

ISLAND COUNTY TREASURER'S OFFICE

Investment Policy

Reviewed by Island County Finance Committee: October 28, 2025



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I. INTRODUCTION and OVERVIEW

Island County is a political subdivision of the State of Washington, organized in 1853. The County covers an area of approximately 517 square miles in the northwestern portion of the state. The Town of Coupeville is the County seat, with the City of Oak Harbor being the most populous. Resident population of the county in 2023 was 86,267.

II. GOVERNING AUTHORITY

Island County is a general-purpose government and has approximately 500 full- and part-time employees providing services including public safety, road construction and maintenance, judicial administration, parks and recreation, health and social services, solid waste management, community planning, zoning, and general administrative services. For fiscal year 2025, the county operated on a comprehensive budget of approximately \$140 million.

The Board of County Commissioners is the County's legislative authority and is made up of three commissioners elected to staggered four-year terms, each of whom represents one geographic district based on population, together serving the public interest of all of Island County. The Board is charged with overseeing county operations of the departments, budgetary and general finance matters, and the adoption of laws that regulate county growth, health, safety and welfare of its citizens.

The County Treasurer is an independent elected official with authority and responsibility for the financial assets of the county and its special purpose districts. Duties include acting as bank, receipting and accounting of revenue, billing and collection of taxes and benefit assessments, disbursement of funds, cash and investment management, and debt administration.

III. DELEGATION OF AUTHORITY AND OVERSIGHT

Revised Code of Washington (RCW) 36.48.070 empowers the County Finance Committee to approve investment policy and make rules and regulations. Authority for the Treasurer to manage the Island County investment program is derived from RCW 36.29.020.

The Island County Treasurer (hereinafter referred to as the "Treasurer") may appoint an Investment Officer whose responsibilities include initiating daily

transactions in the investment portfolio based on liquidity and cash flow requirements of the county, junior and special taxing districts, and benefit assessment districts and their respective funds. In addition, the Investment Officer, if one exists, may 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 Investment Officer, if one exists, after consultation with the Treasurer.

IV. PURPOSE STATEMENT

The purpose of this Investment Policy is to establish investment guidelines for the Treasurer, who is responsible for the stewardship of the County's Investment Program. Each transaction and the entire portfolio must comply with applicable RCW and this Policy. All investment program activities will be judged by the standards of this Policy and ranking of Primary Investment Objectives. Those activities that violate its intent will be deemed to be contrary to the Policy. This Policy conforms to the customary standards of prudent investment management. Should the provisions of the RCW change from those contained herein; such provisions will be considered incorporated in this Policy. This Policy shall remain in effect until the County Finance Committee approves a subsequent revision.

V. POLICY

It is the policy of Island County Treasurer to invest public funds in a manner which, giving first regards to safety and liquidity, will provide the highest return and conform to all federal, state, and local statutes.

VI. SCOPE

This investment policy applies to all financial assets of Island County, its special purpose districts and its Junior Taxing Districts, that comprise the Island County Treasurer's Investment Pool (ICTIP). These funds are accounted for in the Island County Comprehensive Annual Financial Report and include:

- General Fund
- Special Revenue Funds
- Capital Projects Funds
- Enterprise Funds

- Internal Service Funds
- Trust Funds
- Custodial 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.

Investments of Island County funds may be made on a pooled basis across all funds, with principal and interest apportioned for the benefit of the various participating funds or the benefit of the general fund. (RCW 35.39.034).

VII. POOL PARTICIPATION

This investment policy applies to all financial assets of Island County and its pool participants and its junior taxing districts.

Island County review, authority and approval are established in the Island County Treasurer's Investment Pool Operating Terms and Conditions

VIII. STANDARD OF 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, which was enacted by State Statute (RCW 11.100.020). The standard of prudence 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, the investment policy, and the exercise of 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.

