RESOLUTION NO. 12 - 13771

A RESOLUTION REPLACING AND RESCINDING RESOLUTION NO. 10-13585 TO UPDATE THE DISTRICT'S INVESTMENT AND BANKING POLICY.

FACTUAL BACKGROUND AND REASONS FOR ACTION

The Commission of Public Utility District No. 1 of Chelan County, Washington (the "District"), adopted the District's Investment and Banking Policy (the "Policy") under Resolution No. 10-13585 on November 15, 2010.

From time to time, updates and changes must be made to the resolution, Policy and schedules to reflect updates in best practice, changes in business conditions, staffing and banking institutions.

Authorized by Resolution 96-10621, the District is a self-insured employer under the Washington State Workers' Compensation Law and engages a Third Party Administrator (TPA) who performs the claims administration and related services. The TPA and their designated staff are authorized by the District's Investment & Banking Policy to draw on a specified Workers' Compensation account to pay authorized Workers' Compensation claims.

The current TPA for the District, Berkley Risk Administrators, will no longer provide services in Washington State as of December 31, 2012. As part of the transition process, the District made a request for proposals and after an extensive review, selected CorVel Corporation as the new TPA.

District staff has reviewed the current resolution and recommends the noted Schedule be updated as follows to reflect the change in TPA;

1. Schedule No. 5 - Authorized Signators for Issuance of Workers' Compensation Warrants. This schedule has been modified to reflect a change in the Third Party Administrator and its authorized signators for the Self Insurance Program for Workers' Compensation.

District staff recommends that it is in the best interest of the District to adopt the proposed changes to the Policy. The General Manager concurs with this recommendation.

ACTION

IT IS RESOLVED BY THE COMMISSION OF PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON, as follows:

Section 1. Investment Policies. The Investment and Banking Policy (the "Policy") set forth in attached Schedule 1 to this resolution is hereby approved, ratified and confirmed. The Policy is in support of the Financial Management section of the District's Strategic Plan to develop policies to assure financial stability for the long term.

Section 2. Surety Bonds and Insurance. To the extent available at a reasonable cost, the official bond of the Treasurer of the District authorized to manage and disburse the funds of the District shall be $250,000. The District will pay the costs and/or premiums for all official bonds, surety bonds or insurance policies required hereunder. In addition to the Treasurer, all other District employees shall be covered by a crime coverage insurance policy protecting the District against loss from employee theft, forgery and miscellaneous coverage with insurance limits, to the extent available at a reasonable cost, of not less than two million dollars.

Section 3. Designation of Banks. The District's Treasurer recommends to the Commission, through this resolution, banks authorized to do business in the State of Washington and to act as depositories for District funds. Those banks identified in Schedule 2 attached hereto are hereby designated as authorized depositories of District funds. The Treasurer is authorized to establish and maintain the necessary accounts in said designated banks into which shall be deposited all District funds as provided in RCW 54.24.010. District monies shall be disbursed by banks only upon the order of the District Treasurer in the manner provided in Sections 4 and 7 hereof. All designated banks for District deposits on Schedule 2 are on the current Washington Public Deposit Protection Commission list of approved banks.

Section 4. Disbursement of Funds. The District employees designated in attached Schedule 3, under the direction of the Treasurer, shall jointly have withdrawal authority, on behalf of the District, by check, note, draft, bill of exchange, acceptance, wire transfer or other order for the payment of money when such instrument is signed on behalf of the District by the employees designated herein. The payment of money or the withdrawal of funds from District accounts shall be for the purchase of District warrants, for investments pursuant to District policy and for the payment of principal, interest and other related charges, if required, on District bonds, or for the transferring of funds between approved banks or for such other purposes as the Commission shall order.

Section 5. Issuance of Warrants. Any two of the District employees designated in attached Schedule 4, under the direction of the Auditor, are authorized to jointly issue and sign District warrants for the payment of monies.

Section 6. Issuance of Workers' Compensation Warrants. In addition to District personnel authorized in attached Schedule No. 4 to jointly issue and sign District warrants, the Third Party Administrator for the Self Insurance Program for Workers' Compensation authorized by Resolution 96-10621, as may be amended, as designated in attached Schedule 5, are authorized to issue and sign District warrants, drawn on a specified Workers' Compensation account, to pay authorized Workers' Compensation claims. The contract with the Third Party Administrator will be on file with the District's Workers' Compensation Administrator.

