CITY OF MUKILTEO

Finance Department

11930 Cyrus Way Mukilteo, WA 98275

Investments Policies And Procedures

2019

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Policy

It is the policy of the City of Mukilteo to invest public funds in a manner which will provide maximum security with the highest investment return while meeting the daily cash flow demands of the City and conforming to all Washington State statutes, City ordinances, and policies governing the investment of public funds.

Scope

This investment policy applies to the investment activities of all financial assets for all funds of the City of Mukilteo. These funds are accounted for in the City's Annual Financial Report and include General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds, Enterprise Funds, Internal Service Funds, Fiduciary Funds, and any new fund created by the City Council, unless specifically exempted.

Pooling of Funds Except for cash in certain restricted and special funds, the City will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principals.

Authority

The City's investment polices are based on Revised Code of Washington (RCW) guidelines and Mukilteo City Council adopted resolutions and ordinances Excess and inactive funds on hand in the treasury of the city may be invested in the same manner and subject to the same limitations as provided for city and town funds in all applicable statutes, including, but not limited to the following: RCW 35A.40.040, 35.39.030, 35.58.510, 35.81.070, 35.82.070, 36.29.020, 39.58.020, 39.58.080, 39.58.130, 39.60.010, 39.60.020, 41.16.040, 68.52.060, 68.52.065, and 72.19.120.

General Objectives

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

1. **Safety:** Safety of the principal is the primary objective of the City's investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To achieve 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.

2. **Liquidity:** The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements that might be reasonably 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 can not be anticipated, the portfolio

should consist largely of securities with active secondary or resale markets (dynamic liquidity).

3. **Yield:** The City's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and the cash flow characteristics of the portfolio. For additional details, please refer to "Performance Standards" below.

Standards of Care

1. **Prudence** 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. City employees acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

   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.

2. **Ethics and Conflicts of Interest** City employees involved in the investment process shall refrain from personal business activity that may conflict with the proper execution of the investment program, or may impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Administrator any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any personal financial/investment positions that could be related to the performance of the City's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the City, particularly with regards to the timing of purchases and sales.

3. **Delegation of Authority** Management responsibility for the investment program is hereby delegated to the Finance Director and the Accounting Services Manager who will act as the City's Investment Officer. The Finance Director will establish written procedures for the operation of the investment program consistent with this investment policy. Procedures should include reference to safekeeping, wire transfer agreements, custody agreements and investment related banking services contracts. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. 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. The Finance Director shall be

responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

4. **Investment Committee** There is hereby created an Investment Committee consisting of the Mayor, the City Administrator, the Finance Director, and the Accounting Services Manager. The Investment Committee will meet periodically to determine general strategies and monitor results.

Safekeeping and Custody

1. **Authorized Financial Dealers and Institutions** The Finance Director will maintain a list of financial institutions authorized to provide investments 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). No public deposits shall be made except in qualified public depositaries as provided in Chapter 39.58 RCW.

   All brokers/dealers and financial institutions who desire to become qualified bidders for investment transactions with the City must supply the Finance Director with the following:

   - Audited financial statements;
   - Proof of National Association of Securities Dealers certification;
   - Certification of having read the City's investment policy;
   - Proof of state registration.

The Finance Director will conduct an annual review of the financial condition and registration of qualified bidders. A current audited financial statement is required to be on file for each financial institution and broker/dealer with whom the City invests. Investment purchases from any institution or broker/dealer which does not satisfy the criteria established herein must be approved in advance by the City Council.

2. **Internal Control** The Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse. Accordingly, the Finance Director shall establish an annual process of independent review by the State Auditor's Office, or an external auditor, to assure compliance with policies and procedures.

3. **Safekeeping and Custody** All security transactions entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis. Securities purchased by the City will be delivered against payment and held in a custodial safekeeping account. The Finance Director will designate a third party custodian and safekeeping receipts will evidence all transactions.

