WHITMAN COUNTY TREASURER'S
INVESTMENT POLICY

1. POLICY

It is the policy of the Whitman County Treasurer to invest public funds in accordance with all federal, state and local governing statutes. The Whitman County Treasurer will invest public funds in a manner which will provide maximum safety of principal, ensure that daily cash flow demands are met, and achieve the highest investment return within these parameters.

2. SCOPE

This investment policy applies to all financial assets of Whitman County. These funds are accounted for in Whitman County's Annual Financial Report and include, but are not limited to:

General Fund	*Special Revenue Funds*
Debt Service Funds	*Capital Projects Funds*
Enterprise Funds	*Internal Service Funds*
Agency Funds	

In addition, The Whitman County Treasurer provides investment services for all County governmental agencies, except cities, including school districts, fire districts, port districts, cemetery districts, library districts, park and recreation districts, sewer districts, as well as any new fund created by County ordinance or otherwise established by State Legislation.

3. Prudence

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

4. Objectives

The primary objectives of Whitman County's investment activities, shown in order of priority shall be:

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

- **Liquidity:** The Whitman County investment portfolio will remain sufficiently liquid to enable Whitman County to meet all operating requirements that might be reasonably anticipated.

- **Return on Investment:** Whitman County's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account Whitman County's investment risk constraints and cash flow characteristics of the portfolio.

5. **Delegation of Authority**

A Whitman County Finance Committee (WCFC) (consisting of the Treasurer as Chairman, the Auditor as Secretary, and the Chairman of the Board of County Commissioners) has been established per RCW 36.48.070. The investment policy of the Whitman County Treasurer shall be approved by the (WCFC). The WCFC shall review the investment policy annually and approve suggested changes. The WCFC shall provide oversight as to adherence to the policy by the Treasurer.

The Whitman County Treasurer is authorized by RCW 36.29.020 to determine the investible balances in each fund of Whitman County and its Junior taxing districts and is authorized to invest such moneys. Upon the request of one or several units of local government that invest their money with the county under the provisions of RCW 36.29.020, the Treasurer may combine those units' moneys for the purposes of investment. Whether investing individually "by fund" or by "pooling", the Whitman County Treasurer will invest in accordance with this policy and the applicable laws.

The Whitman County Treasurer shall be responsible for all investment transactions undertaken and shall establish a system of controls and procedures to regulate the activities of all staff members involved in investment matters to ensure consistency with this investment policy. The Treasurer shall delegate to appropriately skilled staff, within an established system of controls and procedures, the day to day responsibilities of managing the investment activities. No person may initiate investment transactions on behalf of the Whitman County Treasurer without the express consent of the County Treasurer. Any exceptions to the investment practices as defined in this investment policy will require prior approval of the WCFC. Excess daily cash balances are determined by the Treasurer's Cash Management Team. The Cash Management Team is responsible for the overnight investment of this excess cash in the Washington State Treasurer's Local Government Investment Pool (LGIP). The use of other overnight instruments requires approval of the Treasurer and must fit within the constraints and guidelines of this policy.

6. **Ethics and Conflicts of Interest**

The Treasurer and investment deputies shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Investment deputies shall disclose to the County Treasurer 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 Whitman County's portfolio. The Treasurer and investment deputies shall subordinate their personal investment transactions to those of Whitman County, particularly with regard to the timing of purchases and sales.

7. Authorized Financial Dealers and Institutions

The Whitman County Treasurer will maintain a list of financial institutions as required by the Public Deposit Commission, authorized to provide investment services (RCW 39.58.080). The Treasurer's office will monitor the net worth and credit worthiness of these institutions, which may result in restrictions and/or exclusion of any institution based on the Treasurer's analysis. 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.

The Whitman County Treasurer's office may accept offers/bids from primary security dealers. That is, those dealers who as primary government securities dealers report daily to the New York Federal Reserve Bank. In addition, should concerns of any of these firm's economic viability be raised or should past practices cause concern, these institutions may be restricted from conducting business with the Treasurer.

All financial institutions and broker/dealers who desire to do business with Whitman County must supply the Treasurer with the following in writing:

- Audited financial statements for the last three years
- Quarterly financial statements
- Proof of National Association of Securities Dealers certification
- Certification of having read Whitman County's investment policy

No public deposit shall be made except in a qualified public depositary in the State of Washington. A current financial statement is required to be on file for each financial institution and broker/dealer in which Whitman County invests. Approved broker/dealers will be evaluated by the Treasurer annually to assess overall performance for the proceeding year, including, but not limited to trade execution, responsiveness, quality of market information and analysis and overall contribution to the investment process of the County.

