safekeeping – A custodian for the investor holds securities in safekeeping. Under this arrangement, the dealer or bank investment department has no access to the securities being held.

Time Deposit – Interest-bearing deposit at a savings institution that has a specific maturity.

Treasury Bills – Short-term obligations issued by the U.S. Treasury. Bills are issued for maturities of one year or less. They do not pay interest but instead are issued on a discount basis.
**Treasury Bonds** – Long-term obligations issued by the U.S. Treasury. Bonds are issued for initial maturities greater than ten years.

**Treasury Notes (T-Notes)** – Medium term obligations issued by the U.S. Treasury. Notes are issued in maturities for more than one to ten years.

**Yield** – Loosely refers to the annual return on an investment expressed as a percentage on an annual basis. For interest-bearing securities, the yield is a function of the rate, the purchase price, and the income that can be earned from the reinvestment of income received prior to maturity, call, or sale. While various formulas are used to express yields in different variations, dividing the amount realized by the cost of the security and annualizing the result makes the underlying calculation.

**Yield Curve** – A graph (x-axis = time; y-axis = rate) showing the relationship at a single point in time between the available maturities of a security or similar securities with essentially identical credit risk and the yields that can be earned for each of those available maturities.

**Yield Curve Slope** – A yield curve that depicts the customary situation where long-term rates are higher than short-term rates is called an upward sloping or positive yield curve. A yield curve depicting the less common occurrence where short-term rates are higher than long-term rates is called a downwardly sloping or inverted yield curve. Yield curves also describe the amount of difference between short-term and long-term rates. When long-term rates are much higher than short-term rates, the yield curve is said to be steep. When long-term rates are virtually identical to short-term rates, the yield curve is said to be flat.

**Zero Coupon Bond** – A type of debt security that does not pay periodic interest. Zero coupon securities are bought and sold at prices that are less than the par values of the securities. The discount or difference between the principal paid to purchase the security and the principal returned at maturity constitutes the investor’s return.