

**YAKIMA COUNTY
INVESTMENT POLICY**

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YAKIMA COUNTY INVESTMENT POLICY

1. Policy.

It is the policy of the Yakima County Treasurer's Office to invest public funds in accordance with the governing statutes, and in such a manner as to obtain the highest investment return possible consistent with the safety and liquidity objectives outlined below.

2. Scope.

The Yakima County Investment Policy applies to all funds held by the County Treasurer and shall apply to all investment transactions made for the County and on behalf of its junior taxing districts and benefit assessment districts. These funds are accounted for in Yakima County's Comprehensive Annual Financial Report and include:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Project Funds
- Enterprise Funds
- Internal Service Funds
- Agency Funds

Any new fund created by the legislative body, unless specifically exempted.

3. Prudence.

The "Prudent Person Rule" shall be used by the Investment Officials in the management of the overall investment portfolio. The rule reads as follows:

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 Investment Officer(s), or persons performing the investment functions, will be exempt from personal responsibility for any loss of principal resulting from major market fluctuations provided that all written procedures and the Investment Policy are adhered to. However, the Investment Officer(s) shall report any deviations from expectations in a timely fashion and appropriate action should be taken to control adverse developments.

All Investment Officer(s) shall seek to act responsibly as custodians of public funds. The investment portfolio is subject to public scrutiny and evaluation. The Investment Policy shall be designed and managed with professional integrity that merits the public trust. Investment Officer(s) shall refrain from knowingly entering into transactions which would impair public confidence in Yakima County's ability to govern effectively.

4. Objectives.

The County's investments will be in accordance with all State statutes governing the investment of public funds as well as applicable provisions of all bond resolutions. The County shall invest its cash with three objectives, listed in order of priority:

Safety. Safety of principal remains the primary objective of the Treasurer's 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 interest rate risk.

- a. Credit Risk – The County will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:
 - Limiting investments to the types of securities listed in Section 8 of this Policy;
 - Pre-qualifying the financial institutions, broker/dealers, and intermediaries with which Yakima County will do business in accordance with Section 7; and
 - Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.
- b. Interest Rate Risk – The County will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, 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
 - Investing operating funds primarily in shorter-term securities.

Liquidity. The County's portfolio will remain sufficiently liquid to enable the County to meet all operating requirements which might be reasonably anticipated. Investment maturities shall be matched to anticipated cash flow requirements whenever possible.

Return on Investment. Yakima County's investment portfolio shall be designed with the objective of attaining a market rate of return, taking into account the County's investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core investments are limited to relatively low risk securities, earning a fair rate of return, given the relative risk assumed.

5. Investment Authority and Delegation.

Whether investing individually "by fund" or by "pooling," the Yakima County Treasurer will invest in accordance with this policy and the applicable laws. The County Treasurer's investment authority is specified in RCW 36.29. The authority to execute investment transactions or transfer funds shall be limited to those persons specifically granted such written authority by the County Treasurer as listed in Appendix A. The Treasurer shall be responsible for all transactions undertaken individually or within a Pool and shall establish a system of controls to regulate the activities of the County Treasurer's employees to insure that investment transactions are conducted in a manner which safeguards all investment assets.

6. Ethics and Conflicts of Interest.

Employees involved in the investment process shall refrain from any 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. Employees and Investment Officer(s) shall disclose to the Treasurer any material financial interest in financial institutions that conduct business within the County, and they shall further disclose any personal financial/investment positions that could be related to the performance of the County's portfolio.

All employees and officers of the County shall subordinate their personal investment transactions to those of the County, particularly with regard to the timing of purchases and sales.

7. Authorized Financial Dealers and Institutions.

The County Treasurer will maintain a list of financial institutions and broker/dealers authorized to do business with the Office selected by credit

worthiness. Investment transactions will be conducted with those authorized broker/dealers recognized by the Federal Reserve as primary dealers that qualify under SEC Rule 15C3-1, the Uniform Net Capital rule.

As required by state law, (RCW 39.58), certificates of deposit will be purchased only from those institutions approved by the Washington Public Deposit Protection Commission (PDPC) as eligible for deposit of public funds.

Prior to undertaking any transaction other than the purchase of eligible Certificates of Deposit, each broker/dealer and financial institution is required to read this investment policy, certify its understanding of the policy parameters, and pledge to honor the policy in all transactions with the County Treasurer by completing and signing a Broker/Dealer questionnaire.

An annual review of the financial condition of the financial institutions and broker/dealers authorized to do business with the County will be conducted. A current audited financial statement is required to be on file for each financial institution and broker/dealer with whom Yakima County invests.

In addition, all brokers/dealers and their representative firms who desire to do business with the County must also supply the County Treasurer with the following:

- Proof of National Association of Securities Dealers certification;
- Proof of current registration with the State of Washington;
- References (preferably governmental).

