

**Table of Contents**

**INVESTMENT POLICY  
POLICY 515**

**.1 GENERAL INFORMATION .....1**

    1.1 ECONOMIC DATA AND LOCATION ..... 1

    1.2 FINANCE COMMITTEE ..... 1

**.2 ELEMENTS OF POLICY .....1**

    2.1 OBJECTIVES..... 1

    2.2 SCOPE ..... 2

    2.3 PERFORMANCE STANDARDS ..... 2

    2.4 PRUDENCE ..... 2

    2.5 ACCOUNTING METHODS..... 2

**.3 ELEMENTS OF CONTROL.....3**

    3.1 INTERNAL CONTROL ..... 3

    3.2 ETHICS AND CONFLICT OF INTEREST ..... 3

    3.3 INVESTMENT AUTHORITY/DELEGATION OF AUTHORITY ..... 4

**.4 ELEMENTS OF INVESTING.....4**

    4.1 AUTHORIZED FINANCIAL INSTITUTIONS ..... 4

    4.2 AUTHORIZED INVESTMENTS ..... 4

    4.3 DIVERSIFICATION ..... 5

    4.4 MATURITIES ..... 5

    4.5 COLLATERALIZATION AND SAFEKEEPING ..... 6

**.5 ELEMENTS OF REPORTING.....6**

    5.1 ANNUAL AND INTERIM ..... 6

    5.2 FINANCE COMMITTEE ..... 6

    5.3 TRUST AND AGENCY ..... 6

**APPENDIX A – DEPOSITORY BANKS – INVESTMENT FIRMS LISTING OF 2007 .....8**

**APPENDIX B – DIVISION OF RESPONSIBILITIES OF INVESTMENT OFFICIALS .....10**

**APPENDIX C – REVISED CODE OF WASHINGTON SECTION 36.29.....11**

**APPENDIX D – GLOSSARY.....12**

## **INVESTMENT POLICY**

### **.1 GENERAL INFORMATION**

#### **1.1 Economic Data and Location**

Clallam County, which was created April 25, 1854, as a county of the Washington Territory, is located in the extreme northwestern corner of Washington State spanning the north end of the Olympic Peninsula. The centerpiece of the Olympic Peninsula is the Olympic National Park surrounded by the Olympic National Forest. Port Angeles is the county seat and the largest city of Clallam County. Forestry and forest products manufacturing form the primary element in the economy of Clallam County supplemented by fishing, tourism and recreation, agriculture, military (Coast Guard) and retirement residential activities. There are over 30 taxing districts for which the Clallam County Treasurer's office functions in a fiduciary capacity.

#### **1.2 Finance Committee**

This committee was formed with the purpose of monitoring investments made by the Treasurer. Composed of the County Treasurer, County Auditor, and the Chair of the Board of County Commissioners, it is frequently attended by other interested parties. It has the formal duties of adoption of policy and advisement. The Clallam County Finance Committee has been in existence for over 50 years. A formal investment policy was adopted by the Finance Committee in 1985. This is a revision of the original policy.

### **.2 ELEMENTS OF POLICY**

#### **2.1 Objectives**

The four primary objectives of this policy of investment are legality, safety, liquidity, and rate of return of the investment.

This policy is designated to conform to all state and local statutes governing the investment of public funds; i.e. RCWs 36.29.020, 39.56.030, 39.59.020, 39.59.040.

In the event any state or federal legislation or regulation should further restrict instruments or institutions authorized by this policy, such restrictions shall be deemed to be immediately incorporated in this policy. If new legislation or regulations should liberalize the permitted instruments on institutions, such changes shall be available and included in this policy only after written notification of the Finance Committee. All principals in the investment process shall act as responsible custodians of public trust. As a responsible custodian, the first consideration in investing is the preservation and safety of public funds. Liquidity is of prime importance as it is necessary to project expenditures to allow entities to meet operating and capital cash flow. The investment

portfolio of Clallam County shall be designed to obtain market average rate of return throughout budgetary and economic cycles, taking into consideration the risk constraints and cash flow.

## 2.2 Scope

This investment policy applies to all financial assets of Clallam County. These funds are accounted for in the government's annual financial report and include:

- General Fund (Current Expense)
- Special Revenue
- Debt Service
- Capital Project
- Enterprise
- Internal Service
- Fiduciary Funds including Trust and Custodial FundsAny new fund created by the Board of County Commissioners unless specifically exempted

This investment policy applies to all transactions involving the financial assets and related activity of all foregoing funds.

## 2.3 Performance Standards

This portfolio will be maintained with the highest professional standards and is designed to obtain maximum yield and maximum safety under market conditions. Consideration for cash flow and risk restraints will be taken at all times. As a measurement of performance, the minimum rate of return shall be at least equal to the average return on three or six month U.S. Treasury bills or federal funds, whichever is higher.

