PREAMBLE

The WSBA’s funds have historically been invested exclusively in cash, cash equivalents and debt instruments. Although this provides a high degree of safety, the returns received are low and have not always kept up with inflation. The Board of Governors believe it is prudent and in the best interest of the WSBA and its membership to allow a portion of the WSBA’s funds to be invested in a manner that will permit the realization of greater returns.

The investment policy is being modified to allow for the investment of a portion of the funds held by the WSBA in the broader market under the prudent investor standard, while at the same time maintaining a pool of short-term investments to meet anticipated needs over the next 12 month period. Because this change will involve a greater degree of investment risk, only that portion of the funds that is not needed to meet the short-term needs may be invested in accordance with the prudent investor standard applicable to fiduciaries under Washington law.

It is intended that the standards that will be applied in making investment decisions will comport with the provisions of RCW 11.100.020, which is Washington’s statutory enactment of the prudent person standard. In applying this standard, the investable funds of the WSBA will be considered as a whole, even though the amount subject to investment under that standard will be significantly less than the whole.

It is recognized that there may be periods of time when the invested assets will decline in market value, or may even realize losses. However, investment in the broader market has historically outperformed investment solely in cash equivalents and debt instruments.

As added safeguards, the modified policy requires regular review of the invested portfolio, oversight of any retained investment advisors, and an annual evaluation of the policy itself to ensure that it is meeting intended objectives.

OBJECTIVES

The primary investment objectives of the Washington State Bar Association are:

- Preservation and safeguarding of the principal amount invested;
- Maintenance of liquidity to meet operating cash flow needs; and
- Maximization of return consistent with the above two objectives.

Balances shall be monitored and compared to cash flow needs on a regular basis, and in no event less than quarterly, so that funds may be invested promptly upon receipt in order to meet the primary investment objectives. It is expected that investments in debt instruments or time deposits will be held to maturity, and therefore funds that are allocated to those investments should be invested so that they mature when cash is expected to be needed for operations.
AUTHORITIES

Annually, the Board of Governors will authorize banking and investment relationships which will designate who is authorized to:

- Establish deposit relationships;
- Make deposits and transfers in established accounts;
- Invest excess balances and reinvest funds at maturity or when otherwise available from one investment vehicle to another; and
- Deposit proceeds of maturing or sold investments into appropriate interest bearing accounts.

The prudent investor standard as set out in RCW 11.100.020 shall be followed. In principle, 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.

In making investments, the following factors shall be considered:

- The probable income as well as the probable safety of the investment;
- Marketability of investments;
- General economic conditions;
- Length of the term of the investments; and
- The WSBA’s projected liquidity needs for the next twelve (12) months.

Investments will be conservative in nature.

PORTFOLIO CONSTRUCTION

The assets of the WSBA may be held or invested in cash or cash equivalents, governmental and corporate fixed income securities, and equities. WSBA’s total portfolio shall be comprised of the following:

1. A portion of the assets not to exceed the Board-designated general fund Facilities Reserve ("reserve portfolio") shall be invested in accordance with the prudent investor standard.

2. The balance of the assets ("short-term portfolio") shall be kept in cash, cash equivalents, auction rate securities, or fixed income securities having maturity dates that are consistent with the time frames for the anticipated liquidity needs of the WSBA.

The WSBA may maintain one or more sweep accounts with its commercial bank in order to maximize the amount of time excess cash is invested in interest bearing accounts. This sweep feature moves all remaining collected balances in the WSBA’s checking accounts to overnight interest bearing investments at the end of each business day.
GUIDELINES FOR INVESTMENTS

Equities

• U.S. Common Stocks
• U.S. Convertible Notes and Bonds
• U.S. Convertible Preferred Stocks
• American Depository Receipts (ADR) and American Depository Shares (ADS) of Non-U.S. Companies
• No-Load Mutual Funds which invest in securities allowed in this investment policy and which have annual operating expenses of less than one percent (1%)
• Auction Rate Securities with a minimum rating of A or better

Cash Equivalents

• Treasury Bills
• Money Market Funds with a Moody’s rating of A or better
• Commercial Paper issued by corporations rated A1 by Standard and Poor’s or P1 by Moody’s
• Banker’s Acceptances issued by domestic banks rated A1 by Standard and Poor’s or P1 by Moody’s
• Certificates of Deposit issued by any U.S. bank that meets all the regulatory reserve requirements and minimum capital requirements, and which are insured by the FDIC or the National Credit Union Administration, up to the federally insured amount (currently $100,000).

