

Policy 7.10

CHAPTER 7.00 - BUSINESS SERVICES

SCHOOL BUDGET SYSTEM

7.10

Through the budget process the School Board intends for its budget to be prepared in a needs responsive, fiscally sound manner, with an emphasis on providing additional resources at the school level with any increase in recurring operating revenues.

In accordance with this philosophy, the School Board intends the following guidelines to be adhered to in the preparation of the annual operating budget:

- I. **Balanced Budget** – The budget should be prepared to ensure that the operating fund recurring revenue budget and available fund balance reserve for the fiscal year shall be equal to or greater than the recurring expenditure budget.
- II. A fund balance reserve will be maintained as per the Fund Balance Policy 7.101.
- III. The budget system shall be related to the goals and objectives of the District and its programs. To assure equity among schools and program elements, personnel and other resources shall be allocated to the schools on a formula basis or by other means as determined by the Board. The Superintendent shall establish procedures ~~which shall be approved by the Board~~ to give greater autonomy, including authority over the allocation of the school's budget, to schools designated as performance grade category "A", making excellence progress and schools rated as having improved at least two (2) performance grade categories as required by Florida Statutes.
- IV. The Superintendent shall prepare an annual District budget in the form prescribed by the Commissioner of Education. In formulating the budget, the Superintendent shall take into consideration the immediate and long range needs of the District's school system and student achievement data obtained pursuant to Florida Statutes. The Superintendent shall submit the proposed annual budget to the School Board for review.

It is the Board's intent that the guidelines enumerated above shall be controlling unless unusual circumstances dictate otherwise. In such instances, any variances from the guidelines will be highlighted and explained prior to the adoption of the budget by the Board.

~~V. The Superintendent shall ensure that the adopted budgets of all funds are amended as needed, is amended as required using the following timelines.~~

~~VI.~~

~~VII. The General Fund Budget shall be amended within thirty (30) days of receipt of the Third Florida Education Finance Program Calculation, within thirty (30) days of receipt of the Fourth Florida Education Finance Program Calculation, as of June 30 of each fiscal year, and at the same School Board meeting as the presentation of the Annual Financial Report.~~

~~VIII. B. The Superintendent shall amend the Budgets in all other funds as follows:~~

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~~IX.~~

~~X. Debt Service Funds as required;~~

~~XI.~~

~~XII. Special Revenue Fund Food Services as required;~~

~~XII.~~

~~XII. Special Revenue Fund Other within thirty (30) days of receipt of grant, June 30, and the Annual Financial Report due date;~~

~~XII.~~

~~XII. Self Insurance Fund as of June 30 and the Annual Financial Report due date;~~

~~XII.~~

~~XII. Capital Projects Fund in both a "project" and "object" format, presented in conjunction with the capital Projects Summary Report.~~

~~XII.~~

~~XII. All Budgets may be amended more frequently as required.~~

D. V. Expenditures shall be in accordance with state law and rules of the State Board of Education.

VII. The tentative budget, the adopted budget, and any amended budget(s) shall be posted on the District's official website as required by law.

STATUTORY AUTHORITY:

1001.41, 1001.42, F.S.

LAW(S) IMPLEMENTED:

**1001.42, 1001.43, 1008.385,
1010.01, 1010.04, 1011.01 – 1011.18, F.S.**

STATE BOARD OF EDUCATION RULE(S):

**~~6A1.002~~, 6A-1.004, ~~6A-1.006~~,
6A-1.007, 6A-1.0071**

HISTORY:

**ADOPTED: 08/21/01
REVISION DATE(S): 05/07/02, 09/16/03, 4/5/05, 9/19/06, 8/16/11, 2/7/12
FORMERLY: 6.106**

NOTES:

Policy 7.101

FUND BALANCE POLICY

7.101

The following policy has been adopted by the School Board of Sarasota County, Florida in order to address the implications of Government Accounting Standards Board (“GASB”) Statement No. 54, *Fund Balance Reporting and Governmental Fund Definitions*. The policy is created in consideration of unanticipated events that could adversely affect the financial condition of the District and jeopardize the continuation of necessary public services. This policy will ensure that the District maintains adequate fund balances and reserves in order to:

1. Provide sufficient cash flow for daily financial needs,
2. Secure and maintain investment grade bond ratings,
3. Offset significant economic downturns or revenue shortfalls, and
4. Provide funds for unforeseen expenditures related to emergencies.

This policy and the procedures promulgated under it supersedes all previous regulations regarding the District’s fund balance and reserve policies.

Fund type definitions: The following definitions will be used in reporting activity in governmental funds across the District. The District may or may not report all fund types in any given reporting period, based on actual circumstances and activity.

~~G~~The general fund is used to account for all financial resources not accounted for and reported in another fund.

Special revenue funds are used to account and report the proceeds of *specific revenue sources* that are *restricted* or *committed* to expenditure for *specific purposes* other than debt service or capital projects.

Debt service funds are used to account for all financial resources restricted, committed or assigned to expenditure for principal, interest and debt related payments.

Capital projects funds are used to account for all financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets.

Permanent funds are used to account for resources restricted to the extent that only earnings, and not principal, may be used for purposes that support the District’s purposes.

Fund balance reporting in governmental funds: Fund balance will be reported in governmental funds under the following categories using the definitions provided by GASB Statement No. 54:

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Nonspendable fund balance

Definition – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Classification – Nonspendable amounts will be determined before all other classifications and consist of the following items (as applicable in any given fiscal year):

- The District will maintain a fund balance equal to the balance of any long-term outstanding balances due from others (including other funds of the District)
- The District will maintain a fund balance equal to the value of inventory balances and prepaid items (to the extent that such balances are not offset with liabilities and actually result in fund balance)
- The District will maintain a fund balance equal to the corpus (principal) of any permanent funds that are legally or contractually required to be maintained in-tact.
- The District will maintain a fund balance equal to the balance of any land or other nonfinancial assets held for sale.