IX. PRIMARY INVESTMENT PROGRAM OBJECTIVES

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

- **Safety:** Safety of principal is the foremost objective of the Treasurer's investment program. Investments of Island County, the junior taxing districts, and the benefit assessment districts will 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 portfolio will remain sufficiently liquid to enable the Treasurer to meet all cash requirements, to avoid premature sale of an investment at a loss of principal. 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).
- **Investment Income:** The Investment portfolio shall be designed with the objective of attaining a market rate of investment income through budgetary and economic cycles, taking into account the County's investment risk constraints and liquidity needs. Return on investments is of tertiary 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

X. PRIMARY INVESTMENT PHILOSOPHY

The primary investment philosophy of the County is to match investment maturities with expected cash outflows. 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.

XI. ETHICS AND CONFLICTS OF INTEREST

Investment officials, including the Finance Committee, the Treasurer, and Investment Officer, if one exists, 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.

Officials and employees involved in the investment process shall refrain from, or disclose, 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 with regard to the timing of purchases and sales.

In conjunction with this disclosure, the Treasurer will file Washington Public Disclosure Commission Form T-1 under RCW 42.17A.570 by April 15 of each year for the County and each Port district. The forms will be signed by all Finance Committee members.

XII. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

Selection of a primary bank for Island County's general banking services will be made by the Treasurer and reported to the Finance Committee and Board of Island County Commissioners (BICC).

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). This list will be reported to the Finance Committee.

As required by state law, (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 Treasurer will annually adopt the eligibility list provided by the PDPC as the approved depository list.

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

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 Island County must supply the Treasurer with the following:

- Annual audited financial statements.
- Proof of FINRA (Financial Industry Regulatory Authority) certification.
- Proof of registration with the State of Washington.
- A completed Broker/Dealer questionnaire and a certification of having read the Island 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 Island County invests.

XIII. AUTHORIZED INVESTMENTS

Island County is empowered by statute (RCW 36.29, 39.58, 39.59, 39.60, 43.84.080, and 43.250) to invest in the following types of securities:

- U.S. Treasury Obligations
- U.S. Government Agency obligations and U.S. Government Sponsored Enterprises (GSE) 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)
 - Tennessee Valley Authority (TVA),

- Banker's Acceptances purchased through State of Washington Financial Institutions and authorized broker/dealers. Banker's Acceptances shall not be longer than six months duration. Investments in Banker's Acceptances must be in the top thirty banks in the United States, including all banks in the State of Washington as authorized by the Public Deposit Protection Commission. Further, within these limitations, investments may be made only in those banks whose other negotiable obligations are rated at least A-1, P-1 or F-1 (at the time of purchase) by at least two or more Nationally Recognized Statistical Ratings Organization (NRSRO) such as Moody's or Standard and Poor's.
- Commercial Paper, purchased in the secondary market, and complying with the State Investment Board requirements. These requirements include commercial paper rated at least A-1, P-1 or F-1 (at the time of purchase) by at least two or more NRSROs and have a maturity not exceeding 180 days. Maturities in excess of 100 days must also have a long-term rating of Aa or better by at least one NRSRO.
- Non-negotiable Certificates of Deposit of financial institutions which are qualified public depositories as defined by RCW 39.58.010(2) and in accordance with the restrictions therein.

Repurchase Agreements provided that a signed Master Repurchase Agreement shall be on file in the Island County Treasurer's office for all financial institutions that enter into a repurchase agreement with the Island County Treasurer. All repurchase agreements will be collateralized at a minimum of 102% of market value of principal and interest. The only eligible collateral for repurchase agreements will be direct obligations of the U.S. Treasury, U.S. Government Agency and/or U.S. Government instrumentality obligations. All securities shall be held in third party safekeeping. Third party safekeeping agreements must be entered into with a signed agreement between the safekeeping financial institution and the Island County Treasurer. All securities in a repurchase agreement shall be priced daily to reflect current market conditions for both principal and accrued interest. Securities shall be purchased from either primary dealers or from institutions that are members of the Washington Public Depository. Credit worthiness of the institution will also be considered.