Employees of any firm or financial institution offering securities or investments to the Whitman County Treasurer are expected to be trained in the precautions appropriate to public-sector investments and also expected to familiarize themselves with the Treasurer's investment objectives, policies and constraints. These firms and financial institutions are expected to take reasonable efforts to preclude imprudent transactions involving Whitman County funds.

It is the intent of the County Treasurer to select the primary bank for such services as bank depository, warrant processing and custodial services through a bid process. These services may be bid separately or together, according to the Whitman County Treasurer's best judgement.

8. Authorized and Suitable Investments

The Whitman County Treasurer is empowered by RCWs 35.39.030, 36.29.020, 39.59.020, 39.59.030, 39.60.010, and 43.84.080 to invest in the following types of securities:

- U. S. Treasury Bills

- U. S. Treasury Notes, Bonds, or Certificates of Indebtedness

- U. S. Government Agency Securities, including but not limited to, Farmers Home Administration, Federal Housing Administration, Government National Mortgage Association. In addition, any federal agency issued collateralized mortgage obligation must be FFIEC qualifying at the time of purchase as an eligible investment for financial institutions.

- U. S. Government-Sponsored corporations, including but not limited to, Farm Credit System, Federal Land Banks, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association (Fannie Mae).

- Certificates of Deposit of Financial Institutions (either banks or thrifts) which are a "Qualified Public Depository" as defined by RCW 39.58.010(2) and in accordance with the restrictions therein.

- Savings or time accounts in banks, trust companies, savings and loan associations, and mutual savings banks which are doing business in the State of Washington, up to the amount of the insurance afforded such accounts by the Federal Deposit Insurance Corporation or by the Federal Savings and Loan Insurance Corporation. Savings or Time Deposits may exceed Federal insurance limits if covered by the Public Deposit Protection Commission.

- Banker's Acceptances (BAs) purchased through State of Washington Financial Institutions and authorized broker/dealers. Banker's acceptances shall not be longer than 180 days duration. Investments in banker's acceptances must be drawn from a list of the top 50 U.S. Banks by asset size provided that these banks must have a short-term debt rating of at least P-1 by Moody's or A-1 by Standard & Poors, as reported by the Bloomberg financial service. Washington State banks may be included if they are members of the Washington Deposit Protection Commission, and they have the same credit rating as defined above.

- Commercial Paper, purchased in the secondary market, with ratings exceeding the Washington State Investment Board requirements. Whitman County requirements include commercial paper rated at least A1/P1 by at least two internationally recognized agencies such as Moody's or Standard and Poors and have a maturity not exceeding 180 days. Commercial paper purchase guidelines, as outlined in Attorney General of Washington Opinion 1993, No. 8, will be strictly followed.

- Repurchase Agreements provided that a signed Master Repurchase Agreement shall be on file in the Whitman County Treasurer's Office for all financial institutions that enter into a repurchase agreement with Whitman County. All repurchase agreements will be collateralized at a minimum of 102% of market value of principal and interest. The only eligible collateral for repurchase agreements will be direct obligations of the U.S. Treasury, U.S. Government Agency and/or U.S. Government instrumentality obligations. All securities shall be held in third party safekeeping. Third party safekeeping agreements must be entered into with a signed agreement between the safekeeping financial institution and the Whitman County Treasurer. All securities in a repurchase agreement shall be priced daily to reflect current market conditions for both principal and accrued interest.

- Repurchase agreement securities shall be purchased from either primary dealers or from institutions that are members of the Washington Public Depository. Credit worthiness of the institution will also be considered.

- The Whitman County Treasurer will not engage in reverse repo investing.

- The Whitman County Treasurer will not engage in flex repo investing.

- Bonds of the State of Washington and any local government in the State of Washington, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency.

- 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.

- Subject to compliance with RCW 39.56.030, registered warrants and notes for Whitman County and those districts in Whitman County for which the Treasurer is the ex officio Treasurer. Such notes will be for short-term financing for use in meeting cash flow and operational needs only. There must be certain expected receipts and revenues to repay the lending.

