

SPOKANE COUNTY TREASURER'S
INVESTMENT POLICY

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Spokane County Treasurer's Investment Policy

It is the policy of Spokane County to safely invest public funds in accordance with governing statutes in a manner which will provide the best investment return given the Treasurer has a banking custodial duty to return the principal to the entities when needed.

Scope

Investments of all public funds in the custody of the Spokane County Treasurer, acting under the policy guidance of the Spokane County Finance Committee (SCFC), must adhere to the following objectives and guidelines.

Funds in the custody of the Spokane County Treasurer include, but are not limited to, the General Fund, Special Revenue Funds, Capital Project Funds, Enterprise Funds, Debt Service Funds and Agency Funds. The Treasurer provides investment services for all governmental entities, except Cities, within Spokane County including Fire Districts, Water and Irrigation Districts, Cemetery Districts, School Districts, and Transit and Airport Authorities .

All retirement funds, except Spokane Valley Fire Pension, will be invested as determined by the appropriate Boards of Administration and are not covered by this Policy.

Funds set aside to defease County debt in conjunction with an advance refunding agreement will be invested in accordance with appropriate bond documents and not necessarily in compliance with this policy.

Should bond covenants be more restrictive than this policy, funds will be invested in full compliance with those restrictions.

Funds held for the Municipalities during tax collection periods shall be governed by the County's investment policies and will be invested for the benefit of the Municipalities when requested, as stipulated in R.C.W. 36.29.020.

Investment Objectives

Safety, liquidity and rate of return on investment are of primary concern. The County Treasurer has a responsibility in the investment of public funds to seek the highest rate of return available in the market consistent with the primary requirements of legality, safety and liquidity in that order.

Rate speculation will not be a major criterion for the selection of an investment. All other criteria, including cash flow and maturity, take preference to rate expectations.

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

1. Safety - Safety of principal is the foremost objective of this investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of principal in the overall portfolio. The objective will be to minimize credit risk and market risk.
 - A. Credit Risk - Credit Risk is the risk of loss due to the failure of the security issuer or backer. Credit risk will be mitigated by
 - Limiting investments to the safest types of securities
 - Pre-qualifying the financial institutions, broker/dealers and intermediaries with which Spokane County will do business and
 - Diversifying the investment portfolio so that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
 - B. Market Risk - Market risk is the risk that the market value of securities in the portfolio will fall due to market influence such as changes in general interest rates. Market risk may be minimized by
 - Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and
 - By investing operating funds primarily in short-term securities.
2. Liquidity - The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). This will be achieved by limiting maturities and limiting the average maturity of the portfolio. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity).
3. Yield - The investment portfolio shall be designed with the objective of attaining a market rate of return, taking into account the investment risk constraints and liquidity needs. Return on investment is secondary to the safety and liquidity objectives described above. Rate speculation will not be a major criterion for the selection of an investment. The core of investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

Performance Standards

The County Treasurer's cash management portfolio shall be designed with the objective of regularly exceeding 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 risk less investment transactions, and therefore, comprise a minimum standard for the portfolio's rate of return. The investment program shall seek to augment returns above this threshold, consistent with risk limitations identified herein, and prudent investment principles.

Authorization

The investment policy of the Spokane County Treasurer shall be approved by the (SCFC). The SCFC shall review the policy annually and approve suggested changes. The SCFC shall provide oversight as to adherence to the policy by the Treasurer.

The Spokane County Treasurer is authorized by R.C.W. 36.29.020 to determine the investable balances in each fund of the 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 Spokane County Treasurer will invest in accordance with this policy and the applicable laws.

The Treasurer shall be responsible for the investments undertaken individually or within a "pool." The Treasurer shall delegate to appropriately skilled staff, within an established system of controls, to regulate the investment activities. No person may initiate investment transactions on behalf of the 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 SCFC. 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 State Treasurer's Local Government Investment Pool (LGIP). The use of other overnight instruments requires approval of the Treasurer or Finance Deputy and must fit within the constraints and guidelines of this policy.

