INVESTMENT POLICY

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I. PURPOSE

The purpose of this policy is:

- To establish investment objectives and parameters necessary to safeguard public funds entrusted to the City of Poulsbo.
- To articulate the City Council's intent for the governance of City investments.
- To communicate clear policy and strategy guidelines for City investment administration.
- To demonstrate to citizens, taxpayers and voters a transparent and accountable stewardship plan.

II. POLICY

It is the policy of the City of Poulsbo to invest public funds in a manner which, giving first regard to safety and liquidity, will provide the highest investment return and conform to all federal, state and local statutes.

III. SCOPE AND APPLICABILITY

This investment policy applies to all financial assets of The City of Poulsbo. These funds are accounted for in the City's Annual Comprehensive Financial Report (ACFR) and include:

- General Fund
- Special Revenue Funds
- Capital Projects Funds
- Enterprise Funds
- Trust and Agency Funds
- Permanent Funds
- Any new fund created by City ordinance, unless specifically exempted by City Council
- Should bond covenants be more restrictive than this policy, funds shall be invested in full compliance with those restrictions.

Investments of City 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 for the benefit of the general fund. (RCW 35.39.034)

IV. GOVERNING AUTHORITY TO INVEST

- **Enabling Legislation.** All investments shall be managed in a manner responsive to public trust and consistent with state law. The authority to manage the City's investment program is derived primarily from RCW sections 35A.40.050 and 35.39.032 and from the Poulsbo Municipal Code 3.58.010 as established by ordinance 86-05.

- **Delegation of Authority.** This policy provides for accountability and transparency to the City Council who authorizes the Finance Director, or their designee, to engage in investment-related transactions within this policy without prior approval. The City Administrator may review and conduct oversight of transactions and monthly reporting prior to council review and approval. The Finance Director shall establish procedures for investment activities and a system of controls consistent with this investment policy. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director, who shall be responsible for all transactions undertaken.

- **Training**. Investment procedures shall include explicit delegation of authority to persons responsible for investment transactions to provide adequate redundancy by properly trained and informed staff. All staff engaging in investment transactions shall attend public investment training, which may include staff training by a qualified Finance Director. Staff shall not engage in any allowable investment transaction for which they cannot articulate a rationale for having done so.

- **Contracted Management.** Any external investment manager engaged to assist in the management of the city's investment portfolio will be held to the prudent investor standard of care (RCW 11.100.020).

V. OBJECTIVES

The prime objectives of this City's investment activities shall be the suitability of every investment to the financial requirements of the City considering, in this specific priority order:

- **Safety**: Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of principal in the overall portfolio. Each investment transaction shall be conducted in a manner to avoid principal loss arising from security default, institution default, broker-dealer default, safekeeping fraud, or the avoidable loss on the premature sale of an investment

- **Liquidity**: The investment portfolio will be structured to meet all expected obligations in a timely manner, to avoid premature sale of an investment at a loss of principal. This is to be achieved by comparing investment maturities with forecasted cash flows and maintaining sufficient liquidity for contingencies across all funds. A 3-to 5-year historical liquidity trend history, combining the City's main checking account, LGIP, and the investment portfolio, will clearly indicate annual seasonal low cashflows.

- **Yield, or Return on investment**: The investment portfolio shall be designed with the objective of optimizing rate of return as prudently possible having first satisfied the objectives of Safety and Liquidity.

VI. PRUDENCE

The standard of prudence to be used by investment officials shall be the "prudent investor standard," as defined by State Statute (RCW 11.100.020). Specifically:

1) A trustee shall invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill, and caution.

2) A trustee's investment and management decisions respecting individual assets must be evaluated not in isolation but in the context of the trust portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the trust.

Investment officers acting in accordance with the written procedures and exercising due diligence shall be relieved of personal responsibility for individual security's credit risk or marketplace changes. Deviations from expectations shall be reported in a timely fashion and appropriate action is taken to control adverse developments.

VII. ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from, or disclose, personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and officers shall subordinate their personal interests to those of the City, particularly with regard to the time of purchases and sales. However, an employee is unlikely to personally own a controlling interest in a security that becomes the best investment for the City such as a highly rated medium-term note issuer and should not have to sell their personal position in order to serve the City.

