

City of Orting Investment Policy

I. POLICY

It is the policy of the City of Orting to invest public funds in a manner which will provide maximum security, while meeting daily cash flow demands, conforming to all state and local statutes governing the investment of public funds, while providing a market rate of return through budgetary and economic cycles.

II. SCOPE

This investment policy applies to all financial assets of City of Orting. These funds are accounted for in the City of Orting's Comprehensive Annual Financial Report and include

- General Fund
- Special Revenue Funds
- Capital Projects Funds
- Enterprise Funds
- Trust and Agency Funds
- Debt Service Funds
- Any new fund created by City, unless specifically exempted

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

III. 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.

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IV. OBJECTIVES

The primary objectives, in priority order, of City of Orting's investment activities shall be:

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

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

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

- A security with declining credit may be sold early to minimize the loss of principal.
- A security swap would improve the quality, yield, or target duration of the portfolio.
- Liquidity needs of the portfolio require that the security be sold early.

V. DELEGATION OF AUTHORITY

- A. The City Administrator will appoint an Investment Officer whose responsibilities will include monitoring the City's investments based on liquidity and cash flow requirements of the city's funds. In addition, this policy will govern the operation of the investment program.
- B. All purchases of investment transactions must be made by the City Administrator or by the Investment Officer after consultation with the City Administrator. No other individual may initiate an investment transaction.

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VI. ETHICS AND CONFLICTS OF INTEREST

- A. The 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. 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. The Investment Officer shall disclose to the City Administrator any material financial interests in financial institutions that conduct business with the City, and they will further disclose any personal financial or investment positions that could be related to the performance of the City's portfolio, particularly with regard to the timing of purchases and sales.

VII. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

- A. Selection of a primary bank for the City of Orting's general banking services will be made by the City Administrator.
- B. The Investment Officer 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).

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 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 City Administrator on a routine basis. All brokers/dealers and financial institutions who desire to do business with the City of Orting must supply the City Administrator with the following:

1. Annual audited financial statements.
2. Proof of FINRA (Financial Industry Regulatory Authority) certification.
3. Proof of registration with the State of Washington.
4. A completed Broker/Dealer questionnaire and a certification of having read the City of Orting's Investment Policy.

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The Investment Officer will conduct a review of the financial condition of the firms if investments are purchased within that year. A current audited financial statement is required to be on file for each financial institution and broker/dealer with whom the City invests.

VIII. AUTHORIZED INVESTMENTS

The City of Orting is empowered by statute RCW 35.39 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 (FNMA), Student Loan Marketing Corporation (SLMA), Tennessee Valley Authority (TVA),
- Supranationals – Certificates, notes, or bonds of the United States, or other obligations of the United States or its agencies, or of any U.S. dollar denominated bonds, notes, or other obligations that are issued or guaranteed by supranational institutions, provided that, at the time of investment, the institution has the United States government as its largest shareholder.
- Corporate Notes, purchased on the secondary market, provided that the policy adheres to the investment policies and procedures adopted by the Washington State Investment Board. Please check the Washington State Investment Board's website for the most recent adopted policy and credit monitoring criteria.
- Banker's Acceptances (BA's) purchased on the secondary market
- Commercial Paper, purchased in the secondary market, provided that the policy adheres to the investment policies and procedures adopted by the Washington State Investment Board. ** Please see attached Appendix with the most current adopted policy.
- Non-negotiable Certificates of Deposit of financial institutions which are qualified public depositories as defined by RCW 39.59 and in accordance with the restrictions therein.
- Bonds of the State of Washington and any local government in the State of Washington, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency.

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- General obligation bonds of a state other than the State of Washington and general obligation bonds of a local government of a state other than the State of Washington, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency.
- Washington State Local Government Investment Pool (LGIP). The City of Orting's City Administrator will keep on file the most recent LGIP Investment Policy, prospectus and operations manual. This policy will be assessed for safety of funds on deposit with the LGIP and risks associated with investment strategies. The LGIP prospectus states 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, and how often the program is audited; deposit and withdrawal restrictions; and information regarding how bond proceeds are accounted for in the LGIP.
- And other investments authorized by law

IX. 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 City Administrator. Safekeeping receipts will evidence all transactions.

C. CD's:

Certificates of deposit will be held by the City Administrator.