Authorized Investments

The Treasurer may invest in the following securities:

1. U.S. Treasury Bills.
2. U.S. Treasury Notes, Bonds, or Certificates of Indebtedness.
3. U.S. Government Agency Securities, including but not limited to, Farmers Home Administration, Federal Housing Administration, Government National Mortgage Association.
4. 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).
5. 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.
6. Savings or time accounts in banks, trust companies, savings and loan associations, and mutual savings banks which are doing business in this state, 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.
7. Bankers Acceptances (BAs) drawn from a list of the top 50 U.S. Banks by asset size provided that banks with a short-term debt rating below P-1 by Moody's or below A-1 by Standard & Poors, as reported by the Bloomberg financial service, will not be included. Washington State banks may be included if they are members of the Washington Deposit Protection Commission (PDPC), provided they have the same credit rating as defined above. The list of banks may be periodically updated without prior approval by the Investment Board, provided the list adheres to all other aspects of the investment policy.
8. Repurchase Agreements providing the underlying securities are acceptable U.S. Government Securities, U.S. Government Agency Securities, or U.S. Government Sponsored Corporations, as previously authorized, and subject to the following conditions:

- A. Repurchase agreement transactions will be structured so that one of the following events occurs for the period of time that the repurchase agreement is effective:
- 1) Either of the procedures called DVP (delivery versus payment) whereby:
 - a) The County Treasurer obtains physical delivery of the underlying securities; or
 - b) The underlying securities are delivered to a third party acting as an agent for the Treasurer, such as a safekeeping bank.
 - 2) The underlying securities are transferred to a bank's safekeeping department within its trust division (not within its operating division) for the account of the Treasurer of Spokane County, when the repurchase agreements are being done with the same institution. If this method of safekeeping is used, it is necessary for a master repurchase agreement to be established with the bank.
- B. All securities in a repurchase agreement will be priced to reflect current market conditions.
- C. Pricing of securities will allow for a margin market fluctuation. (Haircut) A minimum of 2% is required.
- D. Repurchase agreements will be purchased from financial institutions that are members of the Washington Public Depository or from Primary Security Dealers only. Credit worthiness of both the Broker and the Institution issuing the underlying security will be considered.
- E. "Retail" repurchase agreements will not be allowed. These instruments pledge an undivided share in a secondary reserve portfolio.
- F. The Spokane County Treasurer will not engage in reverse repo investing.
- G. Maturity of securities shall be five years or less, except for those purchased with a Flex Repo (See Section 8K).

- H. No substitutions are allowed, except when administered under a tripartite agreement, and then at no cost to the County or entity.
- I. When the market value of the securities, plus any additional collateral, changes significantly from the settlement amounts, either the dealer or the investor may request a mark to market on the securities. Any mark to market will recognize two (2%) percent margin requirements, and repo interest. Pricing will be rendered at a price the Treasurer could reasonably expect to receive if those securities were sold on the open market (bid side of the market) and adjusted for accrued interest on the securities. Additional securities may be required by the investor or may be returned to the dealer based on this mark to market.
- J. A master repurchase agreement is required. It will be in conformance with the Public Securities Association (PSA) model agreement and supplemented with the Treasurer's policy on repurchase agreements which will be incorporated into the master repurchase agreement.
- K. Flex Repos will be acceptable investments provided that the following conditions are met:
 - 1) An investment agreement is required in the form of a PSA master repo with a supplemental annex or letter agreement outlining specific terms and collateral restrictions reflecting the Treasurer's policy and restrictions.
 - 2) An approved tripartite custodian agreement is executed for a third party custodian. This agreement must provide the Treasurer with a perfected first party lien on the securities.
 - 3) Maturities of over five years and substitution of securities will be allowed for this type of repo provided that a third party custodian provides mark-to-market pricing in accordance with this policy (See 8.1) and makes security adjustments no less frequently than weekly and with a minimum margin of 3%.

9. 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.
10. 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.
11. Subject to compliance with RCW 39.56.030, registered warrants and notes for Spokane County and those districts in Spokane County for which the Treasurer is the ex-official Treasurer. Such notes will be for short-term financing for use in meeting cash flow and operational needs only. This includes Improvement Districts' warrants which are within the protection of the Improvement Guaranty Fund. There must be certain expected receipts and revenues to repay the lending. The amount of the lending will not exceed 8% of expected revenues.
12. Washington State Local Government Investment Pool.

The following securities are authorized for funds subject to the arbitrage provisions of Section 148 of the Federal Internal Revenue Code.

1. 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.
2. 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.
3. Shares of money market funds with portfolios consisting of securities otherwise authorized by law for investment by local governments.

Diversification

It is the policy of the Spokane 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 Spokane County Finance Committee.

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

	<u>Max. % of Portfolio</u>
U.S. Treasury Obligations	100%
U.S. Government (1) Operated Agency and (2) Sponsored Corporations	75%
Bankers Acceptances (BAs)	25%
Savings or Time Deposits	30%
Certificates of Deposit (CDs)	75%
Repurchase Agreements (Repos)	40%
Bonds of 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 Spokane County and Spokane County Districts including local RIDs	15%
Washington State Local Government Investment pool	100%
Funds subject to arbitrage provisions:	
Mutual Funds of U.S. Government securities	25%
Mutual Funds of State and/or local government	25%

Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity sector. Maturities shall be selected for stability of income and reasonable liquidity in view of cash flow projections.

