CITY OF LYNNWOOD

INVESTMENT POLICY
ADOPTED BY THE LYNNWOOD CITY COUNCIL
AS OF, APRIL 27, 2009

1.0 POLICY. It is the policy of the City of Lynnwood to invest its funds in a manner which will provide the highest investment return consistent with a high degree of security while meeting the daily cash flow demands of the City and conforming to all state statutes and local ordinances governing the investment of public funds. Cash may, at the discretion of the City Investment Committee, be invested separately by fund or be commingled into a common investment portfolio and earnings from such portfolio distributed monthly. The City Investment Committee has been authorized by Resolution No. 2009-11 described herein.

2.0 SCOPE. This investment policy, which was adopted on the date hereof by the City of Lynnwood Council as Resolution No. 2009-11, supersedes any previous investment policy and applies to all financial assets of the City except: for assets held in escrow in order to defease refunded debt; and retirement funds managed by others such as state or ICMA. City financial assets are accounted for in the City's Comprehensive Annual Financial Report and include:

2.1 Funds
2.1.1 General Fund
2.1.2 Special Revenue Funds
2.1.3 Debt Service Funds
2.1.4 Capital Project Funds
2.1.5 Enterprise Funds
2.1.6 Internal Service Funds
2.1.7 Trust and Agency Funds

3.0 PRUDENCE. The 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.

3.1 The standard of prudence to be used by the City Investment Committee shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. The City Investment Committee acting in accordance with written procedures and the city's investment policy and exercising due diligence and prudence shall have no personal liability for any credit change or market price risk.

4.0 OBJECTIVE. Funds of the City will be invested in accordance with the Revised Code of Washington (RCW) 35A.40.050, the BARS manual and these policies.

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

4.1 **Legality:** The City's investments will be in compliance with all statutes governing the investment of public funds and the provisions of all applicable bond ordinances.

4.2 **Safety:** Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

4.3 **Liquidity:** The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements, which might be reasonably anticipated. The Investment Committee shall maintain adequate liquidity by maintaining a minimum balance in the LGIP. Any short-term borrowings require council approval regarding securities lending and reverse transactions.

4.4 **Return on Investment:** 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.

4.5 **Local Institutions:** Local institutions shall be given preference when they are, in the judgment of the Assistant Finance Director, competitive with other institutions.

5.0 DELEGATION OF AUTHORITY. Resolution No. 2009-11 delegates investment authority to the City Investment Committee.

5.1 The City Investment Committee's investment actions shall be governed by this policy.

5.2 The City Investment Committee shall be composed of three individuals as follows: Mayor, Finance Director and Assistant Finance Director.

5.3 The City Investment Committee shall be responsible for all transactions undertaken and shall establish a system of controls to regulate all investment activities, and report promptly to the Council any adverse development with any investment.

5.4 The Assistant Finance Director shall establish and maintain detailed written procedures to implement the investment policy. Procedures will cover: safekeeping, Public Securities Association (PSA) repurchase agreements, wire transfer agreements, collateral/depository agreements and banking service contracts. The Assistant Finance Director alone shall have authority to initiate investment transactions based on the recommendations of the City Investment Committee, provided the Assistant Finance Director may delegate authority to a single other City employee for a specific period of time through a written memorandum and only with the written consent of the Finance Director in each such case.

6.0 ETHICS AND CONFLICTS OF INTEREST. The City Investment Committee shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. The City Investment Committee shall disclose to the Mayor and the Council any material financial interests in financial institutions that conduct business with the City, and they shall further disclose any personal financial/investment positions that could be related to the performance of the City's portfolio. The Investment Committee shall subordinate their personal investment transactions to those of the City, particularly with regard to the time of purchases and sales.

7.0 AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS. The Assistant Finance Director will maintain a list of financial institutions authorized to provide investment services to the City of Lynnwood. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness, who maintain an office in the State of Washington. These may include "primary" dealers or regional dealers that qualify under US Securities and Exchange Commission Rule 15c3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by state laws.

7.1 All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Assistant Finance Director with their most recent audited financial statements.