Restricted fund balance

Definition – includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.

Committed fund balance

Definition – includes amounts that can be used only for the specific purposes determined by a formal action of the District's Board.

Authority to Commit – Commitments will only be used for specific purposes pursuant to a formal action of the Board. A majority vote is required to approve or remove a commitment.

Assigned fund balance

Definition – includes amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

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Authority to Assign – The Board delegates to the Superintendent or his/her designee the authority to assign amounts to be used for specific purposes. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund.

Unassigned fund balance

Definition – includes the residual classification for the District's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance from overspending specific purposes for which amount had been restricted, committed, or assigned.

Operational guidelines: The following guidelines address the classification and use of fund balance in governmental funds.

Classifying fund balance amounts – Fund balance classifications depict the nature of the net resources that are reported in a governmental fund. An individual governmental fund may include nonspendable resources and amounts that are restricted, committed, or assigned, or any combination of those classifications. The general fund may also include an unassigned amount.

Encumbrance reporting – Encumbering amounts for specific purposes for which resources have already been restricted, committed or assigned should not result in separate display of encumbered amounts. Encumbered amounts for specific purposes for which amounts have not been previously restricted, committed or assigned, will be classified as committed or assigned, as appropriate, based on the definitions and criteria set forth in GASB Statement No. 54.

Prioritization of fund balance use – When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the District to consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classification could be used, it shall be the policy of the District that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

Minimum unassigned fund balance – The District should maintain an unassigned fund balance in its General Fund ranging from 7.5% to 10% of the budgeted appropriations and transfers out of the ~~general~~ General fundFund. This minimum fund balance is to protect against cash flow shortfalls related to timing of projected revenue receipts, student enrollment under projections, and to maintain a budget stabilization commitment.

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Replenishing deficiencies – when unassigned fund balance falls below the minimum 7.5%, the District will replenish shortages/deficiencies using the budget strategies describe below.

The following budgetary strategies shall be utilized by the District to replenish funding deficiencies:

- The District will reduce recurring expenditures to eliminate any structural deficit or,
- The District will increase revenues or pursue other funding sources, or,
- Some combination of the above two options.

The District will employ such strategies until such time as unassigned fund balance amounts are replenished to the minimum 7.5% amount.

Implementation and review: Upon adoption of this policy the Board authorizes the Chief Finance Officer to establish any standards and procedures which may be necessary for its implementation.

STATUTORY AUTHORITY: 1001.41, 1001.42, F.S.

LAWS IMPLEMENTED: 1001.43; 1011.05, F.S.

STATE BOARD OF EDUCATION RULE: 6A-1.004(1)(e)

HISORY: Adopted: 8/21/01
Revision Date: 8/16/11

NOTES:

Policy 7.102

- I. The purpose of this Policy is to establish guidance for incurring and managing the debt of the School District. Such debt includes short-term and long-term obligations incurred by the School Board and any associated financing entities, such as traditional financing vehicles like tax-anticipation, revenue-anticipation or bond-anticipation notes; capital and operating leases; general obligation bonds; sales tax bonds; and certificates of participation. The Policy also contemplates new/unique financing concepts such as qualified zone academy bonds (QZABs) and other financial management tools that may evolve in the future. This Policy and attached procedures are designed to:
 - A. set forth a liability management structure to facilitate the sound and efficient management of District debt, addressing both practical aspects of liability management and philosophical aspects;
 - B. provide guidelines to control the overall debt management process so that all liabilities are managed in accordance with stated objectives;
 - C. encourage and require communication between staff, the Board, and the District's legal and financial advisors; and,
 - D. develop formalized criteria for evaluating and establishing the basis for comparing actual performance results achieved by debt management.
- II. Implementation – The Chief Financial Officer on behalf of the Superintendent shall be responsible for the implementation of the procedures referenced in the Debt Management Policy.
- III. Permissible Debt - The Board recognizes that debt is an integral part of the District's ongoing financial management program; and both short-term and long-term debt help the District accomplish its core goals. The Board also recognizes that annual operating and capital revenues are cyclical, which often necessitate the use of short-term financings, while the useful life of new and renovated facilities is often thirty to forty years. As a result, prudent financial management will employ short-term and long-term financing tools to facilitate matching assets and liabilities.
 - A. Short-Term Debt
 1. In accordance with applicable laws such as Sections 1011.12(2), 1011.13 and 1011.14, Florida Statutes, the District may issue obligations with a maturity of not more

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than one year (Notes) to fund anticipated short-term cash flow needs due to the timing of the receipts of the annual current year ad valorem tax collections from the county tax collector and other revenues. The principal of the Notes and the interest thereon will be payable from, and secured by, a pledge of such ad valorem taxes and other revenues, as may be appropriate.

2. Except for any issuance of taxable obligations, the District will comply with the requirements of the Internal Revenue Service Code (Code), prior to and subsequent to the issuance of the Notes, for spending the proceeds in a manner consistent with the exceptions for interest on the Notes not being included in gross income for federal income tax purposes.

B. Long-Term Debt

1. In accordance with applicable laws such as Florida Statutes Chapters 1010, 1011, and 1013 Part IV, the District will not issue long-term debt obligations or use long-term debt proceeds to finance current operations (except when using excess proceeds to make debt service/lease payments as provided for in the financing documents). For purposes of this Policy, long-term debt includes bonds, leases, certificates of participation, and other similar obligations.
2. The District may utilize long-term debt for the acquisition, construction or renovation of facilities or, consistent with Florida law, for the acquisition of equipment that cannot be funded from current revenue sources or in such cases where it is more equitable to finance the facility or equipment over its useful life. The District may also issue long-term debt to refund all or a portion of its outstanding debt subject to limitations detailed in this Policy.
3. When debt is used to finance capital improvements, the financing term will be for a period not to exceed the useful life of the facilities or equipment, but never greater than 25 years.