Section 7. Initiation of Electronic Funds Transfers. Any individual authorized in attached Schedule No. 6, in addition to those individuals authorized in attached Schedule No. 3, can initiate Electronic Fund Transfers (EFT) through the District's main banking institution to vendors approved by the Treasurer or designee.

Section 8. Suspension of Payment Authority. The Treasurer or Chief Financial Officer with approval of the General Manager of the District, or in the absence of the General Manager the acting General Manager, shall have the authority to withdraw or suspend the authority to issue warrants, checks or vouchers or otherwise control District funds by any District employee authorized under this resolution or any other District resolutions to issue warrants or withdraw monies from any bank account of the District or any other financial institution or invest monies or transfer of monies or pay any notes, bonds or interest, or pay any claims if such action is deemed to be in the best interest of the District. The Treasurer, Chief Financial Officer, or General Manager shall provide the Commission a report of any such action at the next regularly scheduled Commission meeting.

Section 9. Banking Changes. The Treasurer or Chief Financial Officer with approval of the General Manager, or in the absence of the General Manager the acting General Manager, upon determining after appropriate investigation, that District funds are at risk may remove all District funds and property from any designated bank and may transfer such funds, securities and monies to other designated banks approved by this Resolution as depositories for the District's monies. The Treasurer, Chief Financial Officer, or General Manager shall provide the Commission a report of any such action at the next regularly scheduled Commission meeting.

Section 10. Conflicts. To the extent this resolution, including the Schedules attached hereto, may now or hereafter contradict or conflict with the provisions of any existing or future bond resolution of the District regarding the investment or disposition of funds governed by said bond resolution, such bond resolution shall in all respects control. Otherwise, this resolution shall control and supersede all other resolutions or motions heretofore adopted pertaining to the Policy.

Section 11. Schedule Amendments. Revisions and amendments to the Schedules attached hereto may be amended and/or supplemented by motion adopted by the Commission.

Section 12. Captions. The captions used in the sections of this resolution are solely for the purpose of ease of identification of subject matter.

Section 13. Resolution No. 10-13585, as amended, is hereby replaced and rescinded by this resolution.

Dated this 17th day of December 2012.

President

ATTEST:

Vice President

Secretary

Commissioner

Commissioner

SEAL

SCHEDULE NO. 1

PUBLIC UTILITY DISTRICT NO. 1
OF CHELAN COUNTY

INVESTMENT & BANKING POLICY

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Revised December 2012

PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY
INVESTMENT AND BANKING POLICY

1.0 Policy:

It is the policy of Public Utility District No. 1 of Chelan County, "the District", to invest public funds in a manner which will provide the highest investment return with maximum security while meeting the daily cash flow demands on the District and conforming to all Washington statutes governing the investment of public funds.

2.0 Scope:

This Policy applies to all cash and financial securities of the District. These funds are accounted for in the District's Annual Report and include:

Revenue Funds
Bond Funds
Construction Funds
Reserve & Contingency Funds
Other Special Funds

Money in various funds may be combined for investment purposes. Specific records shall be maintained identifying the ownership of the original funds and any resultant interest earnings.

3.0 Standards of Care:

The Treasurer and employees designated under Section 5 hereof shall perform their investment duties in a manner consistent with this Policy and the standard of a prudent investor dealing with public funds, in light of the purposes, terms, requirements and other circumstances then prevailing as to the assets entrusted to them.

The authorized employees shall act with undivided loyalty and impartiality; incur only costs which are reasonable in amount and which are appropriate to their investment responsibilities; and shall seek to minimize costs whenever they deem it prudent to do so. The authorized employees shall be relieved of personal responsibility for credit and market risks encountered in the performance of their investment duties, provided they are acting in accordance with this Policy and exercising due diligence. Due diligence requires timely reporting of material deviation from expectations and such other actions necessary to control adverse developments as may be possible, taking into consideration both the circumstance then prevailing and the other provisions of this Policy.

Given the legal list of authorized investments and other restrictions contained in the Policy, all authorized employees shall be deemed to have met any requirement for diversification so long as they are in compliance with this Policy.