- Bonds of the State of Washington and any local government in the State of Washington, which bonds have at the time of investment a credit rating of A or better by one of the NRSROs.
- 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 a credit rating of A or better by one of the NRSROs.

- Washington State Local Government Investment Pool (LGIP). The Island County Treasurer will keep on file the most recent LGIP Investment Policy and operations manual. This policy will be assessed for safety of funds on deposit with the LGIP and risks associated with investment strategies. In addition, the LGIP will complete a questionnaire for the Island County Treasurer which will include the following:

- A description of eligible securities;
- How interest and fees are calculated;
- How gains and losses are calculated;
- A description of how the securities are safeguarded,
- How often the securities are priced,
- How often the program is audited;
- Deposit and withdrawal restrictions; and
- Information regarding how bond proceeds are accounted for in the LGIP.

- Supranational obligations of the International Bank for Reconstruction and Development (IBRD or World Bank); the International Finance Corporation (IFC); the Asian Development Bank (ADB) and the Inter-American Development Bank (IADB), which must have a credit rating of AAA by one of the NRSRO's.
- And other investments authorized by law

A signed master repurchase agreement in conformance with the Public Securities Association (PSA) model agreement and supplemented with the Treasurer's policy on repurchase agreements must be executed prior to entering into a repurchase agreement transaction.

XIV. PROHIBITED INVESTMENTS

Equities (stocks), Collateralized mortgage obligations, Money market mutual funds, Inverse Floaters, Negotiable Certificates of Deposit, and Cryptocurrency are not authorized. Any investment type not expressly permitted in this policy is ineligible.

XV. DIVERSIFICATION

It is the policy of Island 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 Committee for all funds. In establishing specific diversification strategies, the following constraints shall apply at the time of purchase:

Authorized Investment Type	Max % of Portfolio	Max% Issuer
U.S. Treasury Obligation	90%	90%
Government Agency and GSE Obligations	90%	40%
Banker's Acceptances	20%	3%
Commercial Paper	20%	3%
Non-Negotiable Certificates of Deposit	RCW Limits	RCW Limits
Repurchase Agreements	40%	20%
State of WA and WA Local Government Obligations	20%	5%
Other State and Local Government Obligations	15%	3%
Washington State LGIP	90%	90%
Supranational Obligations	10%	5%

XVI. COLLATERALIZATION

Depository Collateral. State statute (RCW 39.58) requires that all deposits of public funds be made with qualified public depositaries, protected through the actions of the Public Deposit Protection Commission (PDPC), comprised of the State Treasurer, Governor and Lieutenant Governor. State law requires that all deposits of public fund over and above federally insured amounts (including Certificates of Deposit) be collateralized in accordance with regulations of the PDPC. All collateral is regulated by the PDPC. The PDPC ensures public funds deposited in banks are protected should a financial institution become insolvent. The names of authorized public depositaries may be found at the Washington State Treasurer's website.

Repurchase Agreements:

- The collateral for repurchase agreements shall be U.S. Treasury or Agency securities with a term of maturity not to exceed the maximum maturity allowed by investment policy.
- Mortgage-backed securities of any maturity will not be accepted as collateral.
- In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be at 102% of market value of principal and accrued interest.
- Collateral is to be delivered to and held by the trust department of the bank with whom the Treasurer has an agreement for the County's security safekeeping. Collateral held for repurchase agreements will be evidenced by safekeeping receipts provided to the Treasurer.
- At a minimum, the value of the securities must be marked to market on a monthly basis. Prevailing market conditions may dictate more frequent repricing at the discretion of the Treasurer.

XVII. SAFEKEEPING AND CUSTODY

Island County will utilize an independent third-party custodian to safeguard its investments and protect against safekeeping/custodial risks. All securities purchased by the Treasurer (with the exception of non-eligible items such as non-negotiable CDs, the LGIP, and demand deposit accounts held at qualified public depositories) will be held by a third-party custodian selected by the Treasurer such as the one designated by the statewide custody program.