Fixed Income Securities

• U.S. Government and Agency Securities
• Corporate Notes and Bonds, rated AA by Standard and Poor’s or Aa by Moody’s.
• Mortgage-Backed Notes and Bonds

General Limits

• No more than five percent (5%) of the reserve portfolio and no more than fifteen percent (15%) of the short-term portfolio may be invested in any one company or issuer
• No more than twenty percent (20%) of the reserve portfolio shall be invested in any one industry
• No more than twenty percent (20%) of the total portfolio shall be invested in corporate bonds
• Investments in fixed income securities shall have a maximum maturity date of five (5) years, and the weighted average portfolio maturity shall not exceed three (3) years.
MANAGEMENT AND MONITORING OF PERFORMANCE

**Investment(s)**
The WSBA may engage one or more fee-for-service investment managers and delegate individual investment decisions to such investment managers within the guidelines of this statement and the specific direction of the Budget and Audit Committee. A qualifying investment manager must be a registered investment advisor under the Investment Advisors Act of 1940. The selection and allocation of funds to individual investment managers will be made by the Budget and Audit Committee. The Deputy Director of Finance and Administration shall be the designated liaison of the Budget and Audit Committee and shall work with the investment managers in implementing the investment strategy. The Deputy Director of Finance and Administration, the treasurer, and one or two Budget and Audit Committee members (collectively the "investment subcommittee") shall monitor the performance of the investment portfolio, meet with the investment advisors as necessary, provide reports to the Budget and Audit Committee at least quarterly, make decisions with the investment advisors on changes in investments, and recommend changes in the overall investment strategy. The investment managers shall meet with the Budget and Audit Committee annually to review the investment portfolio's performance and investment strategy. The Budget and Audit Committee must approve any significant changes in the investment strategy. In the event the WSBA's investment managers recommend an immediate change in strategy that creates the need for a time-sensitive decision to be made, the Deputy Director of Finance and Administration has the authority to approve the investment manager’s suggested strategic change. Prior to granting such authorization, the Deputy shall consult with the Executive Director (or acting E.D.) and/or Treasurer, and if neither of them are available then the President, President-elect, or Immediate Past-President in that order. The Budget and Audit Committee shall be notified of such changes as soon as practicable. Only with the approval of the Board of Governors may a commissioned securities broker be engaged to manage all or any portion of the assets, but a securities broker may be utilized to execute trades authorized by the Budget and Audit Committee or its investment managers.

**Reporting**
A report will be prepared at the end of each month listing the investments held, and which shall state the maturities and rates of return of any fixed income securities. This report will be provided to the Budget and Audit Committee and the Deputy Director of Finance and Administration for review, and provided at each quarter-end to the Board of Governors.

**Performance Reviews**
The Budget and Audit Committee and the Deputy Director of Finance and Administration will meet at least quarterly to monitor the performance of the assets. In addition to quantitative factors, the Budget and Audit Committee and the Deputy Director of Finance and Administration may consider manager personnel, investment philosophy, decision-making process, growth plans, and related qualitative issues. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement.
GENERAL

Safekeeping
Investment assets may be held in street name or in safekeeping at the commercial or investment bank handling the transaction, on behalf of the WSBA.

Application
This policy applies to all investment funds, including those of the Lawyers Fund for Client Protection, WSBA sections, and any other state Bar entity.

Updating of Policy
This policy will be reviewed annually by the Budget and Audit Committee and the Deputy Director of Finance and Administration.
Unrestricted and Restricted Fund Balance Policy

PREAMBLE

The fund balances, or net assets, of the Washington State Bar Association (WSBA) are the difference between assets and liabilities. They are either unrestricted, restricted, or board-designated.

The Board of Governors may designate portions of the WSBA's unrestricted fund balance for specific purposes. In 1994, the Board of Governors designated portions of its fund balance for CLE and Sections. In 1995, the restricted Lawyers’ Fund for Client Protection was created. As of September 30, 2006, the WSBA has accumulated a significant General fund balance. The Board of Governors has decided it is prudent to designate some of its unrestricted General fund balance for the following purposes: future unanticipated expenses, obligations associated with the move to Puget Sound Plaza, a future move or refurbishment in ten years, future capital expenditures, and new board programs. The balance of net assets not restricted or designated shall be the General unrestricted fund balance.

GENERAL GUIDELINES

Inception Date: The "inception date" of the funds set forth below shall be September 30, 2006.

Annual Review of General Reserve Fund Balances: The General reserve funds (III. below) shall be reviewed on an annual basis during the budgeting process by the Budget & Audit Committee to determine if the amount of funds allocated to the various reserves should be adjusted, taking into account the goals and purposes of each fund.

Quarterly Review of Invested Funds: If any of the reserve funds are invested in equities, the Investment Subcommittee of the Budget and Audit Committee shall monitor the balance of each fund on a quarterly basis, in accordance with the WSBA Investment Policy. If a reserve fund's balance falls below 90% of the designated target balance (initially the inception amount), the Budget and Audit Committee shall review the matter and determine whether it is prudent to contribute additional funds in order to maintain the designated target balance.