At least 10 percent of the portfolio shall be invested in overnight instruments or in marketable securities which can be sold to raise cash in one day's notice.

No more than 25 percent of the total portfolio shall be invested with any one U.S. Government Operated Agency or Government Sponsored Corporation issuer.

In no case may the Treasurer invest in any one bank or trust company an amount in excess of one-half of the net worth of that financial institution as determined by the PDPC. Actual maximums may be set below this level at the discretion of the County Treasurer.

The total dollar amount of Certificates of Deposit and Bankers Acceptances in any one bank's name will not exceed 15% of the Treasurer's portfolio unless a certain bank's long term rating is AA- or better (Standard and Poors) or Aa3 or better (Moody's). If a bank has this rating, investments up to 20% of the portfolio in one bank will be allowed.

The constraints listed in this policy are to be applied at the time the investment is made and not necessarily to subsequent events which may change the percentage.

Maturity

Investments should be placed to meet the cash requirements of each fund or the "pooled" portfolio for which they are invested. 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 Spokane County Finance Committee. Investment of Bond Reserve funds which exceed 5 years are an exception and will not require approval of the Spokane 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 a loss, unless that loss is provided for in the entities budget or such a sale is approved by the entity and the Spokane 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 Spokane County Treasurer to hold investments to maturity.

The County Treasurer will engage in "when issued" investing only when the investment is acceptable as a holding within the portfolio and matches cash flow and maturity needs. The Treasurer may liquidate the transaction before settlement.

Prudent Person Standard

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

The standard of prudence to be used by Treasurer's investment deputies shall be the "prudent person" and shall be applied in the context of managing the overall portfolio. The Treasurer and the Investment deputies, acting in accordance with written procedures, adopted strategies, and the investment policy while exercising due diligence, shall be relieved of personal responsibility provided appropriate action is taken to prevent and control adverse developments.

Investment deputies shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

The SCFC recognizes that in a diversified portfolio selected losses may occur when selected securities are sold to meet cash flow needs or to improve the overall portfolio performance and must be considered within the context of the overall portfolio's investment return.

Ethics and Conflict of Interest

The Treasurer and the 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 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 the County's portfolio. The Treasurer and investment deputies shall refrain from undertaking personal investment transactions with the same individuals with whom business is conducted on behalf of their entity.

Safekeeping and Custody

All deliverable securities (excluding CDs covered by the Washington Public Deposit Protection Commission) will be settled Delivery versus Payment (DVP), whereby the securities are delivered to a third party, such as a safekeeping bank acting as an agent for the Treasurer before payment is released. Repurchase agreements may be settled in accordance with the DVP procedures identified elsewhere in this policy.

Certificates of Deposit in the Treasurers name, or a copy thereof, will be delivered to and held by the Treasurer's Office. These securities will be collateralized and insured by the Washington Public Deposit Protection Commission. Whenever possible, all settlements will be made with immediately available funds electronically transferred to the account of Spokane County.

The investments and safekeeping procedures are subject to annual review by the State Auditor.

Selection of Banks and Dealers

The Spokane County Treasurer's office will accept investment purchase offers from banks and savings and loan associations that are members of the Washington Public Deposit Protection Commission (PDPC) and approved by the Spokane County Finance Committee. The Treasurer's office will monitor the net worth and credit worthiness of these institutions, and may recommend restrictions and/or exclusion of any institution based on this evaluation to the Finance Committee. Any bank being added for the first time or being restricted because of credit concerns will be reviewed by the Spokane County Finance Committee.

The Treasurer's office will maintain a list of financial institutions authorized to provide investment services, including approved security broker/dealers.

The Spokane County Treasurer's office will 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 firms' economic viability be raised or should past practices cause concern, these institutions may be restricted from conducting business with the Treasurer. Any new dealer being added for the first time will be approved by the Spokane County Finance Committee.

Secondary security dealers will be included only if they meet all of the following conditions:

- 1) Have an office in the State of Washington and are currently doing business with other public entities.
- 2) Have a minimum net worth of \$7 million.
- 3) The Treasurer's office and the SCFC will consider any available information, but at a minimum will consider the firm's financial statements and the reference of other public customers currently doing business with this dealer.