- 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.
- Safekeeping: Securities will be held by an independent third-party custodian selected by the Treasurer. Safekeeping receipts will evidence all transactions and reconciled monthly to the portfolio. Third-party custodial reports shall be required monthly, to list, at a minimum, each individual security, CUSIP, purchase date, cost, market value, par value, and maturity date.
- CDs, LGIP, and Demand deposit accounts: Certificates of deposit will be held by the Treasurer.

XVIII. SALE OF PORTFOLIO

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

XIX. MATURITIES

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 Washington State Treasurer's Local Government Investment Pool or money market accounts to ensure that appropriate liquidity is maintained to meet ongoing obligations.

- To this extent, 20% of the portfolio as a minimum, at the time of investment, will be comprised of investments maturing within a year.
- 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. Maturities longer than five years must have the prior written approval of the Treasurer and are only acceptable if a specific fund has unique investments needs for a period exceeding five years and has made a specific request for same of the Treasurer.
- 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.

XX. INTERNAL CONTROL

The Office of the State Auditor requires that in accordance with Revised Code of Washington 43.09.260, the County must undergo annual financial examinations performed by State Examiners. Investment management is to be included as part of the annual independent audit to assure compliance with this investment policy.

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 shall establish an annual process of independent review by the Island County Auditor's Office. This review will provide internal control by assuring compliance with policies and

procedures. 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

XXI. INTERNAL AND EXTERNAL AUDIT

The custodian/safekeeping account, investment transactions, and records may be audited by internal auditors, independent of the Treasurer, and/or by the Washington State Auditor's Office as part of its annual financial audit. The results of that audit shall be furnished to the Finance Committee and Board of Island County Commissioners.

XXII. 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 a market rate of investment income during budgetary and economic cycles, consistent with the investment objectives and cash flow needs. Given this strategy, the benchmark for investment considerations shall be a benchmark which reflects the prominent and persistent characteristics of the portfolio overtime. The benchmark may be adjusted periodically as material changes take place in regard to asset allocation and/or weighted average maturity.

XXIII. DOWNGRADED SECURITIES

The County may, from time to time, be invested in a security whose rating is downgraded. In the event a rating drops below the minimum allowed by this policy, the Treasurer will review and recommend an appropriate plan of action to the Finance Committee. The County may continue to hold a downgraded investment to maturity if a probable outcome is the actual realization of full value, rather than a realized loss if divested prior to maturity.

XXIV. INVESTMENT TRANSACTION PARAMETERS

The investment program shall follow the following investment transaction parameters (examples below):

- Obtain at least three offers/bids (when applicable/available) pricing
- Compare security to a comparable maturity matched U.S. Treasury obligation
- Forward settlement time limit of not more than 30 days

XXV. CALCULATION PARAMETERS

Calculations of percentage allocations shall be done at the time of purchase and formulated on book value. Weighted average maturity is calculated using a security's stated final maturity and using the settlement date.

XXVI. PROCEDURES

Day-to-day procedures concerning investment management and accounting are outside the scope of this policy and are included in the County's Treasurer's Investment Pool Operating Terms and Conditions and the Treasurer's Investment Pool Internal Operations Manual. The Finance Committee will be provided with a copy of the documentation for review purposes.

XXVII. REPORTING

At least quarterly, a report will be submitted to the Island County Finance Committee for their review, summarizing the current position of the portfolio for Island County (RCW 35.39.032). This report is posted on Island County website for the public and all Junior Taxing Districts to review. The Treasurer and Investment Officer, if one exists, shall report to the committee current investment strategy being followed and recent economic conditions and market developments which have a bearing on this strategy. This management 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, subject to the capabilities of the investment software utilized by the County. The report will include:

- Portfolio Summary, which includes Weighted average maturity, weighted average book yield, asset allocation by type, maturity distribution, and aggregate book and market values, aggregate and net

- asset value
- A listing of individual securities held at the end of the reporting period by authorized investment category, which includes CUSIP or identifier, purchase date, maturity date, purchase yield, par value, book value, market value, credit rating
- A listing of individual securities held at the end of the reporting period separated by County Residual and Junior Taxing District holdings
- Performance of portfolio and its appropriate benchmark(s)
- Compliance of the investments
- Transactions
- Investment Income

XXVIII. ALLOCATION OF INVESTMENT INCOME

Investment income for pool participants is distributed monthly based on the average daily balance a fund maintains in the pool and is calculated using the actual number of days in the prior month, based on a 360-day year. The total income distributed to pool participants will be the total of received and accrued interest earned, amortized premium/discount, and realized gains and losses on securities held for the pool, during the month of the income allocation, less the administrative fee. Interest income will be posted to participants' accounts within ten business days after the close of each month.