- **Disclosure**. Employees and investment officials shall disclose in writing to the City Administrator any material financial interests in the financial institutions to conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the portfolio. Employees and officers shall refrain from, or disclose, any personal investment transactions with the same agents with whom business is conducted on behalf of the city and shall avoid, or disclose, transactions that might impair public confidence. On an annual basis, the Finance Director should submit a T-1 Public Treasurer's Annual Report to the Public Disclosure Commission regarding their affiliation with investment institutions.

- **Gifts**. Consistent with general City policy, officers and employees involved in the investment process may not accept any valuable gift, favor or gratuity which is made based on his or her position in the City's service.

VIII. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

- **Brokers.** The Finance Director or his/her designee will maintain a list of broker/dealers, which are authorized to provide investment services. To be eligible to do business with the city, a broker/dealer must provide a Broker/Dealer Questionnaire that includes the following: audited financial statements, current securities-related licensing; proof of registration and licenses held with the Financial Industry Regulatory Authority (FINRA); proof of registration with the State of Washington Securities Division; provide current active municipal client references; and certification of having read the City's current investment policy. The financial condition of qualified brokers will be reviewed annually by the Finance Director.

- **Banks**. Banking services, depository accounts and certificates of deposit, as required by state law, (RCW 39.58), may be contracted only with those institutions approved by the Washington Public Deposit Protection Commission (PDPC)

IX. AUTHORIZED INVESTMENTS

Washington State law limits the types of investment vehicles available to municipalities. Those

primary and secondary investment instruments listed below comply with state law.

A. The primary investment instruments expected to be utilized in the City of Poulsbo's Investment Portfolio are:

- State of Washington Local Government Investment Pool (LGIP), the public funds investment account for investment and reinvestment by the state treasurer. Funds will be recorded as investments and considered to be part of the City's portfolio; RCW 43.250.040.

- Agencies. U.S. Government Agency obligations and U.S. Government Sponsored Enterprises (GSE's, which may include Federal Farm Credit Bank (FFCB), Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), Tennessee Valley Authority (TVA)) or the obligations of any other government sponsored corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the board of governors of the federal reserve system; RCW 39.59.040 (5).

- Treasuries. Certificates, notes, or bonds of the United States, or other obligations of the United States or its agencies, or of any corporation wholly owned by the government of the United States; or United States 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; RCW 39.59.040(4).

B. The following secondary investment instruments are not expected to be routinely utilized in the City of Poulsbo's Investment Portfolio, but are also authorized by state statute and will be disclosed and justified to council through council monthly reporting if used:

- Bonds of the state of Washington and any local government in the state of Washington; RCW 39.59.040(1)

- 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 RCW 39.59.040(2)

- 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.

- 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.

X. PROHIBITED INVESTMENTS

Equities (stocks), Collateralized mortgage obligations, Money market mutual funds, Inverse Floaters, Negotiable Certificates of Deposit, Repurchase and Reverse Repurchase Agreements,

and Cryptocurrency and any investment type not expressly permitted by City Council in this policy are not eligible investments for the City.

XI. DIVERSIFICATION

Investments in securities shall not exceed the following percentages of the portfolio at the time of purchase:

State Local Government Investment Pool	100%
Treasury Securities	
Government Sponsored Agency Securities	100%, (40% per issuer)
Certificates of deposit	10%, lesser of 2% or $250,000 per issuer
Same-State/Local Securities	15%, lesser of 2% or $1 million per issuer
Other-State/Local Securities	5%, lesser of 2% or $1 million per issuer
Same-county local government issuer	only by city council resolution

XII. MAXIMUM MATURITIES

- Staggered maturities are to be a component of the diversified investment strategy, employed to minimize reinvestment risk due to rate fluctuations building a reasonably laddered maturity schedule.

- 20% of the portfolio, at the time of investment, will be comprised of investments in the LGIP and/or maturing within a year.

- The expected and final maturity of any security will not exceed five years at time of purchase.

- The average maturity of the portfolio will not exceed two years, including cash in depository accounts and the state investment pool. (For the purposes of this calculation, the maturity date of callable securities will be the final maturity date.)

XIII. DOWNGRADED SECURITIES

The City 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 Finance Director will review and recommend an appropriate plan of action to the City Administrator and City Council. If the City utilizes an Investment Advisor, that Investment Advisor shall notify the City and recommend a plan of action within one month. The City may continue to hold a downgraded investment to maturity if a probable outcome is the eventual realization of full value, rather than a realized loss if divested prior to maturity.