- Washington State Local Government Investment Pool (LGIP). The Whitman County Treasurer will keep on file the most recent LGIP Investment Policy and operations manual. This policy will be assessed for safety of funds on deposit with the LGIP and risks associated with investment strategies. In addition, the LGIP will complete a questionnaire for the Whitman County Treasurer which will include the following: a description of eligible securities; how interest and fees are calculated; how gains and losses are calculated; a description of how the securities are safeguarded, how often the securities are priced, and how often the program is audited; deposit and withdrawal restrictions; and information regarding how bond proceeds are accounted for in the LGIP.

The following mutual funds and money market funds, as defined in RCW 39.59.030, are authorized for funds subject to the arbitrage provisions of Section 148 of the Federal Internal Revenue Code and if bond covenants permit investment in mutual funds.

- Shares of mutual funds with portfolios consisting only of United States government bonds or United States government guaranteed bonds issued by federal agencies with average maturities less than four years.

- Shares of money market funds with portfolios consisting of only bonds of states and local governments or other issuers authorized by law for investment by local governments, which bonds have at the time of investment one of the two highest credit ratings of a nationally recognized rating agency.

- Shares of money market funds with portfolios consisting of securities otherwise authorized by law for investment by local governments.

9. **Safekeeping Requirements**

All deliverable securities will be settled Delivery versus Payment (DVP), which ensures that securities are deposited at a third party, such as a safekeeping and custodian bank acting as an agent for the Treasurer, before payment is released. A signed safekeeping and custodial agreement(s) shall be entered into with a federally regulated financial institution. The custodian institution shall hold the securities as evidenced by a safekeeping receipt. Non-negotiable CD's and investments in the LGIP are not handled on a DVP basis, and therefore are exempt from this process. In addition, BA's and repurchase agreements (provided a signed master repurchase agreement is on file) shall be held in the Trust safekeeping department of the financial institution in the name of Whitman County. Certificates of Deposit in the Treasurer's name, or a copy thereof, will be delivered to and held by the Treasurer's Office.

10. **Diversification**

It is the policy of the Whitman County Treasurer to diversify its investment portfolio within the constraints of the law. Assets held in the common cash fund and other investment funds shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of securities. Diversification strategies shall be determined and revised periodically by the Whitman County Finance Committee.

Diversification by instrument will be limited to the following percent of the overall portfolio for each category of securities:

	Max. % of Portfolio
U.S. Treasury Obligations	100%
U.S. Government (1) Operated Agency and (2) Sponsored Corporations	75%
Bankers Acceptances (BAs)	25%
Commercial Paper	25%
Certificates of Deposit (CDs)	70%
Deposit Notes of Financial Institutions	10%
Repurchase Agreements (Repos)	40%
Bonds of the State of Washington or any local government in The State of Washington	20%

Bonds of other states or local governments of a state other than the State of Washington	15%
Registered warrants and notes of Whitman County and Whitman County Districts	15%
Washington State Local Government Investment Pool (LGIP)	100%

Funds subject to arbitrage provisions

Mutual Funds of U.S. Government securities	25%
Mutual Funds of State and/or local government	25%

No more than 60% of the portfolio shall be invested in CD's, Repo's, and BA's of any one financial institution. In addition, quarterly financial statements are required of each institution and will be reviewed by the Treasurer or investment personnel.

No more than 5% of the portfolio may be invested with any one issuer of commercial paper.

In no case may the Treasurer invest in any one bank or trust company an amount in excess of 50% of the net worth of that financial institution as determined by the PDPC.

The total dollar amount of Certificates of Deposit and Bankers Acceptances in any one bank's name will not exceed 60% of the Treasurer's portfolio.

No more than 30% of the total portfolio shall be invested with any one U.S. Government Operated Agency or Government Sponsored Corporation issuer.

No more than 5% of the portfolio may be invested in collateralized mortgage obligations (CMO's) or other mortgage backed security product. In addition, any mortgage backed security with a stated final maturity (as opposed to expected final maturity) longer than five years must be approved by the Treasurer.

Maturities should be staggered to avoid concentrations in any one maturity sector and at least 10% of the portfolio shall be invested in overnight investments or in marketable securities which can be sold to raise cash in one day's notice.