IV. Measures of Debt Levels and Debt Issuance Limits

- A. Short Term Debt - The District will not exceed the maximum allowable issuance size, if any, as determined by regulations governing the federal taxability of the interest earned by holders of such debt.

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B. Long Term Debt

1. General Obligation Bonds - Pursuant to State Board of Education rule 6A-1.037(2), the measure shall be the outstanding debt-to-taxable property ratio, such that a bond issue, together with other school bonds outstanding against the District shall not exceed ten percent (10%) of the nonexempt assessed valuation of the District.

2. Certificates of Participation
 - a. The measure shall be lease payments as a percentage of capital outlay millage dollars and shall not exceed 50% (or 1.0 mills) of the authorized capital outlay millage, unless approved by a supermajority of the School Board.
 - b. Additionally, the District will comply with all applicable Florida statutory requirements and State Board of Education rules, and take into account other factors suggested or required by the credit rating agencies and bond insurers when preparing its capital budget and each specific plan of finance.

V. Selecting Debt Sale Methods

- A. Short-term Debt - Short-term debt shall be issued through a competitive bid process, except in instances where a private placement or a negotiated sale is more cost effective because of unique market conditions or other extraordinary factors.

- B. Long-term Debt - The Board, with the advice of the District's Financial Advisor, will determine whether the sale of long-term debt shall be sold via competitive sale or negotiated sale after considering such factors as the size, complexity of the offering, market conditions, and timing of the transaction. Except where sold by negotiated sale through underwriters pursuant to Section 218.385, Florida Statutes, bonds must be sold to the highest and best bidder at a public sale except as otherwise allowed by Section 1010.47(2), Florida Statutes.

- VI. Financing Structure - The financing structure, consisting of matters such as principal amortization, call provisions, coupons/yields, and credit enhancements will be developed for each financing after considering relevant market conditions and then-current practices. Each structure will be developed to provide the lowest long-term effective financing cost while

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providing the greatest flexibility to extract additional value as market conditions change over time (such as refunding debt).

VII. Amortization Structure - Principal should be structured to provide level debt-service payments for the life of the transaction. "Wrapped debt service" and "bullet maturities" may be appropriate for certain financings, but should only be employed for short term payment relief or when determined by the Financial Advisor to provide a long term benefit to the District's capital program.

VIII. Issuing Variable Rate Debt - The District may issue variable rate obligations in amounts, and in proportion to its fixed-rate debt, that the District, with the advice and counsel of the District's Financial Advisor, determines to be appropriate to achieve the District's goals.

~~VIII~~.IX. Credit Ratings - Because the credit review process incorporates both quantitative analysis (fund balance, debt levels, and wealth levels) and qualitative factors (management experience, political climate, and policies/procedures), the District recognizes that credit ratings provide an indication of both the short-term and long-term financial health of the District and that higher credit ratings also result in reduced borrowing costs and decreased cost of bond insurance. Accordingly, the District will exercise prudence and diligence in preparing its budget and managing its finances to maintain its current ratings and obtain ratings upgrades that reflect the District's commitment to excellence.

~~IX~~.X. Credit Enhancements - Credit enhancements (such as insurance and letters of credit) will be used only in those instances where the anticipated present value savings in terms of reduced interest expense exceeds the cost of the credit enhancement or when such credit enhancement is an integral part of the overall financing structure.

~~X~~.XI. Investing Debt Proceeds - Because safety of capital is regarded as the highest priority in handling of investment of debt proceeds, and all other investment objectives are secondary to the safety of capital, District staff will follow investment strategies that are consistent with the written Investment Policy 7.35 and Section 218.415, Florida Statutes and provide the maximum return while complying with the requirements of the Code.

A. The District, with the guidance of the District's Investment or Financial Advisor will attempt to structure investments that allow the District to meet exceptions to the rebate requirements in section 148(f) of the Code.

B. Debt proceeds are only to be invested in permitted investments, as defined in financing agreements, escrow agreements, resolutions, law, and the School Board's Investment Policy 7.35. Neither the

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District nor any person under its control or direction will make any investment of bond proceeds in any manner that would cause the bonds to be deemed private activity bonds or arbitrage bonds by the IRS under Sections 141 or 148 of the Code. The District will comply with all federal tax arbitrage regulations.

XI.XII. Debt Refundings - The District will monitor outstanding debt in relation to existing conditions in the debt market and may refund any outstanding debt when sufficient cost savings can be realized. Outstanding debt may be refunded as long as the net present value savings is equal to or greater than 3% of the refunded obligation's par amount unless otherwise recommended by the District's Financial Advisor.

XII.XIII. Compliance and Reporting

- A. Disclosure Policy - The District will provide full and fair disclosure in connection with the initial sale and distribution of its publicly-marketed debt instruments and provide ongoing secondary market information, in compliance with the requirements of applicable federal and state securities laws and regulations, including Securities and Exchange Commission Rule 15c 2-12.
- B. Budgeted Debt Service Payments - Annually the Superintendent will include in the proposed budget presented to the Board for its consideration and approval the appropriations necessary to make the required debt service and lease payments during the fiscal year.
- C. Compliance with Financing Covenants and the Law - The District shall comply with all covenants and requirements of financing resolutions, and applicable state and federal laws authorizing and governing the issuance and administration of debt obligations.
- D. Bond Yield Arbitrage Monitoring - The District shall contract for arbitrage calculation services to monitor the earnings on its debt proceeds for each debt series and determine whether a rebate is necessary.
- E. Database - In addition to the annual report, the Chief Financial Officer will maintain a database of existing debt obligations. The database will include at least the following information related the District's debt:
 - Debt service schedule including principal, interest, and coupon
 - Issue date
 - Interest rate mode (variable/fixed)
 - Call provisions

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- Credit enhancement
- Purpose (new money/refunding)
- Senior managing underwriter

STATUTORY AUTHORITY: 1001.42(10); 1001.43(2), F.S.