Authorized and Suitable Investments

1. **Investment Types** The City will diversify its investments in the following security types:

- U.S. Government obligations, U.S. government agency obligations, and U.S. government instrumentality obligations , which have a liquid market with a readily determinable market value;
- U.S. Treasury securities maturing in less than five years;
- Collateralized certificates of deposit, and other evidences of deposit, at qualified financial institutions that are approved by the Washington Public Deposit Protection Commission (WPDPC).
- Investment-grade obligations of state, local governments and public authorities located within the State of Washington;
- Local government investment pools, either state-administered or through joint powers statutes and other intergovernmental agreement legislation.

Investment Parameters

1. **Diversification** The City of Mukilteo will diversify its investments by security type and institution. Diversification will include the following limits:

Security Type	Portfolio Max. With One Fin. Inst.	Portfolio Max.
Cert. Of Dep. (CD)	35%	90%

Security Type	Portfolio Max.
U.S. Treasuries	90%
U.S. Agencies	90%
State of WA bonds	20%
Local Govt. Bonds	10%
State Pool (LGIP)	100%

2. **Maximum Maturities** To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than five years from the date of purchase. The weighted average maturity for the investment portfolio will not exceed three (3) years. Reserve funds may be invested in securities maturing more than five (5) years, if the maturity of such investment is made to coincide as nearly as practicable with the expected use of funds.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio will be continuously invested in the State of Washington's LGIP to ensure that appropriate liquidity is maintained to meet ongoing obligations.

Reporting

1. **Methods** The Finance Director shall prepare an investment report quarterly. This report shall provide an accurate and meaningful presentation of the investment portfolio, its performance versus the established benchmark, and proof of compliance with the investment policy. The report will include the following:

   - Listing of individual securities held at the end of the reporting period.
   - Average life and final maturity of all investments listed.
   - Coupon, discount or earnings rate.
   - Par value, amortized book value and market value.
   - Percentage of the portfolio in each investment category.

The report will be provided to the City Administrator, Mayor, and all City Council Members

2. **Performance Standards** The investment portfolio will be designed toward conservative and passive investments. The performance shall consider the City's investment risk constraints and cash flow needs. Maturities of investments shall be kept relatively shorter in periods of rising interest rates and relatively longer in periods of declining interest rates. Given this investment strategy, the City will use as investment yield benchmarks, the Federal Funds rate, the six-month U.S. Treasury bill rate (in a rising rate environment), the two-year Treasury Note (in declining rate environment), and the average rate of return from the Local Government Investment Pool (LGIP) of the State of Washington. The benchmarks will be the weighted-average of the following:

Portfolio Component	***Benchmark***
Certificates of Deposit	LGIP
LGIP	Federal Funds rate
Other securities	6-Month T-Bill

Policy Considerations

1. **Exemption** Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

2. **Investment Policy Adoption** The City's investment policy shall be adopted by resolution of the City Council. The policy shall be reviewed periodically as required to address changes in State or Federal statutes or regulations, and any proposed changes will be submitted to the City Council for approval.

Appendix 1: Glossary of Cash Management Terms

The following is a glossary of key investing terms, many of which appear in the City's Investment Policy.

Accrued Interest - The accumulated interest due on a bond as of the last interest payment made by the issuer.

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. An example of federal agency is the Government National Mortgage Association (GNMA). An example of a FSA is the Federal National Mortgage Association (FNMA).

Amortization - The systematic reduction of the amount owed on a debt issue through periodic payments of principal.

Average Life - The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

Basis Point - A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield, e.g., "1/4" of 1 percent is equal to 25 basis points.

Bid - The indicated price at which a buyer is willing to purchase a security or commodity.

Book Value - The value at which a security is carried on the inventory lists or other financial records of an investor. The book value may differ significantly from the security's current value in the market.

Callable Bond - A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

Call Price - The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

Call Risk - The risk to a bondholder that a bond may be redeemed prior to maturity.

Cash Sale/Purchase - A transaction which calls for delivery and payment of securities on the same day that the transaction is initiated.

Collateralization - Process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.

Commercial Paper - An unsecured short-term promissory note issued by corporations, with maturities ranging from 2 to 270 days.

Convexity - A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

Coupon Rate - The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as the "interest rate."