XIV. COLLATERALIZATION

Depository Collateral All City investments shall be collateralized as required by state law. Specifically, 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), which is comprised of the State Treasurer, Governor and Lieutenant Governor. State law requires that all deposits of public funds over and above federally insured amounts (including Certificates Of Deposit) be collateralized in accordance with regulations of the PDPC. All collateral is held 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: https://tre.wa.gov/pdpcbanks/

XV. SAFEKEEPING AND CUSTODY

Security transactions entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis.

Securities will be held by third party custodian designated by the Finance Director, or his/her designee, and evidenced by safekeeping reports which will be 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.

XVI. PERFORMANCE STANDARDS

The City's cash management portfolio shall be managed using a comparison object of the yield of LGIP, the Washington State Treasurer-administered local governmental investment pool, which is typically the next investment choice for available cash if not invested for longer. The City portfolio will have a longer average maturity than the 60-90-day average portfolio of the benchmark, so it will be less volatile. This means it can be expected that the city portfolio's average yield will trail the benchmark's yield in times of rising interest rates and lead the benchmark's yield in times of falling interest rates.

A series of appropriate benchmarks shall be established against which performance shall be compared on a regular basis. The benchmark will be reflective of the actual securities being purchased and the risks undertaken. The benchmarks will have a similar weighted average maturity as the portfolio.

XVII. REPORTING AND DISCLOSURE

The Finance Director shall make a monthly report of all treasury activity to the Mayor, City Council, and City Administrator. (RCW 35.39.032)

The treasury report should provide a summary of the current investment portfolio and the individual transactions executed to show holdings and activities during the reporting period conform to the investment policy. The report should include the following:

- An asset listing showing par value, cost and market value, type of investment, issuer, days to maturity and interest rate of each security;
- Average days to maturity of the portfolio;
- Maturity distribution of the portfolio and distribution by type of investment.
- Credit quality of portfolio holdings; and,
- Average weighted yield to maturity of portfolio on investments
- Performance comparison to benchmark

XVIII. INVESTMENT STRATEGY

Buy and Hold Investment holdings will not be actively traded. Investments purchased with the

intent of providing investment income shall be intended to be held to maturity. Securities may be sold before they mature if market conditions present an opportunity for the City to capture a benefit or to avoid a risk but the strategy will be primarily buy-and-hold.

Portfolio Segmenting. The Safety Segment of the Portfolio is held primarily in the City's depository bank. The Liquidity Segment of the portfolio is held primarily in the State LGIP. The Yield Segment of the portfolio is invested in a laddered portfolio comprised of authorized investments.

XIX. INTERNAL CONTROLS

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

The City's internal controls, administered by the Finance Director, shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or unanticipated changes in financial markets. Controls which the City deems important include, but are not limited to:

- Control of collusion
- Separation of functions
- Separation of transaction authority from accounting and recordkeeping
- Custodial safekeeping
- Avoidance of bearer-form securities
- Specific limitations regarding securities losses and remedial action
- Clear delegation of authority to subordinate staff members
- Written confirmation of telephone transactions
- Supervisory authority of employee actions
- Minimize the number of authorized investment officials
- Documentation of transactions and strategies

XX. INVESTMENT POLICY REVIEW, APPROVAL, AND ADOPTION

This investment policy shall be adopted by resolution of the City Council. The policy shall be reviewed annually by the Finance Director and any significant modifications must be approved by the City Council.

GLOSSARY

ACCRUED INTEREST: Interest earned but not yet paid on a security since the latest of the security's issue date or last record date.

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)

ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR): The independently audited annual report for the City of Poulsbo. It includes entity-wide financial statements as well as financial statements for major funds and fund types, notes to the financial statements and required schedules.

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.

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

CALLABLE: An investment that the issuer has the right to redeem, or buy back, the security at a call date or during a range of call dates.

CERTIFICATE OF DEPOSIT (CD): 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.

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.

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.

CRYPTOCURRENCY: A digital currency verified by a decentralized system using cryptography, outside a centralized government or authority; a foreign currency with no country.

CUSIP NUMBER (Committee on Uniform Securities Identification Procedures): An identifying number

assigned to a publicly traded security. A nine-digit code is permanently assigned to each issue and is generally printed on the face of the security if it is in physical form.