LAWS IMPLEMENTED: 218.385; 218.415; 1001.41(1); 1001.42(10)(e), (f);
1010.47(2); 1011.12-1011.16, F.S.

STATE BOARD OF EDUCATION RULES: 6A-1.037(2)

HISTORY: ADOPTED: 6/17/08
REVISION DATE(S):
FORMERLY: NEW

NOTES:

Policy 7.20+

CHAPTER 7.00 - BUSINESS SERVICES

ACCOUNTING AND CONTROL PROCEDURES

7.20+

- I. The financial records and accounts of the School Board shall be kept by the Superintendent on forms and in the manner prescribed by State Board of Education rules. If such forms are not prescribed by State Board of Education rules or Florida Statutes, a uniform system shall be established by the School Board.

- II. The Superintendent shall submit to the School Board a financial statement for each month of the school fiscal year. The format of the statement shall be approved by the School Board and shall include a cumulative report to date of all receipts and expenditures comparative to budget for the school fiscal year.

STATUTORY AUTHORITY:

1001.41, 1001.42, F.S.

LAW(S) IMPLEMENTED:

**1001.51, 1011.60, 1001.42,
1001.43, 1010.01, 1011.06, 1011.07, F.S.**

STATE BOARD OF EDUCATION RULE(S):

**6A-1.001, 6A-1.0071,
6A-1.008, 6A-1.011, 6A-1.014,
6A-1.0141**

HISTORY:

**ADOPTED: 8/21/01
REVISION DATE(S): 7/15/03, 4/7/09
FORMERLY: 6.110**

NOTES:

Policy 7.25+

CHAPTER 7.00 - BUSINESS SERVICES

GRANT MANAGEMENT

7.25+

- I. The Superintendent shall seek grant funds to expand the financial capabilities of the District and provide additional resources to enhance educational opportunities and to support student learning and performance.
- II. All grant monies awarded to the District shall be used in accordance with applicable federal and state laws and rules, grantor rules, and School Board policies.
- III. For projects utilizing federal funds, the District shall adhere to the requirements of Uniform Grant Guidance (UGG). In the event that state requirements are more stringent ~~that~~ than federal requirements, state mandates shall be followed.
- IV. The Superintendent shall develop procedures for grant administration that include but are not limited to
 - A. Application process for grant funds including School Board approval;
 - B. Procurement of materials and equipment;
 - C. Standard of conduct including conflict of interest;
 - D. Property control;
 - E. Cash management;
 - F. Record maintenance;
 - G. Financial reporting;
 - H. Protection of personally identifiable information; and
 - I. Internal evaluation of accomplishments as related to program goals.

STATUTORY AUTHORITY:

1001.41, 1001.42, F.S.

LAW(S) IMPLEMENTED:

**1001.43, 1001.51, 1008.385, 1010.01, F.S.
2 CFR 200, 20 USC 7906**

HISTORY:

**ADOPTED: 06/21/16
REVISION DATE(S): _____
FORMERLY: NEW**

NOTES:

Policy 7.30*

CHAPTER 7.00 - BUSINESS SERVICES

EDUCATIONAL ENHANCEMENT FUNDS

7.30*

It shall be the policy of the School Board of Sarasota County that the Lottery Trust Fund Allocations (enhancement funds) be used to fund all educational programs whose costs exceed the minimum financial effort required by the Florida Educational Finance Program.

Enhancement funds provided directly to schools shall be subject to annual audit to assure compliance with state law and sound business practice.

STATUTORY AUTHORITY: **1001.42, F.S.**

LAW(S) IMPLEMENTED: **1001.43, 1011.62, F.S.**
ANNUAL STATE APPROPRIATIONS ACT

HISTORY: **ADOPTED: 08/21/01**
REVISION DATE(S): 11/06/01, 2/21/06
FORMERLY: 6.22

NOTES:

Policy 7.31*+

CHAPTER 7.00 - BUSINESS SERVICES

FOOD AND NUTRITION SERVICES FUNDS

7.31*

Food and Nutrition Services funds shall be considered part of the District School Fund and shall be subject to all requirements applicable to the District School Fund such as budgeting, accounting, reporting, and purchasing.

- I. Daily deposits of Food and Nutrition Services funds shall be made by authorized personnel in a bank(s) designated by the School Board.
- II. Revenue from the sale of all items handled by the Food and Nutrition Services Department shall be considered Food and Nutrition Services income.
- III. All payments from Food and Nutrition Services funds shall be made by check or wire transfer.
- IV. Food and Nutrition Services funds shall be used only to pay regular operating costs.
- V. Any loss of records, cash, or supplies through theft or otherwise shall be reported immediately to the Superintendent's office. Such losses shall be itemized and a copy of the report submitted with the regular reports.
- VI. Funds shall be collected and expended in compliance with United States Department of Agriculture and State Department of Agriculture and Consumer Services rules.
- VII. The Board shall annually adopt prices charged to students and adults who participate in the food services program.

STATUTORY AUTHORITY:

1001.41, 1001.42, F.S.

LAW(S) IMPLEMENTED:

~~570.984~~ Chapter 595, 1001.43, 1010.05, 1010.20, F.S.