7.2 An annual review of broker/dealers will be conducted. This review may include an interview with the Investment Committee and may also include a review of the financial condition and registrations of such institutions and broker/dealers by the Assistant Finance Director.

7.3 At the request of the City, the financial institutions performing investment services for the City shall provide their most recent financial statements or Consolidated Report of Condition (“call report”) for review.

8.0 AUTHORIZED & SUITABLE INVESTMENTS. The City may invest in any of the securities identified as eligible investments as defined by RCW 35A.40.050. In general, these consist of:

8.1 Investment deposits (certificates of deposits) with qualified public depositories as defined in Chapter 39.58 RCW.

8.2 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 whose securities carry full faith and credit guarantees.

8.3 Obligations of government-sponsored corporations which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System. (These include but are not limited to, Federal Home Loan Bank notes and bonds, Federal Farm Credit Bank consolidated notes and bonds, and Federal National Mortgage Association notes.)

8.4 Prime bankers' acceptances purchased on the secondary market.

8.5 Repurchase agreements for securities listed in 8.2, 8.3 and 8.4 above, provided that the transaction is structured so that the City obtains ownership and control over the underlying securities. A master repurchase agreement between the City and the bank or dealer must be on file prior to any repurchase agreement transaction.

8.6 The Washington Local Government Investment Pool.

9.0 COLLATERALIZATION. Collateralization will be on repurchase agreements to anticipate market changes and provide a level of security for all funds; the collateralization level will be 102% of market value of principal and accrued interest.

9.1 The City chooses to limit collateral to the obligations of the United States Government and its agencies.

9.2 Collateral will always be held by an independent third party with whom the entity has a current custodial agreement (except certificates of deposits). A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the entity and retained.

9.3 Certificates of deposit are delivered to and held by the Assistant Finance Director's office until they mature.

10.0 SAFEKEEPING AND CUSTODY. -

All securities transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian designated by the City Investment Committee and evidenced by safekeeping receipts listing the specific instrument, rate, maturity and other pertinent information.

11.0 DIVERSIFICATION. The City will diversify its investments by security type and institution in manner that reduces overall portfolio risks while attaining market average rates of return. The City's policy is to assure that no single institution or security is invested to such an extent that a delay of liquidation at maturity is likely to cause a current cash flow emergency. To allow for a percentage ranges by security type, the following limitations by security type can be invested up to but not to exceed the following percentages:

• US Federal Agency Securities	50%
• Certificates of Deposits (within PDPC)	50%
• General Obligation Bonds of State and Local Government	20%
• Repurchase Agreements	10%
• Banker's Acceptance	10%

There is no restriction on the City's percentage of investment in US Treasury Securities or the Washington State Local Government Investment Pool.
No more than 25% will be invested with a single financial institution.

12.0 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 (5) years from the date of purchase. The average maturity will be consistent with the liquidity objective.

12.1 The City's reserve funds may be invested in securities not to exceed ten (10) years if the maturity of such investments is made to coincide as nearly as possible with the expected use of funds.

12.2 The purpose of permitting a portion of the investments to have longer maturities is to recognize that funds may earn higher yields when invested for longer periods of time.

13.0 INTERNAL CONTROLS. The City Investment Committee shall establish a system of internal controls, which shall be reviewed annually by the State -Auditor's Office. The purpose of this review shall be to audit the accountability of the City's Investment Portfolio and to verity that the Investment Officials have acted in accordance with the policies and procedures.

14.0 PERFORMANCE STANDARDS. The City's investment portfolio will be designed to obtain a market average rate of return during budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow needs.

14.1 Investment Strategy: The City's investment strategy is active. As a result, securities are purchased and sold as it best meets the needs of the City as determined by the City Investment Committee. The Assistant Finance Director will be authorized to trade before maturity if it is in the best interest of the City to do so.

14.2 Market Yield (Benchmark): Given this strategy, the basis used by the City Investment Committee to determine whether market yields are being achieved shall be the Average US Treasury Note Rate which corresponds with the average life of the investments in the portfolio.