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 to an investor that an issuer will default in the payment of interest and/or principal on a security.

Current Yield (Current Return) - A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

Delivery Versus Payment (DVP) - A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or his/her custodian.

Derivative Security - Financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

Discount - The amount by which the par value of a security exceeds the price paid for the security.

Diversification - A process of investing assets among a range of security types by sector, maturity, and quality **rating.**

Duration - A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

Fair Value - The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Federal Funds (Fed Funds) - Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These depository institutions may lend fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed funds are considered to be immediately available funds.

Federal Funds Rate - Interest rate charged by one institution lending federal funds to the other.

Government Securities - An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. See "Treasury Bills, Notes, and Bonds."

Interest Rate - See "Coupon Rate."

Interest Rate 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.

Internal Controls - An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1) the cost of a control should not exceed the benefits likely to be derived and 2) the valuation of costs and benefits requires estimates and judgments by management. Internal controls should address the following points:

Control of collusion - Collusion is a situation where two or more employees are working in conjunction to defraud their employer.

Separation of transaction authority from accounting and record keeping - By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
Custodial safekeeping - Securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.
Avoidance of physical delivery securities - Book-entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
Clear delegation of authority to subordinate staff members - Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
Written confirmation of transactions for investments and wire transfers - Due to the potential for error and improprieties arising from telephone and electronic transactions, all transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and if the safekeeping institution has a list of authorized signatures.
Development of a wire transfer agreement with the lead bank and third-party custodian - The designated official should ensure that an agreement will be entered into and will address the following points: controls, security provisions, and responsibilities of each party making and receiving wire transfers.
Inverted Yield Curve - A chart formation that illustrates long-term securities having lower yields than short-term securities. This configuration usually occurs during periods of high inflation coupled with low levels of confidence in the economy and a restrictive monetary policy.
Investment Company Act of 1940- Federal legislation which sets the standards by which investment companies, such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.
Investment Policy - A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.
Investment-grade Obligations - An investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated BBB or higher by a rating agency.
Liquidity - An asset that can be converted easily and quickly into cash.
Local Government Investment Pool (LGIP) - An investment by local governments in which their money is pooled as a method for managing local funds.
Mark-to-market - The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.
Market Risk - The risk that the value of a security will rise or decline as a result of changes in market conditions.
Market Value - Current market price of a security.
Maturity - The date on which payment of a financial obligation is due. The final stated maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder. See "Weighted Average Maturity."

Money Market Mutual Fund - Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, repos and federal funds).
Mutual Fund - An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by the following Securities and Exchange Commission (SEC) disclosure guidelines:
Report standardized performance calculations.
Disseminate timely and accurate information regarding the fund's holdings, performance, management and general investment policy.
Have the fund's investment policies and activities supervised by a board of trustees, which are independent of the adviser, administrator or other vendor of the fund.
Maintain the daily liquidity of the fund's shares.
Value their portfolios on a daily basis.
Have all individuals who sells SEC-registered products licensed with a self-regulating organization (SRO) such as the National Association of Securities Dealers (NASD).
Have an investment policy governed by a prospectus which is updated and filed by the SEC annually.
Mutual Fund Statistical Services - Companies that track and rate mutual funds, e.g., IBC/Donoghue, Lipper Analytical Services, and Morningstar.
National Association of Securities Dealers (NASD) - A self-regulatory organization (SRO) of brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.
Net Asset Value - The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets which includes securities, cash, and any accrued earnings, subtracting this from the fund's liabilities and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio. (See below.) [(Total assets) - (Liabilities)]/(Number of shares outstanding)
No Load Fund - A mutual fund which does not levy a sales charge on the purchase of its shares.
Nominal Yield - The stated rate of interest that a bond pays its current owner, based on par value of the security. It is also known as the "coupon," "coupon rate," or "interest rate."
Offer - An indicated price at which market participants are willing to sell a security or commodity. Also referred to as the "Ask price."
Par - Face value or principal value of a bond, typically $1,000 per bond.
Positive Yield Curve - A chart formation that illustrates short-term securities having lower yields than long-term securities.
Premium - The amount by which the price paid for a security exceeds the security's par value.
Prime Rate - A preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are keyed to this rate.
Principal - The face value or par value of a debt instrument. Also may refer to the amount of capital invested in a given security.