XXIX. INVESTMENT FEES

RCW 36.29.024 provides that the county treasurer may deduct the amounts necessary to reimburse the treasurer's office for the actual expenses the office incurs and to repay any county funds appropriated and expended for the initial administrative costs of establishing a county investment pool provided in RCW 36.29.022. These funds shall be used by the county treasurer as a revolving fund to defray the cost of administering the pool without regard to budget limitations, and to maintain a reserve fund.

Any credits or payments to political subdivisions shall be calculated and made in a manner which equitably reflects the differing amounts of the political subdivision's respective deposits in the county investment pool and the differing periods of time for which the amounts were placed in the county investment pool. A county investment pool must be available for investment of funds of any local government that invests its money with the county under the provisions of RCW 36.29.020, and a county treasurer shall follow the request from the local government to invest its funds in the pool.

As used in this section "actual expenses" include only the county treasurer's direct and out- of-pocket costs and do not include indirect or loss of opportunity costs. As used in this section "direct costs" means those costs that can be identified specifically with the administration of the county investment pool. Direct costs include (1) Compensation of employees for the time devoted and identified specifically to administering the pool; and (2) the cost of materials, services, or equipment acquired, consumed, or expended specifically for the purpose of administering the pool.

The amount of the fee in basis points is subject to annual adjustment pending projected annual operating costs and reserve fund balance.

XXX. ESTABLISHMENT & MAINTENANCE OF RESERVE REBATE FUND

At the end of the calendar year, the Island County Treasurer's Investment Pool (ICTIP) will prepare a final accounting for pool expenses. The ICTIP will maintain a reserve rebate fund equal to a cumulative 20% of three annual operations budget years, held on a rolling three-year basis, to cover unanticipated and one-time capital expenditures. For example, if the annual budget is \$75,000, \$15,000 would be set aside annually for 3 years for an accumulated reserve fund balance of \$45,000. Participants are rebated administrative fees that are in excess of operational requirements and the required reserve fund balance. The proportionate share of the rebate is based on the participant's average daily balance for the calendar year in which the rebate was posted.

XXXI. BUSINESS CONTINUITY

The Treasurer has developed a Business Continuity Plan (Plan) describing the County's anticipated response to a range of events that could significantly disrupt its business. Because the timing and impact of disasters, emergencies and other events is unpredictable, flexibility is necessary when responding to actual disruptions as they occur. The goal of the Plan is to prevent lapses in operations or resume operations as quickly and smoothly as possible.

The Plan for responding to a significant business disruption addresses safeguarding of employees lives and County's property, making a financial and operational assessment, quickly recovering and resuming operations, protecting all of the County's books and records, and allowing the continued ability to manage the investment program and transact business.

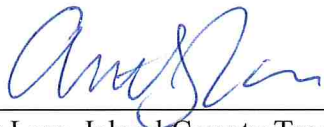
XXXII. ONGOING TRAINING AND EDUCATION

The County strives for professionalism and accountability in the investment of its funds. In order to assure the highest possible professional standards and retention of investment staff, the County will provide opportunities and funding for the personnel involved in the investment function to complete continuing education programs or other training in cash and investment management sufficient to maintain their skills and remain up to date on best practices and new regulations.

XXXIII. INVESTMENT POLICY ADOPTION

Island County's investment policy shall be adopted by a majority vote of the County Finance Committee., every four (4) years. The policy shall be reviewed on an annual basis by the committee, which must approve any modifications.