- 4) Investments will not be placed with an institution with two consecutive quarters of declining net worth or with one quarter of a drop in net worth of 5% or more.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the following:

- audited financial statements for the last three years.
- proof of National Association of Securities Dealers (NASD) certification.
- proof of state registration.
- completed broker/dealer questionnaire.
- certification of having read Spokane County's investment policy.
- references (preferably governmental).

Employees of any firm or financial institution offering securities or investments to the Spokane 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 this entity's funds.

At the request of the Treasurer, the firms performing investment services for the portfolio shall provide their most recent financial statements or Consolidated Report of Condition ("call report") for review.

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 Spokane County Treasurer's best judgment.

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 (purchases) / bids (sales) from approved banks, savings and loans, and security dealers who are on the County's approved financial institutions and securities broker/dealer list. 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. Normal yield spreads may be considered in making investments in foreign names. Transaction costs, including wire costs, may also be considered in awarding investments.

All traders are required to quote a firm price or yield. Quotes on CDs and Repos will be made on a 360-day basis.

Banks and/or security dealers are to provide appropriate charge slips, deposit slips, and confirmation or safekeeping receipts in a timely manner.

Quoted rates will occasionally result in ties. Everything else being equal, it is deemed in the best interest of the Treasurer's portfolio that the trade award be made to the Bank of Record if it is one of the ties. Secondly, preference will be given to dealers or banks from the Spokane area or with offices in the State of Washington, in that order.

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 lowest price security (highest yield) was not selected for purchase, an explanation describing the rationale will be included in this record.

Investment Fee Charges To County Funds

RCW 36.29.020 allows 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 subject to a minimum charge of \$10 and a maximum charge of \$50.

Investment fees will be charged only at maturity or sale. Periodic interest payments on long-term investments will not be charged a fee.

RCW 36.29.024 allows the County Treasurer to deduct the amounts necessary to reimburse the Treasurer's office for the actual expenses the office incurs and to repay any county funds the amount appropriated and expended for the initial administrative costs of establishing a county investment "pool" provided in RCW 36.29.022. Any credits or payments to political subdivisions shall be calculated and made in a manner which equitably reflects the differing amounts of the political subdivision's respective deposits in the county investment pool and the differing periods of time for which the amounts were placed in the county investment pool.

Reporting

1. Method

The Spokane County Treasurer shall provide monthly investment reports to the Finance Committee that provide a clear picture of the status of the current investment portfolio and transactions made over the last reporting period. 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 to the investment policy. Appropriate sections of this report will be provided to all pool participants.

2. Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. Portfolio performance will, on regular basis, be compared to appropriate established benchmarks set by the Treasurer's office and SCFC.

3. Marking to Market

A statement of the market value of the portfolio shall be issued at least monthly and provided to SCFC. This will ensure that a review has been performed on the investment portfolio in terms of value and subsequent price volatility. The market values should be obtained from a reputable and independent source.

Procedures

The County Treasurer will develop and maintain detailed written investment procedures consistent with this Investment Policy and the internal controls. These shall be subject to review by the Spokane County Finance Committee.

Internal Controls

The County Treasurer shall establish a system of internal controls, which are subject to review by the State Auditor and SCFC. 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.

Both procedures and internal controls are subject to audit by the State Auditor to assure compliance with policies and procedures.

Glossary

ACCRUED INTEREST - The interest accumulated on a bond since issue date or the last coupon payment. The buyer of the bond pays the market price and accrued interest, which is payable to the seller.

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 Agency Securities are generally perceived by the market with a market perception that there is an implicit government guarantee. (Also see FEDERAL AGENCY SECURITIES and GOVERNMENT SECURITY)

AVERAGE MATURITY - A weighted average of the expiration dates for a portfolio of debt securities. An income fund's volatility can be managed by shortening or lengthening the average maturity of its portfolio.

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 notes 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 (CDs), depending on market supply and demand.

Bankers Acceptances are sold in amounts that vary from \$100,000 to \$5,000,000, or more, with maturities ranging from 30 - 270 days. They offer liquidity to the investor as it is possible to sell BAs prior to maturity at the current market price.

BASIS POINT - A measure of an interest rate, i.e., 1/100 of 1 percent, or .0001.

BID - The indicated price at which a buyer is willing to purchase a security or commodity. When selling a security a bid is obtained. (See Offer)

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 ENTRY SECURITIES - U.S. government and federal agency securities that do not exist in definitive (paper) form; they exist only in computerized files maintained by the Federal Reserve Bank.

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.

“BY FUND” INVESTING - Those investments purchased for a district or fund outside of the County pool (SCIP).