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

DEALER: A dealer, as opposed to a broker, acts as the 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 (DVP): There are two methods of delivery of securities: Delivery vs. payment and delivery vs. receipt (also called free). Delivery vs. payment is delivery of securities with an exchange of money for the securities. Delivery vs. receipt is delivery of securities with an exchange of a signed receipt for the securities.

DEPOSITORY BANK: A bank used as the point of deposit for cash receipts

DISCOUNT: 1. (n.) selling below par, e.g., a $1,000 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.

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

FEDERAL AGENCY SECURITIES: Several government-sponsored agencies, in recent years, have issued short and long-term notes. Such notes typically are issued through dealers, mostly investment banking houses. These Federal government-sponsored agencies were established by the U.S. Congress to undertake various types of financing without tapping the public treasury. In order to do so, the agencies have been given the power to borrow money by issuing securities, generally under the authority of an act of Congress. These securities are highly acceptable and marketable for several reasons, mainly because they are exempt from state, municipal and local income taxes. Furthermore, agency securities must offer a higher yield than direct Treasury debt of the same maturity to find investors, partly because these securities are not direct obligations of the Treasury.

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

FEDERAL 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 HOME LOAN BANK: 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 (Fannie Mae) 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 created by Congress and consisting of a seven-member Board of Governors in Washington D.C., 12 Regional Banks and about 5,700 commercial banks that are members of the system.

FIDUCIARY: A person or organization which acts on the behalf of another person(s) or organization who puts their clients' interest ahead of their own as they are bound both legally and ethically to act in the best interest of their clients.

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

FINRA: Financial Industry Regulatory Authority - a self-regulatory organization authorized to regulate U.S. stockbrokers and broker-dealer firms. Brokers must be registered with FINRA in order to execute trades on behalf of their clients.

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.

INTEREST: Compensation paid or to be paid for the use of money. Interest is generally expressed as an annual percentage rate.

INTEREST ONLY (I/O): The interest only portion of a stripped mortgage-backed security. For I/O securities, all of the interest distribution is due to the registered holder based on the current face of the underlying

mortgage-backed security.

INTEREST RATE: The face coupon rate of a security.

ISSUE DATE: The date on which a security is issued or originated.

ISSUER: An entity, which issues and is obligated

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

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.

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

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 be sold.

MATURITY DATE: The date on which the principal amount of the security is due and payable to the registered owner of the security.

MONEY MARKET: The market in which short- term debt instruments (bills, commercial paper, banker's acceptances, etc.) are issued and traded.

MORTGAGE: A legal instrument that creates a lien upon real estate securing the payment of a specified debt, such as a mortgage note.

MORTGAGE-BACKED SECURITIES: The term mortgage-backed securities is a generic term that refers to securities backed by mortgages, including pass-through securities, mortgage-backed bonds, mortgage pay-through securities and CMOs.

MORTGAGE PAY-THROUGH BONDS: These bonds combine features of pass-through securities and mortgage-backed bonds. A pay-through bond, like a mortgage-backed bond, is a debt obligation of the issuer, secured by mortgage collateral that is owned by the issuer. However, like a pass-through security, the cash flow on a pay-through bond is related to the cash flow in the mortgage collateral. Therefore, the cash flow generated by the mortgage collateral must be sufficient to cover principal and interest payments on the bonds. Prepayments on the mortgage collateral will be passed on to the bondholders thereby causing fluctuations in the principal payment of the bonds.

PAR: The face amount of a security.

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

PAYMENT DATE: Also known as the payable date. The date that actual principal and interest payments are made to the registered holder of a security. For GNMA Is, the payment date is the 15th day of the second month following the record date. For GNMA II's, the payment date is the 20th day of the month following the record date. For FHLMC PCs, the payment date is the 15th day of the second month following the record date. For FNMA MBSs, the payment date is the 25th day of the month following the record date.

P&I (PRINCIPAL AND INTEREST): In the case of mortgage-backed securities and other asset-backed securities, P&I includes regularly scheduled payments as well as prepayments, if any.

POOL: A collection of mortgages assembled by an originator or master servicer as the basis for a security. Pools are identified by a number.

PORTFOLIO: Collection of securities held by an investor.

PREPAYMENT: The unscheduled partial or complete payment of the principal amount outstanding on a debt obligation before it is due.

PRICE: The dollar amount to be paid for a security expressed as a percentage of its current face value.