This investment policy in its updated form has been adopted by majority vote of the Island County Finance Committee at a special meeting on October 28, 2025.



Tony Lam, Island County Treasurer and Chair,
Island County Finance Committee



Sheilah Crider, Island County Auditor and Secretary,
Island County Finance Committee



~~Melanie Bacon, County Commission Chair and Member,~~
Jill Johnson
Island County Finance Committee

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. 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.

BANK WIRE - A virtually instantaneous electronic transfer of funds between two financial institutions.

BANKERS ACCEPTANCES (BAs) - Bankers Acceptances generally are created based on a letter of credit issued in a foreign trade transaction. They are used to finance the shipment of commodities between countries as well as the shipment of some specific goods within the United States. BAs are short-term, non-interest-bearing notes sold at a discount and redeemed by the accepting bank at maturity for full face value. These notes trade at a rate equal to or slightly higher than Certificates of Deposit (CDs), depending on market supply and demand. Bankers Acceptances are sold in amounts that vary from \$100,000 to \$5,000,000, or more, with maturities ranging from 30 - 270 days. They offer liquidity to the investor as it is possible to sell BAs prior to maturity at the current market price.

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 ENTRY SECURITIES - U.S. government and federal agency securities that do not exist in definitive (paper) form; they exist only in computerized files maintained by 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,

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.

COLLATERAL: Property (as securities) pledged by a borrower to protect the interest of the lender.

COMPETITIVE BID PROCESS - A process by which three or more institutions are contacted via the telephone 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.

DEFEASE - To discharge the lien of an ordinance, resolution, or indenture relating to a bond issue, and in the process, render inoperative restrictions under which the issuer has been obliged to operate. Comment: Ordinarily an issuer may defease an indenture requirement by depositing with a trustee an amount sufficient to fully pay all amounts under a bond contract as they become due.

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 so as to minimize market risk.

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 System (FFCS).

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

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

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 BANKS (FHLB) - The institutions that regulate and lend to savings and loan associations.

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 Island County.

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.

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.

MASTER REPURCHASE AGREEMENT - An agreement between the investor and the dealer or financial institute. 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 time when a security becomes due and at which time the principal and interest or final coupon payment is paid to the investor.

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 is

able to 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 charge 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 by the use of reason. Shrewdness in the management of affairs. Able to use skill and good judgment in the use of resources.

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.

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.

REPURCHASE AGREEMENT (REPO) - The Repo is a contractual transaction between an investor and an issuing financial institution (not a secured loan). The investor exchanges cash for temporary ownership of specific securities, with an agreement between the parties that on a future date, the financial institution will repurchase the securities at a prearranged price. An "Open Repo" does not have a specified repurchase date and the repurchase price is established by a formula computation.

REPRICING - The revaluation of the market value of securities.

REVERSE REPOs - The opposite of the transaction undertaken through a regular repurchase agreement. In a "reverse" the City/County initially owns securities, and the bank or dealer temporarily exchanges cash for this collateral. This is, in effect, temporarily borrowing cash at a high interest rate and is also known as securities lending. Most typically, a Repo is initiated by the lender of funds. Reverses are used by dealers to borrow securities they have shorted.

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.

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.

SPREAD - (a) Difference between the best buying price and the best-selling price for any given security. (b) Difference between yields on or prices of two securities of differing quality or differing maturities. (c) In underwriting, difference between price realized by the issuer and price paid by the investor.

SUPRANATIONAL INSTITUTIONS (SUPRAS) - 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.

TRIPARTITE CUSTODIAN AGREEMENT - An agreement that occurs when a third party or custodian becomes a direct participant in a repurchase transaction. The custodian ensures that the exchange occurs simultaneously and that appropriate safeguards are in place to protect the investor's interest in the underlying collateral.

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.

TIME DEPOSIT - Interest-bearing deposit at a savings institution that has a specific maturity.

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.

UNDERLYING SECURITIES - Securities transferred in accordance with a repurchase agreement.

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.