Any security with known characteristics which could impair our ability to sell such security without incurring substantial loss of principal are not permitted investments under this policy. Certain securities or types of securities which otherwise comply with the provisions of this investment policy and with RCW provisions related to investment of public funds may have risk characteristics which make them unsuitable as investments. These include certain mortgage backed or mortgage related securities such as interest only (IO) or principal only (PO) securities and CMO classes typically described as "companion" classes.

11. **Maximum Maturities**

To the extent possible, Whitman County will attempt to match its investments with anticipated cash flow requirements. The time to maturity of securities purchased should not exceed five years at the time of purchase, except when compatible with a specific fund's investment needs or portfolio needs, and then only with the approval of the Whitman County Finance Committee. Investment of Bond Reserve funds which exceed 5 years are an exception and will not require approval of the Whitman County Finance Committee.

In order to maintain liquidity, the average time to maturity of investments must be less than two years excluding underlying collateral of a repurchase agreement, debt service or special purpose investments which may have a long maturity due to unique circumstances. The Treasurer will adjust average maturity to market conditions, as needed.

"By fund" investments with a maturity more than five years away may not be sold at loss, unless that loss is provided for in the entities budget or such a sale is approved by the entity and the Whitman County Finance Committee.

Security exchanges may be executed to upgrade yield while maintaining cash flow requirements and the overall portfolio quality, but it is the intent of the Whitman County Treasurer to hold investments to maturity.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio shall be continuously invested in *readily available* funds such as the Washington State LGIP, and the established Bank of Whitman money market funds to ensure that appropriate liquidity is maintained to meet ongoing obligations.

12. **Internal Control**

The Whitman County Treasurer shall establish a system of internal controls, which are subject to review by the Washington State Auditor and WCFC. Such review may result in recommendations to change operating procedures to improve internal controls. Controls shall be designed to protect against loss of public funds due to fraud, error, misrepresentation or imprudent actions

The Washington State Auditor conducts an annual audit during which procedures and internal controls will be reviewed to assure compliance with policies and procedures.

13. **Performance Standard**

The investment portfolio shall be designed to obtain a market average rate of return during a market/economic environment of stable interest rates. Whitman County's investment strategy is passive. Given this strategy, the basis used by the Treasurer to determine performance levels will be to regularly exceed the average return on three-month U.S. Treasury bills, or the average rate on Federal funds, whichever is higher. These indices are considered benchmarks for riskless investment transactions, and therefore comprise a minimum standard for the portfolio's rate of return. This performance standard shall take into account Whitman County's investment risk constraints and cash flow needs.

14. **Trading Process**

It is intended that the Treasurer will carry out its investment program via the telephone trading process. All trade results are a matter of public record and available to any interested person. The Treasurer will accept offers/bids from approved banks, savings and loans, and security dealers who are on Whitman County's approved financial institutions and securities broker/dealer list. Offers/bids may not be disclosed until after investment closes. Investment personnel disclose only the bids but never the dealer showing those levels. All offerings/bids are subject to the condition that the trader can meet the requirements of the treasurer as to type of investment, maturity, amount, security, and other restrictions included in this policy.
Awards will be to the trader offering the highest effective yield consistent with the other restrictions. Consideration will be given to the other concerns of liquidity, safety, and diversification.

Quoted rates will occasionally result in ties. Providing that there are no material yield differences, broker/dealers with the best overall evaluations will receive a proportionately greater share of the County's investment activity. Banks and/or security dealers are to provide appropriate charge slips, deposit slips, and confirmation or safekeeping receipts in a timely manner.

It will be the responsibility of the investment deputy involved with each purchase/sale to produce and retain written records of each transaction, including the name of the financial institution solicited, the rate quoted, a description of the security, the investment selected, and any special considerations that had an impact on the decision. If the highest yield was not selected for purchase, an explanation describing the rationale will be included in this record.

15. **Investment Fees**

RCW 36.29.020 and RCW 36.29.024 allow the charging of an investment fee on individually placed investments for providing the service of investing funds. This amount is to be equal to 5% of the interest earnings of each investment transaction authorized by each resolution of the governing body, subject to a minimum charge of five dollars and an annual maximum per investment of fifty dollars.