Prospectus - A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC. This can include information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements.
Prudent Person Rule - An investment standard outlining the fiduciary responsibilities of public funds investors relating to investment practices.
Regular Way Delivery - Securities settlement that calls for delivery and payment on the third business day following the trade date (T+3); payment on a T+1 basis is currently under consideration. Mutual funds are settled on a same day basis; government securities are settled on the next business day.
Reinvestment Risk - The risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by that holding.
Repurchase Agreement (repo or RP) - An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later 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 date.
Rule 2a-7 of the Investment Company Act - Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13- month maturity limit and a 90-day average maturity on investments, to help maintain a constant net asset value of one dollar ($1.00).
Safekeeping - Holding of assets (e.g., securities) by a financial institution.
Serial Bond - A bond issue, usually of a municipality, with various maturity dates scheduled at regular intervals until the entire issue is retired.
Sinking Fund - Money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.
Swap - Trading one asset for another.
Term Bond - Bonds comprising a large part or all of a particular issue which come due in a single maturity. The issuer usually agrees to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity.
Total Return - The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period. (Price Appreciation) + (Dividends paid) + (Capital gains) = Total Return
Treasury Bills - Short-term U.S. government non-interest bearing debt securities with maturities of no longer than one year and issued in minimum denominations of $10,000. Auctions of three- and six-month bills are weekly, while auctions of one-year bills are monthly. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.
Treasury Notes - Intermediate U.S. government debt securities with maturities of one to 10 years and issued in denominations ranging from $1,000 to $1 million or more.

Treasury Bonds - Long-term U.S. government debt securities with maturities of ten years or longer and issued in minimum denominations of $1,000. Currently, the longest outstanding maturity for such securities is 30 years.
Uniform Net Capital Rule - SEC Rule 15C3-1 outlining capital requirements for broker/dealers.
Volatility - A degree of fluctuation in the price and valuation of securities.
"Volatility Risk" Rating - A rating system to clearly indicate the level of volatility and other non-credit risks associated with securities and certain bond funds. The ratings for bond funds range from those that have extremely low sensitivity to changing market conditions and offer the greatest stability of the returns ("aaa" by S&P; "V-1" by Fitch) to those that are highly sensitive with currently identifiable market volatility risk ("ccc-" by S&P, "V-10" by Fitch).
Weighted Average Maturity (WAM) - The average maturity of all the securities that comprise a portfolio.
When Issued (WI) - A conditional transaction in which an authorized new security has not been issued. All "when issued" transactions are settled when the actual security is issued.
Yield - The current rate of return on an investment security generally expressed as a percentage of the security's current price.
Yield-to-call (YTC) - The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date. Yield Curve - A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.
Yield-to-maturity - The rate of return yielded by a debt security held to maturity when both interest payments and the investor's potential capital gain or loss are included in the calculation of return.
Zero-coupon Securities - Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.

Appendix 2: Investment Pools

1. Definition

The purpose of a pool is to allow political subdivisions to pool investable funds in order to achieve a potentially higher yield.

There are basically three (3) types of pools: 1) state-run pools; 2) pools that are operated by a political subdivision where allowed by law and the political subdivision is the trustee; and 3) pools that are operated for profit by third parties. Prior to any political subdivision being involved with any type of pool, a thorough investigation of the pool and its policies and procedures must be reviewed.

2. Pool Questionnaire

Prior to entering a pool, the following questions and issues should be considered:

Securities: Government pools may invest in a broader range of securities than an entity may invest in. It is important to be aware of, and comfortable with, the securities a pool buys. The following is a list of questions a Finance Director may wish to ask a prospective pool:

1 Does the pool provide a written statement of investment policy and objectives?
2 Does the statement contain:

   a. a description of eligible investment instruments?

   b. the credit standards for investments?

   c. the allowable maturity range of investments?

   d. the maximum allowable dollar weighted average portfolio maturity?

   e. the limits of portfolio concentration permitted for each type of security?

   f. the policy on reverse repurchase agreements, options, short sales and futures?