STATE BOARD OF EDUCATION RULE(S):

6A-1.001, 6A-1.012, ~~6A-1.085,~~
~~6A-1.087, 6A-1.091~~

STATE DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES RULE(S):

5P-1.003

HISTORY:

ADOPTED: 8/21/01
REVISION DATE(S): 7/21/09, 10/01/13
FORMERLY: NEW

NOTES:

Policy 7.32* +

CHAPTER 7.00 - BUSINESS SERVICES

INTERNAL FUNDS

7.32*+

- I. Definition - Internal funds are defined as all monies collected and disbursed by school personnel within a school for the benefit of the school or a school-sponsored activity. Internal funds shall be considered as unbudgeted public funds under the control and supervision of the School Board. As used in this rule, "school" shall also mean a district department and "principal" shall mean a department head.
- II. Administration - Internal funds shall be classified in accordance with the several activities of the school having funds. Depositories may be established using any institution authorized to hold public funds. When a depository balance exceeds the insurance protection or other legal collateral limits as set by Federal law, an additional account or accounts shall be opened in another institution.
- III. Responsibilities
 - A. The School Board will:
 1. Require that written procedures and rules governing the receipt, use, and accounting of internal funds be developed and approved by the Board.
 2. Require that its written policies relating to internal funds be enforced.
 3. Require that internal funds be used for legal public purposes.
 4. Provide fidelity bonds for employees responsible for such funds.
 5. Provide for an annual audit of internal funds by a qualified auditor.
 - B. The Superintendent shall administer all rules and policies established by the School Board relating to internal funds.
 - C. The principal shall:
 1. Be held accountable for the handling of all phases of internal accounting in his / her school.
 2. Use a uniform system of accounting as directed by the Superintendent.
 3. ~~Submit to the Superintendent or designee monthly and annual reports of internal funds.~~

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STATUTORY AUTHORITY: 1001.41(2); 1001.42(10). F.S.

LAWS IMPLEMENTED: 1001.43(2); 1010.04; 1011.07, F.S.

STATE BOARD OF EDUCATION RULE: 6A-1.001; ~~6A-1.085; 6A-1.087; 6A-1.091~~

HISTORY: **ADOPTED:** 8/21/01
Revision Date(s): 4/23/04
Formerly: 6.207; 6.208; 6.212; 6.213; 6.214; 6.11215; 6.201;
6.202; 6.203; 6.204

NOTES:

Policy 7.33*

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PETTY CASH FUNDS

7.33*

The Superintendent may establish petty cash funds for his/her office, each District department, and each school. Petty cash funds shall be used for operating expenses in accordance with State Board of Education Rules and provisions described herein.

- I. A principal or District department head may establish a petty cash fund by submitting a request to the Finance ~~Division~~ Department for approval. Approval shall be obtained prior to issuing any checks.
- II. The Superintendent or designee shall reimburse the funds from the budgetary accounts of schools and District departments when petty cash is exhausted.
- III. Petty cash funds shall be accounted for separately from all other funds maintained at each school and District department. The amount of any petty cash fund shall not exceed three hundred dollars (\$300.00).
- IV. An itemized receipt for each expenditure shall be kept to receive reimbursement. Petty cash shall not be used for a loan or advancement to any organization or person, including the cashing of a personal check.

STATUTORY AUTHORITY:

1001.41, 1001.42, F.S.

LAW(S) IMPLEMENTED:

1001.43, 1011.06, 1011.07, F.S.

~~STATE BOARD OF EDUCATION RULE(S):~~

~~6A-1.087~~

HISTORY:

ADOPTED: 08/21/01
REVISION DATE(S): 10/25/11, 2/7/12
FORMERLY: 6.108

NOTES:

Policy 7.34

CHAPTER 7.00 – BUSINESS SERVICES

ACCEPTANCE OF CREDIT/DEBIT CARDS

7.34

Schools and District departments may accept credit/debit card payments for tuition, fees, meals, goods and services, ~~through the School Internal Funds. The Food and Nutrition Services program may accept credit/debit cards for the payment of meals.~~ All costs associated with the acceptance of credit/debit cards shall be borne by the individual cost center or the purchaser. These costs shall include the fee, transaction charge, set-up fee, monthly fee, charge back fee, terminal fee, software fee, telecommunication line monthly fee, and any other direct charges associated with the acceptance of credit/debit card payments.

~~Credit/debit card transactions shall only be through the vendor that is approved by the School Board on a district wide basis. All other vendors are unauthorized.~~

STATUTORY AUTHORITY:

1001.41(7), F.S.

LAW(S) IMPLEMENTED:

1001.41(7), F.S.

HISTORY:

ADOPTED: 1/07/03
REVISION DATE(S):
FORMERLY:

NOTES:

~~Procedure required for the School Internal Funds and the Food and Nutrition Services Fund.~~

Policy 7.35

INVESTMENT OF FUNDS

7.35

I. PURPOSE

The purpose of this Policy is to set forth the investment objectives and parameters for the management of the funds of the School Board. This Policy is designed to ensure the prudent management of public funds, the availability of operating and capital funds when needed, and an investment return competitive with comparable funds and financial market indices.

II. SCOPE

In accordance with Section 218.415, Florida Statutes, this Policy applies to all cash and investments held or controlled by the School Board with the exception of funds related to the issuance of debt where there are other existing policies or indentures in effect for such funds.

III. INVESTMENT OBJECTIVES

Safety of Principal

The foremost objective of this investment program is the safety of the principal of those funds within the portfolio. Investment transactions shall seek to keep capital losses at a minimum, whether they are from securities defaults or erosion of market value. 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.

Maintenance of Liquidity

The portfolio shall be managed in such a manner that funds are available to meet reasonably anticipated cash flow requirements in an orderly manner. Periodic cash flow analyses will be completed in order to ensure that the portfolio is positioned to provide sufficient liquidity.

Return on Investment

The portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of least importance compared to the safety and liquidity objectives described above. However, return is attempted through active management where the School Board utilizes a total return strategy (which includes both realized and unrealized gains and losses in the portfolio). This total return strategy seeks to increase the value of the portfolio through reinvestment of income and capital gains. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Despite this, securities may be traded to recognize a loss from time to time to achieve relative value based on its potential to enhance the total return of the portfolio.

IV. INVESTMENT POLICY GUIDELINES

In accordance with Section 218.415, Florida Statutes, the School Board's policy

CHAPTER 7.00 - BUSINESS SERVICES

provides investment guidelines for each of the following which are incorporated herein and set forth in the Investment Policy Guidelines:

- Delegation of Authority
- Standards of Prudence
- Ethics and Conflicts Of Interest
- Internal Controls and Investment Procedure
- Continuing Education
- Authorized Investment Institutions and Dealers
- Maturity and Liquidity Requirements
- Risk and Diversification
- Master Repurchase Agreements
- Competitive Selection of Investment Instruments
- Authorized Investments and Portfolio Composition
- Derivatives and Reverse Repurchase Agreements
- Performance Measurements
- Reporting
- Third-Party Custodial Agreements
- Investment Policy Adoption

STATUTORY AUTHORITY:

1001.42, ~~1011.18~~, F.S.