16. **Reporting**

On a quarterly basis, a report will be submitted to the Whitman County Finance Committee which will provide an accurate and meaningful representation of the Whitman County investment portfolio. The Treasurer and investment staff shall report to the committee current investment strategy being followed and recent economic conditions and market developments which have a bearing on this strategy. This management report will be prepared in a manner which will allow the finance Committee to ascertain whether investment activities during the reporting period have conformed with the investment policy. The report will include:

- A 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

Investment Policy Adoption

The Whitman County Treasurer's investment policy shall be adopted by resolution of the Whitman County Finance Committee. The policy shall be reviewed on an annual basis and any amendments or modifications to this policy shall be approved by the committee.

GLOSSARY OF CASH MANAGEMENT TERMS

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.

Bank Wire – A virtually instantaneous electronic transfer of funds between two financial institutions.

Bankers Acceptances (BAs) – Bankers Acceptances generally are created based on a letter of credit issued in a foreign trade transaction. They are used to finance the shipment of commodities between countries as well as the shipment of some specific goods within the United States. BAs are short-term, non-interest bearing note sold at a discount and redeemed by the accepting bank at maturity for full face value. These notes trade at a rate equal to or slightly higher than Certificates of Deposit, depending on market supply and demand.

Basis Point – A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield, i.e., ¼ of 1 percent (.0025) is equal to 25 basis points.

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

Bond – A long-term debt security, or IOU issued by a government or corporation that generally pays a stated rate of interest and returns the face value on the maturity date.

Book 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.

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.

Certificate of Deposit – Certificates of Deposit, familiarly known as CDs, are certificates issued against funds deposited in a bank for a definite period of time and earning a specified rate of return. CDs bear rates of interest in line with money market rates current at the time of issuance.

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

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

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

Defease – To discharge the lien of an ordinance, resolution, or indenture relating to a bond issue, and in the process, render inoperative restrictions under which the issuer has been obliged to operate. Ordinarily an issuer may defease an indenture requirement by depositing with a trustee an amount sufficient to fully pay all amounts under a bond contract as they become due.

Delivery versus Payment – 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.

Depository Bank – A local bank used as the point of deposit for cash receipts.

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

Discount – The amount by which the price paid for a security is less than its par value.

Diversification – A process of investing assets among a variety of securities and institutions so as to minimize market risk.

Effective Rate – The yield you would receive on a debt security over a period of time taking into account any compounding effect.

Face Value – The value of a bond stated on the bond certificate; thus the redemption value at maturity.

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 System (FFCS).

Federal Deposit Insurance (FDIC) – A Federal institution that insures bank deposits. The current limit is up to $100,000 per depository account.

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

Federal Home Loan Banks (FHLB) – The institutions that regulate and lend to savings and loan associations.

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

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

Federal Savings and Loan Insurance Corporation (FSLIC) – A federal institution that insures savings and loan deposits. The current limit is up to $100,000 per depository account.

Fiscal Agency – A financial institution that handles certain bond and coupon redemptions on behalf of Whitman County.

Government Security – Any debt obligation issued by the U.S. government, its agencies or instrumentalities. Certain securities, such as Treasury bonds and Ginnie Maes, are backed by the government as to both principal and interest payments. Other securities such as those issued by Federal Home Loan Mortgage Corporation, or Freddie Mae, are backed by the issuing agency.

Liquidation – Conversion into cash.

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

Loss – The excess of the cost or book value of an asset over selling price.

Local Government Investment Pool (LGIP) – The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

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

Marketability – Ability to sell large blocks of money market instruments quickly and at competitive prices.

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

Market Value – The price at which a security is trading and could presumably be sold.

Master Repurchase Agreement – An agreement between the investor and the dealer or financial institute. This agreement defines the nature of the transactions, identifies the relationship between the parties, establishes normal practices regarding ownership and custody of the collateral securities during the term of the investment, provides for remedies in the event of a default by either party and otherwise clarifies issues of ownership.

Maturity – The date upon which the principal or stated value of an investment becomes due.

Offer – The indicated price at which a seller is willing to sell a security or commodity. When buying a security an offer is obtained.

Par Value – The nominal or face value of a debt security; that is the value at maturity.

Portfolio – Collection of securities held by an investor.

Premium – The amount by which a bond sells above its par value.

Primary Dealers – A 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 subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) registered securities broker-dealers, banks, and few unregulated firms.

Prime Rate – The interest rate a bank charges on loans to its most creditworthy customers. Frequently cited as a standard for general interest rate levels in the economy.