4.0 Investment Objectives:

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

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

4.2 Liquidity: The District's investment portfolio will remain sufficiently liquid to enable the District to meet all operating requirements which might be reasonably anticipated.

4.3 Maturity: To the extent possible, the District will attempt to match its investments with anticipated cash flow requirements. And, as a general rule, the District's investments are purchased with the objective of holding the security until maturity. However, the District may sell investments early to meet unexpected cash flow needs, mitigate risk associated with a security type or issuer, or to capture increased yield when appropriate.

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

5.0 Delegation of Authority:

The District Treasurer is an officer of the District as appointed by the Commission. The Treasurer is responsible for the efficient management of the District's funds and investments. Written procedures for the operation of the investment program shall be maintained and periodically reviewed. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions, including all Treasury staff designated in Schedule 3 of this Policy or a special designee. No person may engage in an investment transaction except as provided for under the terms of this Policy and the procedures established by the Treasurer. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. All oral directions concerning the purchase or sale of securities shall be confirmed in writing.

6.0 Ethics and Conflicts of Interest:

Authorized employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Such employees shall disclose to the Board of Commissioners any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the District's portfolio.

7.0 Authorized Financial Dealers and Institutions:

The Treasurer or designee will maintain a list of financial institutions and brokers/dealers authorized to provide investment services to the District. Financial institutions must be approved by the Washington Public Deposit Protection Commission (RCW 39.58). Broker/dealers include primary dealers recognized by the Federal Reserve Bank or non-primary dealers qualified under U.S. Securities & Exchange Commission Rule 15C3-1, the Uniform Net Capital rule, and a member of the Financial Industry Regulatory Authority (FINRA).

All District funds shall be deposited in a qualified public depository in the State of Washington, in accordance with RCW 39.58, except for such funds which have been authorized by District resolutions to be deposited in other such authorized and designated depositories. The Commission, by resolution, shall designate or delegate such designation of such qualified public depository banks.

Prior to the acceptance of any firm seeking to conduct business with the District, the Treasurer or designee shall review the credit-worthiness and financial strength of the firm. This shall be accomplished by using credit rating agencies when available and by reviewing the financial statements. For qualified public depositories, the capital assets, earnings, and liquidity shall be evaluated to determine financial strength. For broker/dealers, a review of the broker report from FINRA and a review of the broker's net capital position shall fulfill this requirement. A copy of the District's investment policies shall be reviewed by any broker/dealer seeking to conduct business with the District, and verification of such review shall be evidenced by the execution of an initial affidavit filed with the District before transactions can be initiated. An affidavit shall also be executed when a new representative of the broker/dealer is permanently assigned to the District.

An annual review of all firms actively conducting business with the District within the scope of this Policy shall be documented, including a review of the current annual financial statement or other equivalent information, and an updated FINRA broker report shall be kept on file and reviewed for each active broker/dealer.

8.0 Authorized Investments:

All municipal corporations in Washington State, including the District, are authorized by statute RCW 39.58, 39.59, 39.60, 43.84.080 and 43.250, as amended, to invest in the following types of securities.

8.1 Savings or time deposits, including insured or collateralized certificates of deposit, with qualified public depositories in the State of Washington as defined in RCW 39.58. Confirmation of a Certificate of Deposit in the District's name, and a confirmation of funds transfer, will be held by the Treasurer's office.

8.2 Obligations of the U.S. Government, certificates, notes, or bonds of the United States, or its agencies, or of any corporation wholly owned by the government of the United States (i.e., Government National Mortgage Association).

8.3 Obligations of government-sponsored corporations which are or may become eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System. (These include but are not limited to Federal Home Loan Bank notes and bonds, Federal Land Bank bonds, Federal National Mortgage Association notes, debentures, and guaranteed certificates of participation.)

8.4 Bankers' Acceptances (BA's) purchased on the secondary market with the highest short-term credit rating of any two Nationally Recognized Statistical Rating Organizations (NRSROs), at the time of purchase. If the bankers' acceptance is rated by more than two NRSROs, it must have the highest rating from all of the organizations. Maturities of BA's shall be limited to 180 days or less. Bankers' Acceptances cannot be executed with the District's Custodial Bank(s).