3 Are changes in the policies communicated to the pool participants?
4 Does the pool contain only the types of securities that are permitted by your investment policy?

Interest: Interest is not reported in a standard format, so it is important to know how interest is quoted, calculated, and distributed in order to make comparisons with other investment alternatives.

Interest Calculations

Does the pool disclose the following about yield calculations:

a. the methodology used to calculate interest? (simple maturity, yield to maturity, etc.)

b. the frequency of interest payments?

c. how interest is paid? (credited to principal at the end of the month, each quarter; mailed?)

d. how are gains/losses reported? factored monthly or only when realized?

Reporting

1. Is the yield reported to participants of the pool monthly? (If not, how often?)
2. Are expenses of the pool deducted before quoting the yield?
3. Is the yield generally in line with the market yields for other investment alternatives?
4. How often does the pool report? What information does that report include? Does it include the market value of securities?

Security: The following questions are designed to help safeguard funds from loss of principal and loss of market value.

1. Does the pool disclose safekeeping practices?
2. Is the pool subject to audit by an independent auditor at least annually?
3. Is a copy of the audit report available to participants?
4. Who makes the portfolio decisions?
5. How does the manager monitor the credit risk of the securities in the pool?
6. Is the pool monitored by someone on the board of a separate neutral party external to the investment function to ensure compliance with written policies?
7. Does the pool have specific policies with regard to the various investment vehicles?

   a. What are the different investment alternatives?

   b. What are the policies for each type of investment?
8. Does the pool mark the portfolio to its market value?
9. Does the pool disclose the following about how portfolio securities are valued:

   a. the frequency with which the portfolio securities are valued?

   b. the method used to value the portfolio (cost, current value, or some other method)?

Operations: The answers to these questions will help determine whether this pool meets the entity's operational requirements:

1. Does the pool limit eligible participants?
2. What entities are permitted to invest in the pool?
3. Does the pool allow multiple accounts and sub-accounts?
4. Is there a minimum or maximum account size?
5. Does the pool limit the number of transactions each month? What is the number of transactions permitted each month?
6. Is there a limit on transaction amounts for withdrawals and deposits?

   a. What is the minimum and maximum withdrawal amount permitted?

   b. What is the minimum and maximum deposit amount permitted?
7. How much notice is required for withdrawals/deposits?
8. What is the cutoff time for deposits and withdrawals?
9. Can withdrawals be denied?
10. Are the funds 100 percent withdrawable at anytime?
11. What are the procedures for making deposits and withdrawals?

    a. What is the paperwork required, if any?

    b. What is the wiring process?
12. Can an account remain open with a zero balance?
13. Are confirmations sent following each transaction?

Statements: It is important for (the designated official) and the agency's trustee (when applicable), to receive statements monthly so the pool's records of activity and holdings are reconciled by (the designated official) and its trustee.

1. Are statements for each account sent to participants?

    a. What are the fees?

    b. How often are they passed?

    c. How are they paid?

    d. Are there additional fees for wiring funds? (What is the fee?)

2. Are expenses deducted before quoting the yield?

Questions to Consider for Bond Proceeds: It is important to know (1) whether the pool accepts bond proceeds and (2) whether the pool qualifies with the U.S. Department of the Treasury as an acceptable commingled fund for arbitrage purposes.

1. Does the pool accept bond proceeds subject to arbitrage rebate?
2. Does the pool provide accounting and investment records suitable for proceeds of bond issuance subject to arbitrage rebate?
3. Will the yield calculation reported by the pool be acceptable to the IRS or will it have to be recalculated?
4. Will the pool accept transaction instructions from a trustee?
5. Are separate accounts allowed for each bond issue so that the interest earnings of funds subject to rebate are not commingled with funds not subject to regulations?