CERTIFICATES 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. Certificates of Deposit bear rates of interest in line with money market rates current at the time of issuance.

COMPETITIVE BID PROCESS - A process by which three or more institutions are contacted via the telephone to obtain interest rates for specific securities.

CREDIT QUALITY - The measurement of the financial strength of a bond issuer. This measure 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. Comment: 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 - The providing of a security in an acceptable form to the County or to an agent acting on behalf of the County and independent of the seller. Acceptable forms can be physical securities or the transfer of book entry securities. The important distinction is that the transfer accomplishes absolute ownership control by the County

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

DEPOSITORY BANK - A 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) AND Federal Savings and Loan Insurance Corporation (FSLIC); and b) Public Deposit Protection Commission.

DISCOUNT - 1. (n.) selling below par; e.g., a \$1000 bond selling for \$900. 2. (v.) anticipating the effects of news on a security's value; e.g., "The market had already discounted the effect of the labor strike by bidding the company's stock down."

DIVERSIFICATION - Dividing available funds among a variety of securities and institutions so as to minimize market risk.

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. Most bonds have a face value, or par, of \$1,000.

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

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

FNMA - FEDERAL NATIONAL MORTGAGE ASSOCIATION - issues notes tailored to the maturity needs of the investor. Maturities range from 30 days up to 10 years. These notes are made attractive by their denominations from \$5,000 to \$1 million.

FHLB - FEDERAL HOME LOAN BANK SYSTEM - consists of twelve Federal Home Loan Banks, issues, in addition to long-term bonds, coupon notes with

maturities of up to one year. Their attractiveness stems from their investment denominations of \$10,000 to \$1 million.

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

FEDERAL RESERVE SYSTEM - The central bank of the United States 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.

FLEXIBLE REPURCHASE AGREEMENTS (Flex Repos) - Similar to a term repurchase agreement, a flex repo is a contractual transfer of U.S. government securities during the investment period, whereby the Seller agrees to repurchase the collateral securities from the Buyer on the Buyer's demand, subject to provisions of the agreement. The Seller is generally a financial institution such as a securities dealer or a bank. As buyers, most issuers require overcollateralization, marking-to-market of collateral and delivery-vs.-payment of collateral.

GINNIE MAES (GNMAs) - Mortgage securities issued and guaranteed, as to timely interest and principal payments, by the Government National Mortgage, an agency within the Department of Housing and Urban Development (HUD).

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 the Federal Home Loan Mortgage Corporation, or Freddie Mac, are backed by the issuing agency.

HAIRCUT - This term describes the way brokers and clients protect themselves from market risk in doing repos. An entity wanting to finance the purchase of \$100 million in Treasury bonds may borrow just \$98 million of the money. The two percent difference between the amount of securities purchased and the amount of money borrowed is the haircut. Similarly, an entity looking to borrow \$100 million may need to provide, as collateral, Treasury securities with a market price equal to \$102 million.

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 the current market values of the respective securities in the portfolio. This process is also maintenance.

MARKETABILITY - Ability to sell large blocks of money market instruments quickly and at competitive prices.

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

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

MARKET VALUE - The price at which a security is trading and could 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. (See BID) 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.

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

PRIME RATE - The interest rate a bank charges on loans to its most credit worthy 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.

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.

REPRICING - The revaluation of the market value of securities.

REVERSE REPOS - The opposite of the transaction undertaken through a regular repurchase agreement. In a "reverse" the County initially owns securities and the bank or dealer temporarily exchanges cash for this collateral. This is, in effect, temporarily borrowing cash at a high interest rate. Most typically, a Repo is initiated by the lender of funds. Reverses are used by dealers to borrow securities they have shorted. Such investments are not authorized in the County of Spokane's Investment Policy.

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 bank's 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.

SALLIE MAES - Pooling of student loans guaranteed by the Student Loan Mortgage Association (SLMA) to increase the availability of education loans. The SLMA purchases the loans after buying them on the secondary market from lenders. SLMA stock is publicly traded.

SECURITIES - Bonds, notes, mortgages, or other forms of negotiable or non-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 the 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.

STRIPPED TREASURIES - U.S. Treasury debt obligations in which coupons are removed by brokerage houses, creating zero-coupon bonds.

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 yield the lowest returns in the major money market instruments.

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.

UNDERLYING SECURITIES - Securities transferred in accordance with a repurchase agreement.

WHEN-ISSUED TRADES - Typically, there is a lag between the time a new bond is announced and sold and the time it is actually issued. During this interval, the security trades "wi," "when, as, and if issued."

Wi - When, as, and if issued. See When-issued trades.

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.