## 2.4 Prudence

The standard of prudence to be used by investment officers shall be the "prudent person" concept and shall be applied in the context of managing the overall portfolio. Investment officers acting in accordance with written procedures 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. All participants shall avoid any transactions that would impair public confidence or give the appearance of impairing public confidence in Clallam County government. At all times, all involved will act as responsible custodians of the public trust.

## 2.5 Accounting Methods

All investments are booked at cost; this includes actual cost of the security, transfer taxes, and any other related expenditure. Gains or losses determined upon sale will be debited or credited to investment income. Interest income on investments with fixed maturities will be credited to the fund at the time of maturity or at other specified intervals. Interest from investments in the State of Washington Local Government Investment Pool will be distributed at the beginning of the month for the previous month. All investments are placed in the name of the participating entity with the exception of monies placed with the State of Washington Local Government Investment Pool.

### .3 ELEMENTS OF CONTROL

#### 3.1 Internal Control

A documented computer system and written procedures have been implemented and will continue to be maintained. These systems and procedures have been designed to insure the safeguard of assets, accuracy and completeness of accounting records, adherence to management policies, and timely preparation of accurate financial information. This documented computer system and procedures were designed to fulfill the components of internal control; i.e. segregation of function, authorization, safeguard of assets and records, controls over accounting system.

In addition to the above system, periodic reviews and/or audits are conducted by the County Treasurer and Examiners of the Washington State Auditor's office. This review shall provide assurance of compliance with the policy and procedures. These controls are established to prevent losses of public funds arising from unanticipated changes in financial markets, misrepresentation of third parties, and employee error or fraud. Bonding shall be provided to protect the public against possible defalcation on the part of elected officials or employees.

#### 3.2 Ethics and Conflict of Interest

All personnel shall adhere to Clallam County's code of ethics. This written guideline clearly outlines ethics for all County personnel. In addition to the County code of ethics the following will be complied with:

- Officers and employees involved in the investment program shall refrain from personal business activity that could conflict with proper execution of this program or impair their ability.
- Employees and investment officials shall disclose to the Chief Financial Officer and the County Administrator, any material financial interest in financial institutions that conduct business within this jurisdiction and they shall further disclose any large personal financial investment position that could relate to the performance of the County's investment program.

- Officers and employees shall subordinate their personal investment transactions to those of the County with regard to the timing of purchase and sale.

### 3.3 Investment Authority/Delegation of Authority

In accordance with Section 36.29.020 of the Revised Code of Washington, the responsibility of investing the public funds is vested in the County Treasurer. This authority may be delegated to a Deputy designated as the Investment Officer. Refer to Appendix C for complete statute. Legal and management responsibility for this investment program resides with the Treasurer of Clallam County who has established procedures of the operation of the investment program. These procedures include explicit delegation of authority to persons responsible for the investment transactions. No other persons shall engage in the investment transactions except as stated in the policy and procedures as established by the County Treasurer. The Treasurer has established internal and reporting controls to supervise the workflow of subordinates.

## 4 ELEMENTS OF INVESTING

### 4.1 Authorized Financial Institutions

As in compliance with RCW 36.48.010, the County Treasurer at such times as deemed necessary, will designate financial institutions in the state as depository for public funds. Institutions may solicit or be contacted by the Treasurer's office to serve as a depository if they meet the following criterion. The parameters for such a depository will include only institutions authorized as Public Depositories by the Washington Public Deposit Protection Commission and with current audited financial statements on file and reside within the State of Washington. Investments with any thrift institution shall not exceed 25 percent of the institutions net worth. Investments with major banks or dealers shall not exceed 10 percent of said institutions net worth.

The Treasurer will maintain a list of approved broker/dealers and financial institutions, which are authorized to provide investment services for Clallam County. Authorized broker/dealers will be limited to primary dealers or other dealers that qualify under Security Exchange Act of 1934, Rule 15C3-1, the Uniform Net Capital Rule. The Treasurer shall review semi-annually the financial institution's credit worthiness during the period of time in which County funds are invested. Refer to Appendix A for a listing of financial depositories currently used by Clallam County.

### 4.2 Authorized Investments

Funds of the government of Clallam County may be invested in compliance with RCWs 36.29.020, 39.56.030, 39.59.020, 39.59.040:

- U.S. Treasury bills / strips
- Treasury notes or bonds

- Insured or fully collateralized non-negotiable certificates of deposit of banks and savings and loan associations approved by the policy
- Repurchase agreements collateralized by U.S. Treasury securities
- State of Washington Local Government Investment Pool (LGIP) Government sponsored agencies and instrumentality's
- Registered warrants of a local government in Clallam County

#### 4.3 Diversification

It is the policy of Clallam County to diversify its investment portfolios. This diversification is designed to eliminate risk of loss resulting from over concentration of assets in a single maturity, specific issuer or single class of securities. To achieve this, the investment committee shall review the portfolio in its entirety. In doing so the Finance Committee will analyze risk default, maturity, and liquidity of risk. Bankers' acceptances, certificates of deposit, and U.S. Treasury notes will be used to minimize or reduce the risk default. Participation in State of Washington Local Government Investment Pool, U.S. Bank's Municipal Investment Account (MIA), and U.S. Bank's repurchase agreement provide the liquidity necessary for daily cash flow.