LAWS IMPLEMENTED:

218.415, 1001.32, 1001.51(11)(j), 1001.43 1001.42, F.S.

~~STATE BOARD OF EDUCATION RULES:~~

~~6A-1.085~~

HISTORY:

Adopted: 8/21/01
Revision Date(s): 09/01/09, 11/05/13
Formerly: 6.109; 6.113; 6.210

NOTES:

~~Refer To: Investment Policy Guidelines~~

Policy 7.35

(Attachment)

Policy Guidelines

**Investment Policy Guidelines
The School Board of Sarasota County,
Florida**

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ATTACHMENT A: Glossary of Cash and Investment Management Terms

ATTACHMENT B: Investment Pool/Fund Questionnaire

Investment Policy Guidelines of The School Board of Sarasota County, Florida

These Investment Policy Guidelines form a part of Policy 7.35 (hereinafter “Policy”) of the School Board of Sarasota County, Florida, (hereinafter the “School Board”).

I. PURPOSE

The purpose of this Policy is to set forth the investment objectives and parameters for the management of the funds of the School Board. This Policy is designed to ensure the prudent management of public funds, the availability of operating and capital funds when needed, and an investment return competitive with comparable funds and financial market indices.

II. SCOPE

In accordance with Section 218.415, Florida Statutes, this Policy applies to all cash and investments held or controlled by the School Board with the exception of funds related to the issuance of debt where there are other existing policies or indentures in effect for such funds.

III. INVESTMENT OBJECTIVES

Safety of Principal

The foremost objective of this investment program is the safety of the principal of those funds within the portfolio. Investment transactions shall seek to keep capital losses at a minimum, whether they are from securities defaults or erosion of market value. 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.

Maintenance of Liquidity

The portfolio shall be managed in such a manner that funds are available to meet reasonably anticipated cash flow requirements in an orderly manner. Periodic cash flow analyses will be completed in order to ensure that the portfolio is positioned to provide sufficient liquidity.

Return on Investment

The portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of least importance compared to the safety and liquidity objectives described above. However, return is attempted through active management where the School Board utilizes a total return strategy (which includes both realized and unrealized gains and losses in the portfolio). This total return strategy seeks to increase the value of the portfolio through reinvestment of income and capital gains. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Despite this, securities may be traded to recognize a loss from time to time to achieve relative value based on its potential to enhance the total return of the portfolio.

IV. DELEGATION OF AUTHORITY

In accordance with the School Board's administrative policies, the responsibility for providing oversight and direction in regard to the management of the investment program resides with the School Board's Chief Financial Officer. Responsibility for the administration of the investment program is hereby delegated by the School Board Chief Financial Officer to the Treasurer, who shall maintain an Investment Procedures and Internal Controls Manual based on this Policy. The Treasurer shall be responsible for monitoring internal controls, administrative controls and to regulate the activities of the School Board's staff involved with the investment program. The School Board may employ an ~~Investment~~-investment Advisor/advisor(s) ("Investment Advisor") to assist in managing the School Board's portfolio. Such Investment Advisor(s) must be registered under the Investment Advisors Act of 1940.

V. STANDARDS OF PRUDENCE

The standard of prudence to be used by investment officials shall be the "Prudent Person" standard and shall be applied in the context of managing the overall investment program. Investment officers acting in accordance with written procedures and this investment Policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectation are reported to the School Board in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this Policy. The "Prudent Person" rule states the following:

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 from the investment.

While the standard of prudence to be used by investment officials who are officers or employees is the "Prudent Person" standard, any person or firm hired or retained to invest, monitor, or advise concerning these assets shall be held to the higher standard of "Prudent Expert". The standard shall be that in investing and reinvesting moneys and in acquiring, retaining, managing, and disposing of investments of these funds, the contractor shall exercise: the judgment, care, skill, prudence, and diligence under the circumstances then prevailing, which persons of prudence, discretion, and intelligence, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims by diversifying the investments of the funds, so as to minimize the risk, considering the probable income as well as the probable safety of their capital.

VI. ETHICS AND CONFLICTS OF INTEREST

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. Also, employees involved in the investment process shall disclose to the School Board any material financial interests in financial institutions that conduct business with the School Board, and they shall further disclose any material personal financial/investment positions that could be related to the performance of the School Board's investment program.

VII. INTERNAL CONTROLS AND INVESTMENT PROCEDURES

The Treasurer shall establish a system of internal controls and operational procedures that are in writing and made a part of the School Board's financial procedures. The internal controls should be designed to prevent losses of funds, which might arise from fraud, employee error, and misrepresentation by third parties, or imprudent actions by employees. The written procedures should include reference to safekeeping, repurchase agreements, separation of transaction authority from accounting and record keeping, wire transfer agreements, banking service contracts, collateral/depository agreements, and "delivery vs. payment" procedures. No person may engage in an investment transaction except as authorized under the terms of this Policy. These procedures are intended to reduce the relatively low risk that material losses may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Independent auditors as a normal part of the annual financial audit to the School Board shall conduct a review of the system of internal controls to ensure compliance with policies and procedures.

VIII. CONTINUING EDUCATION

The Treasurer, management designee and/or appropriate staff shall annually complete 8 hours of continuing education in subjects or courses of study related to investment practices and products.

IX. AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS

Authorized School Board staff shall only purchase securities from financial institutions, which are Qualified Institutions by the School Board or institutions designated as "Primary Dealers" by the Federal Reserve Bank of New York. Authorized School Board staff shall only enter into repurchase agreements with financial institutions that are Qualified Institutions and Primary Dealers as designated by the Federal Reserve Bank of New York.