RESTRICTED FUNDS

Lawyers' Fund for Client Protection
In 1995, the Washington State Supreme Court and the WSBA created the Lawyers’ Fund for Client Protection (LFCP), a restricted fund. This fund may be used for the purpose of relieving or mitigating a loss sustained by any person due to the dishonesty of, or failure to account for money or property entrusted to, any member of the WSBA in connection with the member's practice of law, or while acting as a fiduciary in a matter related to the member's practice of law. The LFCP fund receives a mandatory annual assessment from each active WSBA member. The difference between revenues and expenses of this fund each year results in the Lawyers' Fund for Client Protection restricted fund balance.
BOARD-DESIGNATED FUNDS

I. CLE Fund
Beginning in fiscal year 1994, the Board directed that the difference between revenues, and direct and indirect expenses, of continuing legal education seminars and products each year be designated as the CLE fund. As of September 30, 2006, the minimum balance in this fund shall not drop below $750,000 without Board of Governors approval, which shall be designated as an operating reserve in the event CLE suffers an unanticipated financial loss. Any remaining fund balance will be dedicated to CLE for innovative or extraordinary CLE programs or products, and capital acquisitions. Any use of the CLE fund shall be approved by the Board of Governors. The CLE Fund shall remain a part of the WSBA assets and, as such, is subject to the superintendence and control of the Board of Governors.

II. Section Funds
Beginning in fiscal year 1994, the Board directed that the total difference between revenues, and direct and indirect expenses, for all sections each year be designated as section funds. Indirect expenses are that portion of the Bar's overhead expenses attributed to support of and work for the sections. Separate ledgers will be maintained for each section, making up the total for the section funds.

III. General Fund Net Assets

A. Operating Reserve Fund
For the past several years, the WSBA has budgeted to maintain general unrestricted net assets of at least 8% of general fund expenses. As of September 30, 2006, this policy is amended to formally create an Operating Reserve Fund of $1.2 million, and this fund was considered part of the “reserve portfolio” invested in equities under the Investment Policy. From October 1, 2007 to April 25, 2008, any gains on the investment of this Fund were considered part of the Operating Reserve Fund. As of April 25, 2008, the Operating Reserve Fund shall be $1.5 million, which shall be considered part of the “short-term portfolio” under the Investment Policy and invested accordingly. Maintaining an operating reserve is fiscally sound and prudent, and provides the ability to cover necessary expenses that may be incurred throughout the year. Any use of this fund shall be approved by the Budget and Audit Committee.

B. Facilities Reserve Fund
The total designated for a Facilities Reserve Fund shall be $1,445,000 as of September 30, 2007. As of April 25, 2008, the total amount designated shall be $2,500,000. The Facilities Reserve Fund may be used for the following purposes:
1. future rent payments in the last five years of the current ten-year lease;
2. future rent increases beyond the ten-year lease;
3. refurbishment of the existing leased space; or
4. a move to another space.

This fund shall be considered the “reserve portfolio” under the Investment Policy and invested accordingly (with a long-term strategy in mind), so that the fund is maintained and built to ensure that funds are available several years out when needed. It is intended that contributions will be made to the Facilities Reserve Fund between FY2008 and FY2017, to ensure that adequate funds exist to cover future facility needs. In order to achieve this goal, the WSBA shall attempt to build into its annual budget excess cash...
flow to contribute to the Facilities Reserve Fund (when and how much to be determined on an annual basis during the budgeting process).

C. Capital Reserve Fund
The total designated for a Capital Reserve Fund shall be $500,000 at inception. The Capital Reserve Fund serves two purposes:

Short-Term Capital Needs
The purpose of the Short-Term portion Capital Reserve Fund is to reserve funds for capital expenses that the WSBA will incur within the next 2-3 years. Examples include computer, copier, office equipment, and furniture replacement. The amount allocated to this reserve fund is $500,000 at inception. The WSBA’s goal is to use this fund to cover capital costs that the WSBA may incur in the early years of the lease at Puget Sound Plaza, since it is anticipated that annual budgets may not be able to accommodate all capital items needed. The Short-Term portion of the Capital Reserve Fund may be used starting in FY 2008 until the next license fee cycle (2009-2011). At that time, the Budget and Audit Committee shall evaluate whether the policy should be revised based on the amount of actual expenditures from the fund, effects of a new licensing cycle on the annual budgets, and projected expenses. It may be prudent to eventually maintain an ongoing Capital Reserve Fund to cover projected short-term capital expenditures.

Long-Term Capital Needs
The purpose of the Long-Term portion of the Capital Reserve Fund is to reserve funds for capital expenditures of larger proportion, such as replacement of major software (e.g., accounting or membership software) or new hardware/software such as a document management system. As of September 30, 2006, this portion of the Capital Reserve Fund is zero. However, the Budget and Audit Committee shall make recommendations to the Board of Governors as to how and when to fund this portion during the FY 2008 annual budget process.

D. Board Program Reserve Fund
The purpose of the Board Program Reserve Fund is to provide funds to cover unanticipated expenditures on programs initiated by the Board of Governors and also to fund new programs throughout the year that have not been included in the WSBA’s annual budget. The amount to be allocated to this reserve fund is $250,000 dollars at inception (September 30, 2006). On September 30, 2007, $55,000 shall be added to the Board Program Reserve Fund balance. Any use of the Board Program Reserve Fund shall be approved by the Budget and Audit Committee and the Board of Governors in accordance with the Fiscal Responsibilities Matrix.

UNRESTRICTED FUND BALANCE
The balance of net assets not restricted or designated shall be the general unrestricted fund balance.