All reports shall address these risks and as to whether any current investments will be affected. It is suggested that the following investment types do not exceed the following percentages of the investment portfolio:

- Certificates of Deposits 50%
- Demand Municipal Investment Account and Pool 50%
- Government Agency Securities 40%

#### 4.4 Maturities

To the extent possible, the Treasurer shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, no investment will be made in securities maturing more than five (5) years from date of purchase. A portion of the portfolio should be continuously invested in readily available funds such as the State LGIP and Municipal Investment Account to ensure appropriate liquidity is maintained to meet ongoing obligations. Assets held in debt retirement funds and special assessment funds may be invested in maturities of more than two years with approval of the finance committee.

Maturities shall not exceed two years from the time of purchase, or as otherwise matched to a specific cash flow, unless a temporary extension of maturities is approved by the Finance Committee. It is the intent of the Treasurer that investments in all funds shall be managed in such a way that any market price losses resulting from interest rate volatility would be offset by coupon income and current income received from the balance of the portfolio during a 24-month period. No maturity extension

should be undertaken if potentially declining prices would result in negative income on the overall funds' portfolio during a given year.

#### 4.5 Collateralization and Safekeeping

The County has a safekeeping and custody agreement in the County's name in effect with their depository bank and its affiliates. All investment transactions will be on a delivery verses payment basis. Securities (except certificates of deposit) purchased by the County shall be held in safekeeping by the third party institution designated as primary agent. The primary agent shall issue a monthly statement listing the specific instrument, rate, maturity, and other activity. Certificates of deposit are purchased in the name of the entity and are kept in the County's vault. The originating institution's financial status is reviewed by the Treasurer and insured by Washington Public Deposit Protection Commission. The State of Washington Local Government Investment Pool investments are protected by the collateralization of banks where invested as well as possession of all securities, and taxing authority of the State of Washington. These securities are pooled and held by the State.

Through the depository bank, the county retains a repurchase account, which is 102 percent collateralized. The County retains the master repurchase agreement on file. Also through the depository bank the County has a Municipal Investment Account which is insured by the Federal Deposit Insurance Corporation (FDIC). and the Washington Public deposit Protection Commission (WPDPC).

The above policies apply to the County's current depository bank, which is U.S. Bank of Washington, or any subsequent depository bank that may be chosen by the Treasurer.

### .5 ELEMENTS OF REPORTING

#### 5.1 Annual and Interim

Investments are stated in the annual financial report for the County. This report is published by the Auditor's office according to State statute. Interim reports are compiled by the Investment Officer prior to the committee meeting and on the Treasurer's request. These reports, which vary, will include the following information: monetary amount of investments, yield rate, market trends, projections and any other information the Treasurer deems necessary.

#### 5.2 Finance Committee

Members will be supplied with the necessary reports and/or charts as determined by the agenda. The Finance Committee will review finance policy annually.

#### 5.3 Fiduciary Funds including Trust and Custodial Funds

These funds are provided with a monthly investment report in detail. This detail includes the name of the financial institution, amount of monies invested, date invested, interest rate, maturity date, document number, and the grand total amount of all investments.

**APPENDIX A – DEPOSITORY BANKS – INVESTMENT FIRMS LISTING OF 2020**

Bank of America NA  
PO Box 844336  
Dallas TX 75284-4336

Cashmere Valley Bank  
124 East Penny Road, Suite 210  
Wenatchee WA 98801

East West Bank  
10900 NE 4<sup>th</sup> Street, Suite 200  
Bellevue WA 98004

First Federal Savings  
139 West 1<sup>st</sup> Street  
PO Box 351  
Port Angeles, WA 98362

Local Government Invest Pool  
Office of the State Treasurer  
Legislative Bldg. AS-23  
Olympia, WA 98504