8. Authorized Investments.

Eligible investments are only those securities and deposits authorized by statute (RCW 36.29, 39.58 and 39.59). The following investments are representative of authorized instruments:

- Certificate of Deposits, Savings or Time Accounts with qualified public depositories.
- U.S. Treasury Bills, Notes, or Bonds.
- U.S. government agency Securities, including but not limited to, Farmers Home Administration, Federal Housing Administration, Government National Mortgage Association (GNMA).
- U.S. Government-Sponsored Corporations, including but not limited to, Federal Home Loan Banks (FHLB), Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA).

- Banker's Acceptances (BAs) purchased through State of Washington Financial Institutions and authorized broker/dealers. Investments may be made only in those banks that are members of the PDPC and whose short term credit rating is A-1, P-1, by at least two Nationally Recognized Statistical Rating Organizations (NRSROs), at the time of purchase.
- Municipal bonds of the State of Washington or local bonds within the State of Washington, with one of the three highest ratings of a national rating agency at the time of investment.
- 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.
- State of Washington Local Government Investment Pool (LGIP).
- Any investment authorized by law for the treasurer of the State of Washington or any local government of the State of Washington other than a metropolitan municipal corporation but, except as provided in chapter 39.58 RCW, such investments shall not include certificates of deposit of banks or bank branches not located in the state of Washington.
- Repurchase Agreements with direct U.S. Government obligations as collateral, provided the collateral is held in safekeeping on a delivery versus payment basis and that a Master Repurchase Agreement is signed with the primary dealer.
- Subject to compliance with RCW 39.56.030, Registered Warrants of a local government in the same county as the government making the investment.

9. Collateralization.

Collateralization is required on all repurchase agreements. Collateralization level, measured by market value of principal and accrued interest, must be at least 102% of the repurchase amount. Collateral is limited to the types of securities authorized in number 8 on the previous page.

The market value of the securities used as collateral for repurchase agreements shall be monitored daily by the Treasurer's staff and by a third-party custodian. If any deficiencies are discovered, they shall be corrected within one day. If the deficiencies are not corrected within one day, the procedures defined in the Repurchase Agreement contract will be followed to cancel the Repurchase Agreement.

Securities purchased must be held in Yakima County's name. There must be a signed Master Repurchase Agreement and the County's monies are

to be released on a delivery versus payment basis only. A clearly marked evidence of ownership (safekeeping receipt) must be supplied in the County's name. The right of securities substitution is granted subject to the County Treasurer's approval of each individual substitution transaction.

10. Safekeeping and Custody.

All investment transactions will be performed on a delivery versus payment (DVP) basis to ensure that securities are deposited with a third party custodian prior to the release of funds. Securities will be held in the County's name by an institution (custodian) under contract with the County Treasurer. On a monthly basis, the custodian will provide reports, which list all securities held for the County, the book value of holdings, and the market value at month-end.

11. Diversification.

Investment decisions will be made with the intention to diversify the portfolio in order to minimize risk and still maintain adequate rates of return. The County will diversify its investments by security type and institution. The County's investment portfolio will be limited as follows:

- U.S. Treasury Obligations 100%
- U.S. Government Operated Agency and Sponsored Corporations 80%
- Repurchase Agreements 40%
- Bankers Acceptances (A1 or P1) 15%
- Certificates of Deposit 50%
- Savings or Time Accounts 30%

- 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%
- Washington State Local Government Investment Pool 100%
- Registered Warrants 5%*

*Registered warrants may be purchased by the County Treasurer when the requirements have been met as outlined in the Yakima County Treasurer's Operating Policies.

Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity. 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 on a daily basis.

The aggregate amount for Certificates of Deposit, Bankers Acceptances and Savings (or Time) accounts will not exceed 50 percent of the portfolio.

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

12. Maturities.

The County's objective is to hold investments to maturity. The securities in the portfolio will attempt to match investments with anticipated cash flow requirements for Yakima County and its districts.

No single security will be purchased with a maturity date more than five years from the date of purchase, except when compatible with a specific fund's investment needs or portfolio needs, and then only with the approval of the Yakima County Finance Committee (Chairman of the Board of County Commissioners, County Auditor and the County Treasurer).

13. Internal Controls.

The Treasurer's Office will maintain internal controls to protect against the loss of public funds arising from negligence, theft or misuse. These controls will include, but not be limited to:

- The use of third party custody and safekeeping;
- The execution of all securities transactions on a DVP basis;
- The clear delegation of investment authority;
- The separation of transaction authority from record keeping;
- The use of objective criteria in awarding investment purchases.

14. Performance Standards.

The County Treasurer's cash management Pool portfolio shall be designed with the objective of regularly exceeding the average rate on Federal funds, or the average return on the State's Local Government Investment Pool (LGIP), whichever is higher. These indices are considered benchmarks and therefore comprise a minimum standard for the Pool portfolio's rate of return. The investment program shall seek to augment returns above this threshold, consistent with the County's cash

management objectives, prudent investment principles and cash flow needs. The County's investment philosophy is passive and conservative.

15. Procedures.

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

16. Reporting.

At least quarterly, a report will be submitted to the Yakima County Finance Committee for their review, summarizing the current position of the portfolio. The reports will include the following:

- Asset allocation of the portfolio;
- Investment income received;
- Performance of the portfolio, compared to its benchmark.