PRIMARY DEALER: A group of government securities dealers that report daily of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC), registered securities broker- dealers, banks and a few unregulated firms.

PRINCIPAL: The face amount of a bond, exclusive of accrued interest and payable at maturity.

PRINCIPAL ONLY (P/O): The principal only portion of a stripped mortgage-backed security. For P/O securities, all of the principal distribution is due to the registered holder based on the current face of the underlying mortgage-backed security.

QUALIFIED PUBLIC DEPOSITORIES: 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.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

RATINGS: Designations used by investors services to give relative indications of credit quality.

REPURCHASE AGREEMENT (RP or REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security buyer in effect lends the seller money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: when the Fed is said to be doing RP, it is lending money that is, increasing bank reserves.

RECORD DATE: The date for determining who is entitled to payment of principal and interest (and prepayment) on a security. The record date for most mortgage-backed securities is the last calendar day of the month (however, the last day on which they can be presented for transfer is the last business day of the month.) The record date for CMOs and ABSs varies with each issue.

REGISTERED HOLDER: The name in which a security is registered as stated on the certificate itself or on the books of the paying agent. All principal and interest payments are made to the registered holder regardless of beneficial ownership on the record date.

REVERSE REPURCHASE AGREEMENT (REVERSE REPO): An agreement of one party to purchase securities at a specified price from a second party and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specified later date.

SAFEKEEPING: The storage and protection of customers' securities (i.e., held in the vault) provided as a service by a bank or institution acting as agent for the customer.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

TREASURY BOND: Long-term U.S. Treasury securities having initial maturities of more than ten years.

WEIGHTED AVERAGE MATURITY (WAM): An arithmetic mean of the remaining term of the underlying mortgages that collateralizes a security.

YIELD: The annual percentage returns, as computed in accordance with standard industry practices that are earned on a security.

Addendum – Text of Washington Statutes (RCW)
Governing Investments of Public Funds by Local Governments
(Intended only for easy reference for the reader – current statutes should be confirmed)

RCW 11.100.020
Management of trust assets by fiduciary.

1) A trustee shall invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill, and caution.
2) A trustee's investment and management decisions respecting individual assets must be evaluated not in isolation but in the context of the trust portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the trust.
3) Among the circumstances that a trustee shall consider in investing and managing trust assets are such of the following as are relevant to the trust or its beneficiaries:
a) General economic conditions;
b) The possible effect of inflation or deflation;
c) The expected tax consequences of investment decisions or strategies;
d) The role that each investment or course of action plays within the overall portfolio, which may include financial assets, interests in closely held enterprises, tangible and intangible personal property, and real property;
e) The expected total return from income and the appreciation of capital;
f) Other resources of the beneficiaries;
g) Needs for liquidity, regularity of income, and preservation or appreciation of capital; and
h) An asset's special relationship or special value, if any, to the purposes of the trust or to one or more of the beneficiaries.
4) A trustee shall make a reasonable effort to verify facts relevant to the investment and management of trust assets.
5) A trustee may invest in any kind of property or type of investment consistent with the standards of this section.
6) A trustee who has special skills or expertise, or is named trustee in reliance upon the trustee's representation that the trustee has special skills or expertise, has a duty to use those special skills or expertise.

RCW 35.39.030
Excess or inactive funds—Investment.
Every city and town may invest any portion of the moneys in its inactive funds or in other funds in excess of current needs in:

(1) United States bonds;
(2) United States certificates of indebtedness;
(3) Bonds or warrants of this state;
(4) General obligation or utility revenue bonds or warrants of its own or of any other city or town in the state;
(5) Its own bonds or warrants of a local improvement district which are within the protection of the local improvement guaranty fund law; and
(6) In any other investments authorized by law for any other taxing districts.

RCW 35.39.032
Approval of legislative authority—Delegation of authority—Reports.
No investment shall be made without the approval of the legislative authority of the city or town expressed by ordinance: PROVIDED, That except as otherwise provided by law, the legislative authority may by ordinance authorize a city official or a committee composed of several city officials to determine the amount of money available in each fund for investment purposes and make the investments authorized as indicated in RCW 35.39.030 as now or hereafter amended and the provisions of RCW 35.39.034, without the consent of the legislative authority for each investment. The responsible official or committee shall make a monthly report of all investment transactions to the city legislative authority. The legislative authority of a city or town or city official or committee authorized to invest city or town funds may at any time convert any of its investment securities, or any part thereof, into cash.