X. DIVERSIFICATION

It is the policy of the City of Orting 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 investment officer for all funds. In establishing specific diversification strategies, the following constraints (no more than) shall apply:

Washington State Local Government Investment Pool	100%
U.S. Treasury Obligations	100%

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Federal Agency securities	90%
Public Fund Interest Bearing Investment Accounts	40%
Certificates of Deposit (CDs)	40%
Bonds of State of Washington or any local government in the State of Washington	20%
Bonds of other states or local governments of a state other than the State of Washington	15%
Supranationals	20%
Banker's Acceptance (BA's)	10%
Commercial Paper & Corporate Notes Combined	25%

XI. SALE OF PORTFOLIO

Any changes to this Investment Policy, which includes a 50% reduction or more of the City's investments, shall require a majority vote by the City Council.

XII. 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 Local Government Investment Pool, money market funds to ensure that appropriate liquidity is maintained to meet ongoing obligations.

- A. To this extent, 20% of the portfolio, at the time of investment, will be comprised of investments maturing within a year.
- B. 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.
- C. 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 Investment Officer.

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XIII. 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 Investment Officer will provide documentation to support investments to both the State Auditor's Office and the City Administrator to ensure internal controls are maintained. In order to show compliance of policies and procedures, the review should 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

XIV. PERFORMANCE STANDARDS/BENCHMARK

The investment portfolio will be managed in accordance with the parameters specified within this policy. The investment portfolio shall be managed to obtain a fair rate of return and earnings rate that incorporates the primary objectives of protecting the City's capital and assuring adequate liquidity to meet cash flow needs. For purposes of this policy, "earnings rate" will be the composite rate of both the liquidity and core funds and be compared to the LGIP rate. The goal is for the total portfolio, to generally perform better than the LGIP due to the longer weighted average maturity and the earnings rate is expected to trend in a similar manner as interest rates change. The investment portfolio performance may be tracked against a market index such as the US treasury 0-3 index or US treasury 0-5 index on a total return basis. This will provide for accountability of price changes in the portfolio and help inform the strategy related to the duration of the portfolio. economic The City will review current quarterly rates of LGIP, Federal Fund and the bond rates within the portfolio and current cash needs to determine if additional changes are needed.

If Corporate Notes or Commercial Paper are purchased, credit monitoring will occur.

XV. PROCEDURES

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Monthly procedures concerning investment management and accounting are outside the scope of this policy. As deemed necessary, the Investment Officer will establish written procedures for the operation of the investment program consistent with this policy.

XVI. REPORTING

At least quarterly, a report will be submitted to the City of Orting Council, summarizing the current position of the portfolio for the City of Orting. The Treasurer and Investment Officer shall report to the Council the 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 Council to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will include:

- A listing of individual securities held at the end of the reporting period
- Asset allocation of types of securities – Bonds/LGIP and Cash
- Investment Rates

XVII. INVESTMENT POLICY ADOPTION

The City of Orting investment policy shall be adopted by a majority vote of the City Council. The policy shall be reviewed at least once every three (3) years to ensure that it remains relevant and appropriate by the Investment Officer and the City Administrator. Any modifications to this policy must be adopted by the City Council.

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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.

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

DIVERSIFICATION - Dividing available funds among a variety of securities and institutions 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.

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

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

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

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

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

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

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA) - FNMA, like GNMA, was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a Federal corporation working under the auspices of the Department of Housing and Urban Development, HUD. It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

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

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

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

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the entity.

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

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

LIQUIDATION - Conversion into cash.

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

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

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

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

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

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

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

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

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

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

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

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

PORTFOLIO - Collection of securities held by an investor.

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

PRIMARY DEALERS - A pre-approved bank, broker/dealer or other financial institution that 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 charges on loans to its most credit worthy customers. Frequently cited as a standard for general interest rate levels in the economy.

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

PRUDENCE - The ability to govern and discipline oneself by the use of reason. Shrewdness in the

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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.

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.

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.

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 (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.

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.

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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.

WHEN-ISSUED TRADES - Typically, there is a lag between the time a new bond is announced and sold and the time it is actually issued. During this interval, the security trades "WI," "when, as, and if issued."

WI - When, as, and if issued. See When-issued trades.

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.