8.5 Commercial Paper purchased on the secondary market and having received the highest short-term credit rating of any two Nationally Recognized Statistical Ratings Organizations, at the time of purchase. If the commercial paper is rated by more than two NRSROs, it must have the highest rating from all of the organizations. Maturities of Commercial Paper shall be limited to 180 days or less. Commercial Paper cannot be purchased with the District's Custodial Bank(s). Any commercial paper purchased with a maturity longer than 100 days must also have an underlying long-term credit rating at the time of purchase in one of the two highest rating categories of an NRSRO.

8.6 Repurchase Agreements that comply with statutory requirements are documented by a Public Securities Association (PSA) or a similar Master Repurchase Agreement signed by the financial institution, are fully collateralized at a 102% margin with United States Treasury and Federal Agency Securities only, and are delivered to an independent third party custodian designated by the District. Repurchase agreements cannot be executed with the District's Custodial Bank(s). Only credit-worthy financial institutions shall be qualified to enter into a Repurchase Agreement with the District. No more than $10,000,000 shall be invested in repurchase agreements with any one financial institution without prior Commission approval with the exception of investing reserve and construction fund bond proceeds. The seller shall only be entitled to substitute securities as provided in the Repurchase Agreement and shall value the collateral to market on a weekly basis. Should the weekly evaluation of the collateral reveal that the margin has dropped below 1%, the Treasurer or designee shall immediately contact the seller to request additional collateral in order to return the margin to 2%. Normal repurchase agreements shall be for periods of 30 days or less. Flexible repurchase agreements used to invest bond funds may be for longer periods as specified in the bid agreement. Any variations to the repurchase document shall be discussed in an annex and shall be signed by all parties to the agreement.

8.7 The State Investment Pool, governed by RCW 43.250, is a Local Government Investment Pool in the Washington State Treasury created for the deposit of money of a political subdivision for purposes of investment by the State Treasurer. The District Treasurer is authorized to execute forms required to enter into and maintain an agreement with the Local Government Investment Pool. Further, pursuant to Section 5, the District employees designated in Schedule No. 3 shall be authorized to order the deposit or withdrawal of monies in the Local Government Investment Pool.

8.8 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. If only a short-term rating is given on a particular bond, then the rating at the time of investment must be the highest short-term credit rating of a nationally recognized rating agency in addition to the underlying issuer having a long-term rating of one of the three highest credit ratings of a nationally recognized rating agency.

8.9 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. If only a short-term rating is given on a particular bond, then the rating at the time of investment must be the highest short-term credit rating of a nationally recognized rating agency in addition to the underlying issuer having a long-term rating of one of the three highest credit ratings of a nationally recognized rating agency.

8.10 Guaranteed Bank Bonds. Notes, bonds, or debentures of US domiciled savings and loan associations, banks, mutual savings banks, savings and loan service corporations operating with approval of the federal home loan bank, and corporate mortgage companies; PROVIDED, that the notes, bonds or debentures are insured or guaranteed by an agency of the federal government.

8.11 Mutual funds and money market funds only for District funds that are subject to the arbitrage provisions of Section 148 of the federal internal revenue code.

- 8.11.1 Shares of mutual funds with portfolios consisting of only United States government bonds or United States government guaranteed bonds issued by federal agencies with average maturities less than four years, or bonds described in RCW 39.59.020 (1) or (2), except that bonds otherwise described in RCW 39.59.020 (1) or (2) shall have one of the four highest credit ratings of a nationally recognized rating agency;
- 8.11.2 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; or
- 8.11.3 Shares of money market funds with portfolios consisting of securities otherwise authorized by law for investment by local governments.

8.12 Any other investment permitted under the laws of the State of Washington as amended from time to time, reviewed and presented for Board approval.

As a standard practice, the District shall use a competitive bid process where broker/dealers will compete for investment transactions. However, it is recognized that this may not be reasonable or practicable for every investment decision. The District Treasurer, or authorized employees performing the investment duty, shall have discretion when choosing an investment to purchase, subject to the requirements of this Policy. Investments not purchased through a competitive bid process will be documented as to the reason for the deviation from standard practice. All securities must be delivered in accordance with Section 10.0 of this Policy, with confirmation of purchase provided by the financial institution or broker/dealer in a timely manner.