Investment Procedures Manual

Cash Review

The Finance Director or his/her delegate must review the cash balances and investment portfolio daily, or as needed. Items to be reviewed should include:

a) Balances, by fund if so deposited, at primary bank.

b) Balances, by fund if so deposited, at other banks.

c) Maturing investments (includes CD's and general securities).

d) Bond sales and other large, periodic receipts.

e) Bond and coupon payments (debt service) and other large periodic cash disbursements.

Investment Selection

The Investment Officer determines how much of the cash balance is available for investment and selects the area of the yield curve that most closely matches the required maturity date.

In determining the maturity date, the Investment Officer should consider liquidity, cash flow and expected expenditures. A review of some of the following sources should be made to determine whether the investments should be placed to match projected expenditures or shorter, or to take advantage of current and expected interest rate environments:

a) Wall Street Journal or similar daily business publication.

b) Input from approved broker/dealer.

c) Input from depository banks

d) Publications on general trends of economic statistics.

Purchasing an Investment

Establish with whom the jurisdiction is going to transact business. This should be accomplished through the use of a questionnaire, which helps provide the following evaluation:

a) Financial condition, strength and capability to fulfill commitments.

b) Overall reputation with other dealers and investors

c) Regulatory status of the broker/dealer.

d) Background and expertise of the individual representative.

Financial institutions should be selected through the use of a "Request for Proposal." The use of a nationally recognized financial institution rating organization (Lace, Sheshunoff, Thompson Bankwatch, etc.) will assist in the evaluation. Contact an appropriate number of institutions, as specified by policy. The Investment Officer should be as specific as possible in requesting the offering. If a particular type of investment or a particular issuing agency is to be excluded due to policy limitation, that should be stated to the providers. If collateral is required (i.e. for ***CD's***), the collateral limitations (excess margin, types of securities, maximum maturity, etc.) should be specified.

The following must be determined prior to contacting the providers:

a) Settlement - cash, regular (next day), corporate (3 business days) or when issued if a new issue.

b) Amount - either par value or total dollars to be invested.

c) Type of security to be purchased, or type to be excluded.

d) Targeted maturity, or maturity range.

e) Time limit to show offering - 5 minutes, 15 minutes etc.

If choosing an external pool or fund as the preferred investment vehicle, the following should be available for inspection prior to purchase and at any reasonable time thereafter:

a) A written investment policy, if a government-run investment pool.

b) A prospectus for money-market funds, mutual funds or bank managed funds.

c) A schedule of the types of reports and the frequency of distribution.

d) A clear description of how interest rates are calculated (30/360, actual/365 etc.)

e) A schedule of when and how income is distributed.

f) Are the pool or fund types of investments restricted to your own legal and policy limits?

g) Are the pool or fund investments restricted to your own maturity limits?

Before concluding the transaction, the Investment Officer should validate the following:

a) The security selected for purchase meets all criteria, including portfolio diversification, collateralization (if appropriate) and maturity. If the security has any imbedded options such as call provisions, or coupon adjustments, these should also be reviewed.

b) Yield calculations should be verified.

c) Total purchase cost (including accrued interest) does not exceed funds available for investments.

d) Advise the successful provider that their offering has been selected for purchase.

e) After confirmation of the purchase, as a courtesy, notify the other broker/dealers that you have placed the investment. Best price may be disclosed, if you choose.

After consummation of the transaction, and prior to settlement date, the Investment Officer and the provider should exchange and review the following information to ensure prompt and uninterrupted settlement:

a) Name of third party safekeeping agent.

b) ABA Number of safekeeping agent

c) Safekeeping account number

d) Reconfirm amount of transaction

e) Reconfirm settlement date

f) Acquire CUSIP number of security, if applicable.

Settlement & Follow Through

The Investment Officer should forward to the safekeeping agent a report of the investment transaction. The report may be verbal, but a written form should be sent and acknowledged. When applicable, the following should be verified:

a) Provision of receipt or disbursement of funds

b) Internal transfer or wiring of funds.

c) Validation of written "safekeeping receipt."

d) Notification of discrepancy prior to acceptance or rejection of the transaction.

e) Immediate notification if a fail has accorded: by provider if they are responsible, by safekeeping agent if they are responsible.