The School Board's Investment Advisor(s) shall utilize and maintain its own list of approved primary and non-primary securities dealers.

The Treasurer and/or the management designee shall maintain a list of financial institutions and broker/dealers that are approved for investment purposes and only firms meeting the following requirements will be eligible to serve as Qualified Institutions:

- 1) regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule);
- 2) Capital of no less than \$10,000,000;
- 3) registered as a dealer under the Securities Exchange Act of 1934;
- 4) member of the Financial Industry Regulatory Authority, Inc. (FINRA). ;
- 5) registered to sell securities in Florida; and
- 6) the firm and assigned broker have been engaged in the business of effecting transactions in U.S. government and agency obligations for at least five (5) consecutive years.

All brokers, dealers and other financial institutions deemed to be Qualified Institutions shall be provided with current copies of the School Board's Investment Policy. A current audited financial statement is

required to be on file for each financial institution and broker/dealer with which the School Board transacts business.

X. MATURITY AND LIQUIDITY REQUIREMENTS

Operating Funds

To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash flow requirements. Investments of current operating funds shall have maturities of no longer than twenty-four (24) months.

Core Funds

Investments of reserves and other non-current operating funds ("core funds" or "Surplus Fund") shall have a term appropriate to the need for funds, shall not exceed five and one-half (5.50) years. In addition the weighted average effective duration shall not exceed three (3) years.

~~Investments of reserves and other non-current operating funds ("core funds") shall have a term appropriate to the need for funds, but in no event shall exceed five (5) years.~~

XI. RISK AND DIVERSIFICATION

Assets held shall be diversified to control risks resulting from over concentration of assets in a specific maturity, issuer, instruments, dealer, or bank through which these instruments are bought and sold.

XII. MASTER REPURCHASE AGREEMENT

The Treasurer will require all approved institutions and dealers transacting repurchase agreements to execute and perform as stated in the Securities Industry and Financial Markets Association (SIFMA) Master Repurchase Agreement. All repurchase agreement transactions will adhere to requirements of the SIFMA Master Repurchase Agreement.

XIII. COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS

~~After the Treasurer, management designee or the Investment Advisor(s) has determined the approximate maturity date based on cash flow needs and market conditions and has analyzed and selected one or more optimal types of investments, a minimum of three (3) Qualified Institutions and/or Primary Dealers must be contacted and asked to provide bids/offers on securities in questions. Bids will be held in confidence until the bid deemed to best meet the investment objectives is determined and selected.~~

~~However, if obtaining bids/offers are not feasible and appropriate, securities may be purchased utilizing the comparison to current market price method on an exception basis. Acceptable current market price providers include, but are not limited to:~~

~~A. Telerate Information System~~

~~B. Bloomberg Information Systems~~

~~C. Wall Street Journal or a comparable nationally recognized financial publication providing daily market pricing~~

~~Daily market pricing provided by the School Board's custodian or their correspondent institutions~~

The Treasurer or the Investment Advisor(s) shall utilize the competitive bid process to select the securities to be purchased or sold. Selection by comparison to a current market price, as indicated above, shall only be utilized when, in judgment of the Treasurer or the Investment Advisor(s), competitive bidding would inhibit the selection process. After the Treasurer, management designee or the Investment Advisor has determined the approximate maturity date based on cash flow needs and market conditions and has analyzed and selected one or more optimal types of investments, a minimum of three (3) qualified banks and/or approved broker/dealers must be contacted and asked to provide bids/offers on securities in questions. Bids will be held in confidence until the bid deemed to best meet the investment objectives is determined and selected.

However, if obtaining bids/offers is not feasible and appropriate, securities may be purchased utilizing the comparison to current market price method on an exception basis. Acceptable current market price providers include, but are not limited to:

- A. Tradeweb
- B. Bloomberg Information Systems
- C. Wall Street Journal or a comparable nationally recognized financial publication providing daily market pricing
- D. Daily market pricing provided by the City's custodian or their correspondent institutions

The Treasurer or designated alternate or the Investment Advisor shall utilize the competitive bid process to select the securities to be purchased or sold. Selection by comparison to a current market price, as indicated above, shall only be utilized when, in the judgment of the Treasurer or designated alternate or the Investment Advisor, competitive bidding would inhibit the selection process.

Examples of when this method may be used include:

- A. When time constraints, due to unusual circumstances, preclude the use of the competitive bidding process
- B. When no active market exists for the issue being traded due to the age or depth of the issue
- C. When a security is unique to a single dealer, for example, a private placement
- D. When the transaction involves new issues or issues in the "when issued" market

Overnight sweep repurchase agreements will not be bid, but may be placed with the City's depository bank relating to the demand account for which the repurchase agreement was purchased.-

~~Examples of when this method may be used include:~~

- ~~A. — When time constraints due to unusual circumstances preclude the use of the competitive bidding process~~
- ~~B. — When no active market exists for the issue being traded due to the age or depth of the issue~~
- ~~C. — When a security is unique to a single dealer, for example, a private placement~~
- ~~D. — When the transaction involves new issues or issues in the “when issued” market~~

~~Overnight sweep investments or repurchase agreements will not be bid, but may be placed with the School Board’s depository bank relating to the demand account for which the sweep investments or repurchase agreement was purchased.~~

XIV. AUTHORIZED INVESTMENTS AND PORTFOLIO COMPOSITION

Investments should be made subject to the cash flow needs and such cash flows are subject to revisions as market conditions and the School Board’s needs change. However, when the invested funds are needed in whole or in part for the purpose originally intended or for more optimal investments, the Treasurer or management designee may sell the investment at the then-prevailing market price and place the proceeds into the proper account at the School Board’s custodian.

The following are the investment requirements and allocation limits on security types, issuers, and maturities as established by the School Board. The Treasurer or management designee shall have the option to further restrict investment percentages from time to time based on market conditions, risk and diversification investment strategies. The percentage allocations requirements for investment types and issuers are calculated based on the original cost of each investment at the time of purchase. Investments not listed in this Policy are prohibited.