Principal – An invested amount on which interest is charged or earned.

Qualified Public Depository – A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated, for the benefit of the commission, eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

Registered Security – A security that has the name of the owner written on its face. A registered security cannot be negotiated except by the endorsement of the owner.

Repricing – The revaluation of the market value of securities.

Repurchase Agreement (REPO) – The Repo is a contractual transaction between an investor and an issuing financial institution (not a secured loan). The investor exchanges cash for temporary ownership of specific securities, with an agreement between the parties that on a future date, the financial institution will repurchase the securities at a prearranged price. An "Open Repo" does not have a specified repurchase date and the repurchase price is established by a formula computation.

Safekeeping – A service to customers rendered by banks for a fee whereby all securities and valuables of all types and descriptions are held in the banks vaults for protection, or in the case of book entry securities, are held and recorded in the customer's name and are inaccessible to anyone else.

Securities – Bonds, notes, mortgages, or other forms of negotiable or no-negotiable instruments.

Settlement Dates – The day on which payment is due for a securities purchase. For stocks and mutual funds bought through an investment dealer, settlement is normally five business days after the trade date. Bonds and options normally settle one business day after the trade date. Mutual fund shares purchased directly by mail or wire settle on the day payment is received.

Spread – (a) Difference between the best buying price and best selling price for any given security. (b) Difference between yields on or prices of two securities of differing quality or differing maturities. (c) In underwriting, difference between price realized by the issuer and price paid by the investor.

Tripartite Custodian Agreement – An agreement that occurs when a third party or custodian becomes a direct participant in a repurchase transaction. The custodian ensures that the exchange occurs simultaneously and that appropriate safeguards are in place to protect the investor's interest in the underlying collateral.

Third-Party Safekeeping – A safekeeping arrangement whereby the investor has full control over the securities being held and the dealer or bank investment department has no access to the securities being held.

Time Deposit – Interest-bearing deposit at a savings institution that has a specific maturity.

Treasury Bills – Treasury bills are short-term debt obligations of the U.S. Government. They offer maximum safety of principal since they are backed by the full faith and credit of the United States Government. Treasury bills, commonly called "T-Bills," account for the bulk of government financing, and are the major vehicle used by the Federal Reserve System in the money market to implement national monetary policy. T-Bills are sold in three, six, nine, and twelve-month bills. Because treasury bills are considered "risk-free," these instruments generally offer a lower yield to the investor than do other securities of comparable maturities.

Treasury Notes and Bonds – While T-Bills are sold at a discount rate that establishes the yield to maturity, all other marketable treasury obligations are coupon issued. These include Treasury Notes with maturities from one to ten years and Treasury Bonds with maturities of 10-30 years. The instruments are typically held by banks and savings and loan associations. Since Bills, Notes and Bonds are general obligations of the U.S. Government, and since the Federal Government has the lowest credit risk of all participants in the money market, its obligations generally offer a lower yield to the investor than do other securities of comparable maturities.

Yield – The rate at which an investment pays out interest or dividend income, expressed in percentage terms and calculated by dividing the amount paid by the price of the security and annualizing the result.

Yield Basis – Stated in terms of yield as opposed to price. As yield increases for a traded issue, price decreases and vice versa. Charts prepared on a yield basis appear exactly opposite of those prepared on a price basis.

Yield Spread – The variation between yields on different types of debt securities; generally a function of supply and demand, credit quality and expected interest rate fluctuations. Treasury bonds, for example, because they are so safe, will normally yield less than corporate bonds. Yields may also differ on similar securities with different maturities. Long-term debt, for example, carries more risk of market changes and issuer defaults than short-term debt and thus usually yields more.

Zero-Coupon Bonds – Securities that do not pay interest but are instead sold at a deep discount from face value. They rise in price as the maturity date nears and are redeemed at face value upon maturity.

WHITMAN COUNTY TREASURER'S
INVESTMENT POLICY

PASSED, APPROVED, AND ADOPTED THE 18TH DAY OF MAY 2001

REVISION APPROVED AND ADOPTED THIS 16TH DAY OF JULY 2003

FINANCE COMMITTEE
WHITMAN COUNTY, WASHINGTON

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Robert J. Lothspeich, Treasurer, Chairperson

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Eunice Coker, Auditor, Secretary

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Jerry Finch, Commissioner, Member