RCW 35.39.034
Investment by individual fund or commingling of funds—Investment in United States securities— Validation.
Moneys thus determined available for this purpose may be invested on an individual fund basis or may, unless otherwise restricted by law be commingled within one common investment portfolio for investment. All income derived from such investment shall be apportioned and used for the benefit of the various participating funds or for the benefit of the general or current expense fund as the governing body of the city of [or] town shall determine by ordinance or resolution: PROVIDED, That funds derived from the sale of general obligation bonds or revenue bonds or similar instruments of indebtedness shall be invested, or used in such manner as the initiating ordinances, resolutions, or bond covenants may lawfully prescribe.

Any excess or inactive funds on hand in the city treasury not otherwise invested, or required to be invested by this section, as now or hereafter amended, may be invested by the city treasurer in United States government bonds, notes, bills, certificates of indebtedness, or interim financing warrants of a local improvement district which is within the protection of the local improvement guaranty fund law for the benefit of the general or current expense fund.

All previous or outstanding investments of city or town funds for the benefit of the city's or town's general or current expense fund which have been or could be made in accordance with the provisions of this section, as now or hereafter amended, are declared valid.

RCW 39.58.020
Public funds—Protection against loss.
All public funds deposited in public depositaries, including investment deposits and accrued interest thereon, shall be protected against loss, as provided in this chapter.

RCW 39.58.030
Public deposit protection commission—State finance committee constitutes—Proceedings.
The Washington public deposit protection commission shall be the state finance committee. The record of the proceedings of the public deposit protection commission shall be kept in the office of the commission and a duly certified copy thereof, or any part thereof, shall be admissible in evidence in any action or proceedings in any court of this state.

RCW 39.58.050
Collateral for deposits—Segregation—Eligible securities.
(1) Every public depositary shall complete a depositary pledge agreement with the commission and a trustee, and shall at all times maintain, segregated from its other

assets, eligible collateral having a value at least equal to its maximum liability and as otherwise prescribed in this chapter. Eligible securities used as collateral shall be segregated by deposit with the depositary's trustee and shall be clearly designated as security for the benefit of public depositors under this chapter.
(2) Securities eligible as collateral shall be valued at market value, and the total market value of securities pledged in accordance with this chapter shall not be reduced by withdrawal or substitution of securities except by prior authorization, in writing, by the commission.
(3) The public depositary shall have the right to make substitutions of an equal or greater amount of eligible securities at any time.
(4) The income from the securities which have been segregated as collateral shall belong to the public depositary without restriction.
(5) Each of the following enumerated classes of securities, providing there has been no default in the payment of principal or interest thereon, shall be eligible to qualify as collateral:
(a) Certificates, notes or bonds of the United States, or other obligations of the United States or its agencies, or of any corporation wholly owned by the government of the United States;
(b) State, county, municipal, or school district bonds or warrants of taxing districts of the state of Washington or any other state of the United States, provided that such bonds and warrants shall be only those found to be within the limit of indebtedness prescribed by law for the taxing district issuing them and to be general obligations;
(c) The obligations of any United States government-sponsored corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the board of governors of the federal reserve system;
(d) Bonds, notes, or other securities or evidence of indebtedness constituting the direct and general obligation of a federal home loan bank or federal reserve bank;
(e) Revenue bonds of this state or any authority, board, commission, committee, or similar agency thereof, and any municipality or taxing district of this state;
(f) Direct and general obligation bonds and warrants of any city, town, county, school district, port district, or other political subdivision of any state, having the power to levy general taxes, which are payable from general ad valorem taxes;
(g) Bonds issued by public utility districts as authorized under the provisions of Title 54 RCW, as now or hereafter amended;
(h) Bonds of any city of the state of Washington for the payment of which the entire revenues of the city's water system, power and light system, or both, less maintenance and operating costs, are irrevocably pledged, even though such bonds are not general obligations of such city.
(6) In addition to the securities enumerated in this section, the commission may also accept as collateral a letter of credit from a federal home loan bank or a federal reserve bank on behalf of a public depositary, naming the commission as beneficiary. Such letters are not subject to a completed depositary pledge agreement. As such, the commission must act as the safekeeping agent for letters of credit.
(7) A public depositary may also segregate such bonds, securities, and other obligations as are designated to be authorized security for public deposits under the laws of this state.
(8) The commission may determine by rule or resolution whether any security, whether or not enumerated in this section, is or shall remain eligible as collateral when in the commission's judgment it is desirable or necessary to do so.