9.0 Credit Review:

Credit ratings set forth in this Policy are minimum ratings required at the time of initial investment activity. Ratings will be monitored regularly by the District's Credit Risk Manager, and a downgrade below the minimum initial rating level shall not require an automatic sale of that security. When such a downgrade does occur, the Treasurer will evaluate the situation to determine the proper course of action. The Treasurer will notify the Chief Financial Officer of the downgrade and resulting recommended action.

10.0 Safekeeping and Custody:

All security transactions, including collateral for repurchase agreements, entered into by the District shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian designated by the Treasurer, except for locally purchased Certificates of Deposit which confirmation of such shall be held by the Treasurer's office. Any such custodian shall be either a qualified public depositary in the State of Washington, with the exception of certain third party custodians holding collateral for repurchase agreements from bond proceed investments or for any such non-qualified public depositary, they shall be a reputable, nationally recognized, financial institution with substantial experience providing custody services. All safekeeping and custody financial institutions shall be designated by the Board of Commissioners by resolution.

11.0 Diversification:

The District will diversify its investments by security type and institution. Investments will not exceed the following limits of the total daily portfolio balance at amortized cost at the time of purchase:

Investment Type	Limits Portfolio	Issuer
U.S. Treasury Securities	100%	100%
State LGIP	15%	N/A
Government Sponsored Agencies	30%	10%
Bankers Acceptances	30%	$5 MM
Commercial Paper	25%	5%
Certificates of Deposit	40%	15%
Mutual and money market funds	10%	10%
Municipal Bonds	30%	5%
Guaranteed Bank Bonds	30%	10%
Bank Accounts	75%	20%

The aggregate amount for Commercial Paper and Bankers' Acceptances will not exceed 35% of the portfolio. Funds held in Banks listed on Schedule 2 will not, at the time of deposit, exceed the total net worth of the specific depository as reported in the most recent copy of the Washington Public Deposit Protection Commission Quarterly Report. The aggregate amount of Bank Accounts and Certificates of Deposit will not exceed 75% of portfolio or 20% per issuer.

12.0 Maturities:

To the extent possible, the District will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the District generally will not directly invest in securities maturing more than five years from the date of purchase or as designated in specific bond resolutions. However, the District may collateralize its repurchase agreements using longer dated investments. Reserve funds may be invested in securities exceeding five years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds. District funds may be invested in variable rate securities with a final maturity of longer than five years, so long as the time period between rate changes is less than five years.

13.0 Risk, Risk Profile and Mitigation:

The basic objectives of this Policy as outlined in Section 4 are:

1. Safety of invested funds
2. Liquidity sufficient to meet cash flow needs on an ongoing basis
3. Choosing maturities that coincide with cash flow needs and generally holding securities to maturity.
4. Earning a market rate of return while meeting safety, liquidity, and maturity requirements.

Interest Rate Risk is defined as the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Custodial Credit Risk is the risk that, in the event of a failure of the counterparty, the District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Concentration of Credit Risk is the risk of loss attributed to the magnitude of investment held by a single issuer. Foreign Currency Risk is the risk of decrease in an investment's value based on fluctuations in exchange rates between the US Dollar and investments held in foreign denominations.

As part of risk evaluation, the District will analyze and mitigate the portfolio's exposure to the following five risk factors: Credit Risk, Custodial Credit Risk, Credit Concentration Risk, Interest Rate Risk and Foreign Currency Risk as follows:

Credit Risk will be mitigated by:

1) Limiting investments with those issuers or counterparties authorized by Statute.
2) Prequalifying financial institutions and brokers authorized to transact with the District as described in Section 7.
3) Diversifying the portfolio so failure of any one issue or backer will not place undue financial burden on the District.

Custodial Credit Risk will be mitigated by:

1) Requiring that securities purchased are held by a master custodian or other entity legally allowed to act as an independent third party on behalf of the District within that entity's trust department.
2) Requiring that securities utilized in repurchase agreements are subject to additional restrictions for collateralization as described in Section 8.6.
3) Providing, as requested, for independent confirmation of these investments and compliance with custodial agreements as part of the District's annual audit process.

Credit Concentration Risk will be mitigated by:

1) Monitoring the portfolio to assure that the District limits investments by type and issuer as prescribed in Section 11, Diversification.

2) Disclosing, by amount and issuer, investments that represent 5% or more of the total investment portfolio.