US Bank of Washington  
PO Box 720  
Seattle, WA 98111

Sound Community Bank  
110 North Alder Street  
Port Angeles WA 98362

US Bank  
CM-9690  
PO Box 70870  
St Paul MN 55170-9690

US Bank of Washington  
134 East 7<sup>th</sup> Street  
Port Angeles WA 98362



**APPENDIX B – DIVISION OF RESPONSIBILITIES OF INVESTMENT OFFICIALS**

INVESTMENT POLICY

Prepared by

Treasurer's Office

Adopted by

Finance Committee

INVESTMENT TRANSACTIONS

Bid Process

Treasurer

Investment Officer

Recording

Investment Officer

VERIFICATION

Confirm

Investment Officer

RECORDS

Reconciliations

Investment Officer

Treasurer's Senior Accountant

MANAGEMENT REVIEW

Daily

Treasurer

Senior Accountant

Monthly

Treasurer

Treasurer's Senior Accountant

ANNUAL REVIEW OF POLICY

Treasurer

Finance Committee

Washington State Auditor's Office

INVESTMENT POLICY AMENDMENTS

Prepared

Treasurer's Office

Adopted

Finance Committee

**APPENDIX C – REVISED CODE OF WASHINGTON SECTION 36.29**

The county treasurer shall keep all monies belonging to the State, or to any county, in his or her own possession until disbursed according to law. The county treasurer shall not place the same in the possession of any person to be used for any purpose; nor shall he or she loan or in any manner use or permit any person to use the same; but it shall be lawful for a county treasurer to deposit any such monies in any regularly designated qualified public depository.

Any municipal corporation may by action of its governing body authorize any of its funds which are not required for immediate expenditure, and which are in the custody of the county treasurer or other municipal corporation treasurer, to be invested by such treasurer in savings or time accounts in banks, trust companies and mutual savings banks which are doing business in this state, up to the amount of insurance afforded such accounts by the federal deposit insurance corporation, or in savings or time accounts in savings or loan associations which are doing business in this state, up to the amount of insurance afforded such accounts by the federal savings and loan insurance corporation, or in 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; in bankers' acceptances purchased on the secondary market, in 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 banks as determined by the board of governors of the federal reserve system or deposit such funds or any portion thereof in investment deposits as defined in RCW 39.58.010 secured by collateral in accordance with provisions of chapter 39.58.

## **APPENDIX D – GLOSSARY**

**BANKERS' ACCEPTANCE:** A draft of bill of exchange accepted by a bank or trust company. Once accepted, the bank or trust company guarantees payment of the bill.

**BONDS:** Credit instruments that contain a promise to pay a specific amount of money on a specified date ;( usually more than 10 years after issuance.) The relationship between the bondholder and issuer is that of creditor and debtor.

**BROKER:** A middleman who brings buyers and sellers together and executes their orders, charging a commission for these services. Unlike a dealer, a broker does not own or take a position in the security.

**COUPON:** (1) The annual rate of interest on the bond's face value that a bond's issuer promises to pay the bondholder. (2) A certificate attached to a bond showing interest due on a payment date.

**COLLATERAL:** An obligation or security attached to another to secure its performance.

**DEBENTURE:** A bond secured only by the general credit of the issuer.

**DEFAULT:** Failure to pay debt interest or principal when due, or to perform other obligation required by contract.

**DIVERSIFICATION:** Dividing investment funds among a variety of instruments offering independent returns.

**FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC):** A Federal Agency that insures bank deposits; the current limit is \$100,000 per insurable fund.

**HAIRCUT:** Industry term for the valuation of securities used to calculate a broker/dealer's net capital. The haircut will change depending on the class of a security, its market risk, and the time to maturity. The haircut may fluctuate from 0% to 30% (common for equity securities) to 100% for fail positions (securities with past due delivery) that have prospect of settlement.

**LIQUIDITY:** The ability to convert a security into cash promptly with minimum risk of principal.

**NOTE:** Coupon issues with relatively short maturity. Municipal notes have Maturities ranging from a month to a year and pay interest only at maturity. Treasury notes are securities that have an original maturity of up to ten years.

**PORTFOLIO:** Collection of securities held by an investor.

**PRIMARY DEALER:** A security firm who participates in the securities market and hops set price and distribute securities.

**PRINCIPAL:** (1) Face amount or par value of a security. (2) One who acts as a dealer buying and selling his own account.

**REPURCHASE AGREEMENT:** (Repo) Sale of a security with a simultaneous commitment by a bank to repurchase the security from the investor at a specified price.

**SAVINGS AND LOAN ASSOCIATION:** Federal or state chartered institution that accepts savings deposits and invests the bulk of the funds in mortgages.

**TREASURY BILL:** A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Bills are generally issued to mature in 3 and 6 months.

**TREASURY NOTE:** Issued with original maturities of 10 years or less, while bonds are issued with maturities longer than 10 years. Treasury notes and bonds are sold in minimums of \$1,000, and in multiples of \$1,000, except for notes with maturities of less than four years. These notes are sold in minimums of \$5,000 and in multiples of \$5,000. (General Finance Officers Association (GFOA) an Elected Official's Guide to Investing)