RCW 39.58.135
Limitations on deposits.
Notwithstanding RCW 39.58.130, (1) aggregate deposits received by a public depositary from all treasurers and the state treasurer shall not exceed at any time one hundred fifty percent of the

value of the depositary's net worth, nor (2) shall the aggregate deposits received by any public depositary exceed thirty percent of the total aggregate deposits of all public treasurers in all depositaries as determined by the commission. However, a public depositary may receive deposits in excess of the limits provided in this section if eligible collateral, as prescribed in RCW 39.58.050, are pledged in an amount equal to one hundred percent of the value of deposits received in excess of the limitations prescribed in this section.

RCW 39.59.010
Definitions.
Unless the context clearly requires otherwise, the definitions in this section apply throughout this chapter.

(1) "Bond" means any agreement which may or may not be represented by a physical instrument, including but not limited to bonds, notes, warrants, or certificates of indebtedness, that evidences an obligation under which the issuer agrees to pay a specified amount of money, with or without interest, at a designated time or times either to registered owners or bearers.
(2) "Local government" means any county, city, town, special purpose district, political subdivision, municipal corporation, or quasi-municipal corporation, including any public corporation, authority, or other instrumentality created by such an entity.
(2) "State" includes any state in the United States, other than the state of Washington.

RCW 39.59.020
Authorized investments—Local government authority.

(1) Local governments in the state of Washington are authorized to invest their funds and money in their custody or possession, eligible for investment, in investments authorized by this chapter.
(2) Nothing in this section is intended to limit or otherwise restrict a local government from investing in additional authorized investments if that local government has specific authority to do so.

RCW 39.59.040
Authorized investments—Bonds, warrants, certificates, and other investments.
Any local government in the state of Washington may invest in:

(1) Bonds of the state of Washington and any local government in the state of Washington;
(2) General obligation bonds of a state and general obligation bonds of a local government of a state, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency;
(3) Subject to compliance with RCW 39.56.030, registered warrants of a local government in the same county as the government making the investment;
(4) Certificates, notes, or bonds of the United States, or other obligations of the United States or its agencies, or of any corporation wholly owned by the government of the United States; or United States 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;
(5) Federal home loan bank notes and bonds, federal land bank bonds and federal national mortgage association notes, debentures and guaranteed certificates of participation, or the obligations of any other government sponsored corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the board of governors of the federal reserve system;
(6) Bankers' acceptances purchased on the secondary market;
(7) Commercial paper purchased in the secondary market, provided that any local government of the state of Washington that invests in such commercial paper must adhere

to the investment policies and procedures adopted by the state investment board; and (8) Corporate notes purchased on the secondary market, provided that any local government of the state of Washington that invests in such notes must adhere to the investment policies and procedures adopted by the state investment board.

RCW 43.250.040
Investment Pool—Investment of funds by state treasurer--Degree of judgment and care required.
If authorized by statute, local ordinance, resolution, or other appropriate official action, the state treasurer, a government finance official or financial officer or his or her designee, or authorized tribal official, may place funds into the public funds investment account for investment and reinvestment by the state treasurer in those securities and investments set forth in RCW 43.84.080 and chapter 39.58 RCW. The state treasurer shall invest the funds in such manner as to effectively maximize the yield to the investment pool. In investing and reinvesting moneys in the public funds investment account and in acquiring, retaining, managing, and disposing of investments of the investment pool, there shall be exercised the judgment and care under the circumstances then prevailing which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of the funds considering the probable income as well as the probable safety of the capital.

Addendum
Text of City of Poulsbo Municipal Code
(Intended only for easy reference for the reader – current code should be confirmed)

City-level restrictions beyond state statutes appear below:

Poulsbo Municipal Code
3.58.020 Policy for Investments
In accordance with RCW 35.39.034, as amended, the following policy for the investment of excess or inactive funds is adopted:

A. Moneys determined to be available for investment by the finance director may be invested on an individual fund basis or may, unless otherwise restricted by law, be commingled within one common investment portfolio.