Interest Rate Risk will be mitigated by:

1) Maintaining sufficient balances in cash and other short term investments as changing interest rates have limited impact on these securities' prices.
2) Maintaining an asset/liability management process that is consistent with the cash flows of the District.

Foreign Currency Risk will be mitigated by:

1) Monitoring transactions to make sure that exchange risks associated with foreign currency fluctuations are minimized, both from the number and aggregate dollar amount standpoint in relationship to the total portfolio value.
2) Establishing and maintaining policies that address reimbursement of fees or other expenses associated with any foreign currency transactions that may occur.

Foreign Currency Risk is not currently a risk factor for the District.
In addition, as required under Governmental Accounting Standards Board Statement #40, the District will monitor and disclose, as necessary, the credit impact of participation in the State's Local Government Investment Pool or other such funds. It will also calculate and disclose any Category 3 deposits or investments, if necessary. Interest rate risk will be disclosed utilizing one of the five prescribed methods. Such information will be provided for inclusion into the footnote disclosure for each Annual Report.

14.0 Internal Control:

The Treasurer shall maintain and periodically review a system of internal controls, documented in writing and provided for review by the independent auditors. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of the District.

15.0 Performance Standards:

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

15.1 Market Yield: The basis used by the Treasurer to determine whether market yields are being achieved shall be the three-month U.S. Treasury Bill yield. It is reasonable to expect that average earnings above or below this yield may occur during times of rapidly changing interest rates, depending on cash flow needs and the average maturity of the District's entire portfolio compared to the three-month Treasury Bill.

16.0 Written Contracts:

Written contracts are required for banking services, custodial services, investment agreements, and repurchase agreements.

17.0 Reporting:

The Treasurer's Office shall prepare and submit to the Commission a Quarterly Investment Report within 60 days of the end of each of the four quarters of the fiscal year.

18.0 Investment Policy Adoption:

The District's Investment Policy shall be adopted by resolution of the Board of Commissioners. The Policy shall be reviewed on an annual basis by the Treasurer's Office and any modifications made thereto must be approved by the Commission by resolution or motion. The provisions of these Investment & Banking Policies and any amendments hereto shall take effect prospectively, and shall not invalidate the prior selection of any qualified public depositary or prior investment.

19. Definitions

AGENCIES: Federal agency securities.

ASKED: The price at which securities are offered.

BANK ACCOUNTS: A savings account, checking account or similar account at qualified public depositories. Demand deposit accounts, negotiable order of withdrawal (NOW) accounts, and automatic transfer service (ATS) accounts are examples of bank accounts.

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

BID: The price at which securities are sold. (When you are selling securities, you ask for a bid.) See Asked and Offer.

BOND: Any agreement which may or may not be represented by a physical instrument, including but not limited to bonds, notes, warrants, or certificates of indebtedness, that evidences an obligation under which the issuer agrees to pay a specified amount of money, with or without interest, at a designated time or times either to registered owners or bearers.

BROKER: A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; the broker does not position.

CALL PROVISION: A provision in a bond contract that gives the issuer the right to pay off the bonds under specified terms prior to the stated maturity date.

CATEGORY 3 (DEPOSITS or INVESTMENTS): Uncollateralized deposits or investments that are uninsured or unregistered, including the portion of the carrying amount of any repurchase agreements that exceed the market value of the underlying securities.

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

COMMERCIAL PAPER: An unsecured promissory note, generally issued by corporations and foreign governments, with a fixed maturity of no more than 270 days. Commercial paper is normally sold at a discount from face value.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

CREDIT-WORTHY: A level of status achieved by being financially sound enough to justify the extension of credit. Determined by credit rating agencies and by examination of financial statements.

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

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt (also called free). Delivery versus payment is delivery of securities 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.

DERIVATIVES: (1) Financial instruments whose return profile is linked to or derived from the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

DEBENTURE: A bond secured only by the general credit of the issuer.

DISCOUNT: The difference between the cost price of a security and its value at maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g., U.S. Treasury bills.

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

ELECTRONIC FUNDS TRANSFER (EFT): Any transfer of funds that is initiated through an electronic terminal, telephone, computer, or magnetic tape for the purpose of ordering, instructing, or authorizing a financial institution to debit or credit a customer's account. This includes Automated Clearing House (ACH) EFTs.