17. Investment Policy Adoption and Modification.

The County's Investment Policy shall be adopted by the County Finance Committee and reviewed on an annual basis. Any significant revisions thereto shall be acknowledged by such Committee.

Approved and adopted this 6th day of October, 2009, by the Yakima County Finance Committee.

Ilene Thomson
County Treasurer
Chairman, County Finance Committee

J. Rand Elliott, Chairman
Board of County Commissioners
Member, County Finance Committee

Corky Mattingly
County Auditor
Secretary, County Finance Committee

GLOSSARY

Accrued Interest – The accumulated interest due on a bond as of the last interest payment made by the issuer. 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 agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee. An example of a federal agency is the Government National Mortgage Association (GNMA). An example of a FSA is the Federal National Mortgage Association (FNMA).

Banker's Acceptances (BAs) – Banker's 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.

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

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.

Broker – A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides. In the money market, brokers are active in markets in which banks buy and sell money and in interdealer markets.

"By Fund" Investing – Those investments purchased for a district or fund outside of the Yakima County's Treasurer's Investment Pool (TIP).

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

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

County Finance Committee – The body defined by statute which provides oversight and review regarding Investment Policy management. The CFC consists of the County Treasurer, who serves as chairman; the County Auditor, who serves as secretary; and the current chairman of the Board of County Commissioners.

Credit Risk – The risk of loss due to the failure of the security issuer or backer.

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

Delivery Versus Payment (DVP) – There are two methods of delivery of securities: delivery versus payment and delivery versus receipt (also called free). Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

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

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

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

Federal Home Loan Bank (FHLB) – The FHLB was organized under the Federal Home Loan Bank Act and opened for business in October 1932. The twelve District Banks comprising the system are distributed geographically around the country similarly to the Federal Reserve Banks and operate as a credit reserve system for the thrift industry to stabilize the flow of mortgage credit to the public. Debt is issued as consolidated obligations of the twelve Federal Home Loan Banks. Although system debt is not guaranteed by the U.S. Government, the banks do operate under federal charter and government

supervision. Their attractiveness stems from their investment denominations of \$10,000 to \$1 million.

Federal Home Loan Mortgage Corporation – Federally chartered corporation that provides funds to the mortgage market through the purchase of mortgage loans from lenders.

Federal National Mortgage Association (FNMA) – 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 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 guarantees that all security holders will receive timely payment of principal and interest.

Federal Reserve System – The central bank of the United States, created by Congress, and consisting of a seven member Board of Governors in Washington, D.C., 12 Regional Banks and over five thousand commercial banks that are members of the system.

Government National Mortgage Association (GNMA or Ginnie Mae) – 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 Securities – An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market.

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

Investment Policy – A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

Interest Rate Risk – The risk that the market value of securities in the portfolio will fall due to changes in market interest rates.

Liquidity – An asset that can be converted easily and quickly into cash.

Local Government Investment Pool – An investment by local governments in which their money is pooled as a method for managing local funds.

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

Market Risk – 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.

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

National Association of Securities Dealers (NASD) – A self-regulatory organization (SRO) of brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

Portfolio – Collection of securities held by the County as the investor.

Primary Dealer – A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC), registered securities broker-dealers, banks, and a few unregulated firms.

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

Prudent Person Rule – An investment standard outlining the fiduciary responsibilities of public funds investors relating to investment practices.

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 the State of Washington, 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.

Rate of Return – The yield obtainable on a security based on its purchase cost or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

Registered Warrants – A short term form of indebtedness issued by a municipal agency.

Repurchase Agreement (Repo or RP) – An agreement of one party to purchase securities at a specified price from a second party and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specified date.

Safekeeping – The storage and protection of customer's securities provided as a service by a bank or institution acting as agent for the customer.

SEC Rule 15C3-1 – See uniform net capital rule.

Securities – Bonds, notes, mortgages, or other forms of negotiable or non-negotiable instruments.

Securities & Exchange Commission (SEC) – Agency created by Congress to protect investors in securities transactions by administering securities legislation.

State Local Government Investment Pool – The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment. Commonly referred to within the State of Washington as simply the LGIP.

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

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.

Treasury Bills – Short-term U.S. Government non-interest bearing debt securities with maturities of no longer than one year and issued in minimum denominations of \$10,000. They offer maximum safety of principal since they are backed by the full faith and credit of the United States Government. Auctions of three and six month bills are weekly, while auctions of one year bills are monthly.

Treasury Bonds – Long-term U.S. Government debt securities with maturities of ten years or longer and issued in minimum denominations of \$1,000.

Treasury Notes – Intermediate U.S. Government debt securities with maturities of one to 10 years and issued in denominations ranging from \$1,000 to \$1 million or more.

Uniform Net Capital Rule – Securities and Exchange Commission requirement that member firms, as well as non-member broker-dealers in securities, maintain

a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule or net capital ratio. Indebtedness covers all money owed, including margin loans and commitments to purchase securities, which is one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

Yield – The current rate of return on an investment security generally expressed as a percentage of the security's current price.

Zero-coupon Securities – Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.