15.0 REPORTING. The Assistant Finance Director is charged with the responsibility of including market report on investment activity and returns in the City's Comprehensive Annual Financial Report. This report shall contain such information, as the Assistant Finance Director deems appropriate, provided that the Finance Director shall have the right to request that specific information be provided in the report. The Finance Director will determine what investment information shall be included in the -quarterly financial report.

15.1 Monthly reports will be submitted to the Investment Committee and the City Council. The reports will denote changes in market value and investment income.

16.0 INVESTMENT POLICY ADOPTION. The City's investment policy shall be adopted by Resolution by the Lynnwood City Council. The policy shall be reviewed on an annual basis by the City Investment Committee and any modifications made thereto must be approved by the Lynnwood City Council.

GLOSSARY

ACCRUED INTEREST: The interest accumulated on a bond since its dated date or the most recent date to which interest has been paid by the City. The buyer of the bond pays the market price and accrued interest, which is payable to the seller.

AGENCIES: Federal agency securities.

ASKED: The price at which securities are offered.

BANKERS' ACCEPTANCE (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BOND: A long-term debt security (IOU) issued by a government or corporation. Generally pays a stated fixed rate of interest, and returns the face value at maturity.

BOOK VALUE: The amount at which an asset is carried on the books of the owner. The book value of an asset does not necessarily have a significant relationship to market value.

BROKER: A middleman who brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; he does not position. In the money market, brokers are active in markets in which banks buy and sell money and in interdealer markets.

CALL OPTION: The right to prepay or redeem a security at a predetermined price on or after a specified future date that is earlier than its scheduled maturity date.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity earning a specified rate of return evidenced by a certificate. Certificates of Deposit bear rates of interest in line with money market rates current at the time of issuance.

COLLATERAL: Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

CONFIRMATION: A document used to state and supplement in writing the terms of a transaction which have previously been agreed to verbally.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date (not used since 1982).

CUSIP NUMBER (COMMITTEE OR 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 face of the security if it is in physical form.

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

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

DISCOUNT: There is "original issue discount" and "market discount." Original issue discount is the difference between the cost1price of a security when first offered for sale to the general public and its face value at maturity when quoted at lower than face value. Original issue discount is treated as interest. Market discount is the difference between principal amount of an outstanding security (reduced by any original issue discount) and the value of that security in the then current market (if lower than its principal amount). If a security is bought at a market discount and later sold at a gain, the gain is taxable income.

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

FARM CREDIT DISCOUNT NOTES AND BONDS: Secured joint obligations of Farm Credit Banks that are issued with a minimum face value of $50,000 with maturities ranging from 5 to 360 days.

FEDERAL CREDIT AGENCIES: Agencies of the Federal Government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL FUNDS RATE: The rate of interest at which Federal funds are traded between banks. This rate is currently pegged by the Federal Reserve through open market operations.

FEDERAL HOME LOAN BANK SYSTEM (FHLB): Consists of twelve Federal Home Loan Banks, issues, in addition to long-term bonds, coupon notes with maturities of up to one year.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development; H.U.D. 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.

LIQUIDITY A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of 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.

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

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase -- reverse purchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

PORTFOLIO: A collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers that submit daily reports 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 stated face amount of an instrument, exclusive of accrued interest.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary such as a trustee may invest money only in a list of securities selected by the state-the-so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a product person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

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 Public Deposit Protection 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.

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.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

SEC RULE 15c3-1: SEC uniform net capital rule requiring brokers and dealers to maintain certain amounts of net capitol.

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

TREASURY BILLS: A non-interest bearing discount security issued by the US Treasury to finance the national debt. Most bills are issued to mature in three months, six months or one year.

TREASURY BONDS: Long-term US Treasury securities having initial maturities of more than ten years.

TREASURY NOTES: Intermediate term coupon bearing US Treasury securities having initial maturities of from one to ten years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD: The rate of annual income return on an investment expressed as a percentage. Income Yield is obtained by dividing the current dollar income by the current market price for the security. Net Yield or Yield to Maturity is the current income Yield minus any premium above par or plus any discount in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.