B. The finance director shall apportion thirty percent of all income derived from investments to the General Fund No. 001, unless otherwise restricted by law, with the balance to be allocated to the parent fund. All income derived from the investment of moneys from the general fund shall be apportioned to the general fund. (Ord. 86-05 § 1 (part), 1986)

Addendum – Broker/Dealer Questionnaire

The Washington City of Poulsbo has adopted a written Investment Policy regulating the standards and procedures used in its cash management activities. The most current policy is publicly available and should be reviewed prior to completing this form.

Firm Name: _____
Year Founded: _____
Corporate office address: _____
_____
Telephone #s: _____
_____
Principal, Managing Director or Partner:
Name _____
Title _____
Direct phone _____
E-mail address _____
Is your firm a broker (does not own securities being offered) _____
Is your firm a dealer (does own securities being offered)? _____

Local office address: _____
_____

Please attach a bio or resumé of the primary and secondary representatives covering this account, including securities-related employment history, licensing, certificates, complaints, disciplinary action, arbitration, litigation:

Primary Representative:
Name _____
Title _____
Direct phone _____
E-mail address _____

Secondary Representative:
Name _____
Title _____
Direct phone _____
E-mail address _____

Provide proof of registration with State of Washington	□ attached □ NA
Provide proof of Financial Industry Regulatory Authority (FINRA)	□ attached □ NA
Provide documentation that your firm is qualified under SEC rule 15C3-1 (Uniform Net Capital Rule)	□ attached □ NA
Provide most recent audited financials	□ attached □ NA

Is your firm is examined by and subject to rules and regulations of:

FDIC	□ Yes □ No
SEC	□ Yes □ No
NYSE	□ Yes □ No
Comptroller of Currency	□ Yes □ No
Federal Reserve System	□ Yes □ No

List three current, active, comparable, municipal client references:

Entity Name _____
Contact _____
Address _____
Phone / E-mail _____
Entity Name _____
Contact _____
Address _____
Phone / E-mail _____
Entity Name _____
Contact _____
Address _____
Phone / E-mail _____

What market sectors are you and your firm currently involved? (Please feel free to provide additional information regarding specialization in any of the following market sectors).

	Firm Involvement	Broker Involvement
US Treasuries		
US Agency Bonds		
Washington State Bonds		
Municipal Bonds		
Corporate Bonds		
Commercial Paper		
Other		

Please provide your normal custody and delivery process, including specific banking relationships.

What was your firm's total volume in US Government and agency securities trading last year?

Has this firm, or the representatives assigned to this account, been subject to a regulatory agency, state or federal investigation for alleged improper, disreputable, unfair or fraudulent activities related to the sale of securities or money market instruments that resulted in a suspension or censure?

□ Yes (attached) □ No

Is there outstanding litigation which would materially affect your financial stability?

□ Yes (attached) □ No

Do you provide any fixed income research and economic commentary?

□ Yes (attached) □ No

Describe the precautions taken by your firm to protect the interests of the public when dealing with a local public entity. □ Attached □ NA

Has any client sustained a loss on a securities transaction engendered from a misunderstanding or misrepresentation of the risk characteristic of a financial instrument by your firm?

□ Yes (attached) □ No

Please confirm that you:

(1) are familiar with the Revised Code of Washington (RCW) Sections 39.59.010 et al.
(2) have read, understand and agree to comply with the provisions of City of Poulsbo's current investment policy by signing below.

Name: _____ Signature: _____

Title: _____ Date: _____

Name: _____ Signature: _____

Title: _____ Date: _____

Name: _____ Signature: _____

Title: _____ Date: _____

Addendum
Approved Broker/Dealer List

Addendum
Acknowledgement of Receipt/Adherence to Current Policy

City of Poulsbo requires an annual certification from authorized Financial Dealers and Institutions of having read the current investment policy. It is the intent of the City of Poulsbo to pro-actively contact current existing financial institutions annually, or at any change in the investment policy, and to maintain the current investment policy on the City's public website.

This is to acknowledge receipt of the City of Poulsbo's current Investment Policy adopted by City Council on August 13, 2025

Entity name: _____

Name: _____ Title: _____

Signature: _____ Date: _____

Please sign and submit via mail or email to:

City of Poulsbo
200 NE Moe Street
Poulsbo, WA 98370

Current staff contact information is available on the City website:
https://cityofpoulsbo.com/finance-department-contacts/