FEDERAL AGENCY SECURITIES: Interest bearing debt securities of U.S. departments and agencies that lend directly to qualified borrowers or guarantee loans made by private lenders. Some agency securities are backed by the full faith and credit of the U.S. government, while others are backed only by the issuer.

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

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 about 5,700 commercial banks that are members of the system.

FEDERAL HOME LOAN BANKS (FHLB): The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-à-vis member commercial banks.

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 & Urban Development, H.U.D. It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations and other institutions. The security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by Farmers Home Administration, Veterans Association, or FMHM mortgages. The term pass-through is often used to describe Ginnie Maes.

GUARANTEED BANK BONDS: Debt securities issued by a financial institution, of which the principal and interest payments are guaranteed by an agency of the federal government as allowed by RCW 39.60.050.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

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

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

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

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

MONEY MARKET FUND: Managed fund that invests solely in money market instruments (short-term instruments, such as Treasury Bills, commercial paper, bankers' acceptances, repos and federal funds). (Refer to Section 8.11 of the District Investment Policy for restrictions in money market fund investments.)

MUNICIPAL BONDS: Debt issued by a state or local government or municipality as authorized by RCW 39.59.020.

MUTUAL FUND: Managed fund invested in a variety of securities, including fixed income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by Securities and Exchange Commission disclosure guidelines. (Refer to Section 8.11 of the District Investment Policy for restrictions in mutual fund investments.)

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

PORTFOLIO: Collection of securities held by an investor.

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

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

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

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money, that is, increasing bank reserves.

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

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SEC RULE 15C3-1: See uniform net capital rule.

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

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

TREASURY BOND: Long-term U.S. Treasury securities having initial maturities of more than ten years.

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

TREASURY SECURITIES: Securities sold to finance the federal government, which include treasury bills, bonds and notes. They are a large, actively traded, and liquid market, which is considered to be free of credit risk.

VARIABLE RATE BONDS: Securities which have a coupon interest rate that changes at a set interval of time, generally tied to a financial index such as LIBOR or SIFMA.

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

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

SCHEDULE NO. 2

DESIGNATED BANKS FOR DISTRICT DEPOSITS

Bank of America, N.A.

Banner Bank

Cashmere Valley Bank

Key Bank National Association

Sterling Savings Bank

U.S. Bank National Association

Washington Trust Bank

Wells Fargo Bank, N.A.

Any institution on the current Washington Public Deposit Protection Commission list of approved banks.

DESIGNATED BANKS FOR CUSTODY AND SAFEKEEPING

The Bank of New York Trust Company, N.A.

Union Bank of California, N.A.

U.S. Bank National Association

Wells Fargo Bank, N.A.

December 2012

SCHEDULE NO. 3

AUTHORIZED SIGNATORS FOR DISBURSEMENT OF FUNDS

Heather Irelan

Debra Litchfield

Brian Bjorklund

Sarah Hale

Nathan Townsend

December 2012

SCHEDULE NO. 4

AUTHORIZED SIGNATORS FOR ISSUANCE OF WARRANTS

Amy Smith

Gene Cenotto

Loretta Coonfield

Lindsey Mohns

Stacey Jagla

Brian Karcutski

Maria Kieninger

Jodi Martin

Melia Mayer

SCHEDULE NO. 5

AUTHORIZED SIGNATORS FOR ISSUANCE OF WORKERS' COMPENSATION CLAIM WARRANTS

Through December 31, 2012, the following persons, so long as they are current employees of Berkley Risk Administrators Company, LLC, the Third Party Administrator for the District's Self Insurance Program:

James M. Foley

John C. Treacy

Beginning January 1, 2013, the following persons, so long as they are current employees of CorVel Corporation, the Third Party Administrator for the District's Self Insurance Program:

Scott R. McCloud

Richard Schweppe

SCHEDULE NO. 6

AUTHORIZED INITIATORS FOR ELECTRONIC FUNDS TRANSFERS

All individuals listed under Schedule No. 3 of this Policy.

The following are only authorized to initiate transfers that are payroll related:

Jennifer Dixon

Gary Lawson

Tracey Lazzarino

The following are only authorized to initiate transfers that are for state excise tax payments:

Amy Smith

Gene Cenotto

Brian Karcutski

Maria Kieninger

Jodi Martin

Melia Mayer