In the event of a ratings downgrade of a security, the Investment Advisor(s) shall notify the Treasurer within five business days of such a decline in the required rating. The Investment Advisor(s) and the Treasurer will review the individual facts and circumstances of the situation and determine an appropriate course of action.

The allocation limits and security types do not apply to the investment of debt proceeds. These investments shall be governed by the debt covenant included in the debt instrument.

Security Type	Minimum Rating Requirement	Maturity Limits	Maximum Allocation Limit	Maximum Tenure Limit
United States Government Securities	N/A	5 Years	100%	N/A
United States Government Agencies (full faith and credit of the United States Government)	N/A	5 Years	50%	25%
Federal Instrumentalities (United States Government Sponsored Enterprises ("GSE") which are non-full faith and credit).*	N/A	5 Years	80%	40%
Mortgage Backed Securities (MBS) *	N/A	5 Years	20%	15%
Non Negotiable Interest Bearing Time Certificates of Deposit	N/A	1 Years	50%	25%
Repurchase Agreements	N/A	60 Days	50%	25%
Commercial Paper	P-1/A-1	270 Days	25%	15%
Corporate Notes	single "A" category by any two NRSROs	5 Years	25%	5%
Bankers' Acceptances	P-1/A-1	180 Days	35%	20%
State and/or Local Government Taxable and/or Tax Exempt Debt	Single "A" category by two NRSROs	5 Years	20%	10%
Registered Investment Companies (Money Market Mutual Funds)	AAAm	N/A	50%	25%
Intergovernmental Investment Pool	AAA	N/A	25%	N/A
Florida PRIME	AAAm	N/A	75%	N/A
Sector	Sector Maximum (%)	Per Issuer Maximum (%)	Minimum Ratings Requirement ¹	Maximum Maturity
U.S. Treasury	100%	100%	N/A	5.50 Years (5.50 year avg. life ⁴ for GNMA)
GNMA		40%		
Other U.S. Government Guaranteed (e.g. AID, GTC)		10%		
Federal Agency/GSE: FNMA, FHLMC, FHLB, FFCB	75/80%	40% ³	N/A	5.50 Years
Federal Agency/GSE other than those above		10%		
Supranationals where U.S. is a shareholder and voting member	10%	5%	Highest ST or Highest LT Rating Categories (A-1/P-1, AAA-/Aaa3, or equivalent)	5.50 Years
Corporates	35% ²	5%	Highest ST or Three Highest LT Rating Categories (A-1/P-1, A-/A3 or equivalent)	5.50 Years
Municipals	25%	5%	Highest ST or Three Highest LT Rating Categories (SP-1/MIG 1, A-/A3, or equivalent)	5.50 Years
Agency Mortgage-Backed Securities (MBS)	25%	40% ³	N/A	5.50 Years

				Avg. Life ⁴
Asset-Backed Securities (ABS)	10%	5%	Highest ST or LT Rating (A-1+/P-1, AAA/Aaa, or equivalent)	2 Years Avg. Life ⁴
Non-Negotiable Certificate of Deposit and Savings Accounts	50%	25%	None, if fully collateralized.	1 Years
Commercial Paper (CP)	35% ²	5%	Highest ST Rating Category (A-1/P-1, or equivalent)	270 Days
Repurchase Agreements (Repo or RP)	25%	10%	Counterparty (or if the counterparty is not rated by an NRSRO, then the counterparty's parent) must be rated in the Highest ST Rating Category (A-1/P-1, or equivalent) If the counterparty is a Federal Reserve Bank, no rating is required	1 Year
Money Market Funds (MMFs)	50%	25%	Highest Fund Rating by all NRSROs who rate the fund (AAAm/Aaa-mf, or equivalent)	N/A
Intergovernmental Pools (LGIPs)	50%	25%	Highest Fund Quality and Volatility Rating Categories by all NRSROs, if rated (AAAm/AAAf, S1, or equivalent)	N/A
Florida Local Government Surplus Funds Trust Funds ("Florida Prime")	75%	N/A	Highest Fund Rating by all NRSROs who rate the fund (AAAm/Aaa-mf, or equivalent)	N/A

Notes:

¹ Rating by at least one Nationally Recognized Statistical Ratings Organization ("NRSRO"). ST=Short-term; LT=Long-term.

² Maximum allocation to all corporate and bank credit instruments is 50% combined.

³ Maximum exposure to any one Federal agency, including the combined holdings of Agency debt and Agency MBS, is 40%.

⁴ The maturity limit for MBS and ABS is based on the expected average life at time of purchase, measured using Bloomberg or other industry standard methods.

* Federal National Mortgage Association (FNMA); Federal Home Loan Mortgage Corporation (FHLMC); Federal Home Loan Bank or its District banks (FHLB); Federal Farm Credit Bank (FFCB).

~~*The combined total of available funds invested in Federal Instrumentalities and Mortgage-Backed Securities cannot be more than 80%.~~

1. U.S. Treasury & Government Guaranteed - U.S. Treasury obligations, and obligations the principal and interest of which are backed or guaranteed by the full faith and credit of the U.S. Government.
2. Federal Agency/GSE - Debt obligations, participations or other instruments issued or fully guaranteed by any U.S. Federal agency, instrumentality or government-sponsored enterprise (GSE).
3. Supnationals – U.S. dollar denominated debt obligations of a multilateral organization of governments where U.S. is a shareholder and voting member.
4. Corporates – U.S. dollar denominated corporate notes, bonds or other debt obligations issued or guaranteed by a domestic corporation, financial institution, non-profit, or other entity.

5. Municipals – Obligations, including both taxable and tax-exempt, issued or guaranteed by any State, territory or possession of the United States, political subdivision, public corporation, authority, agency board, instrumentality or other unit of local government of any State or territory.
6. Agency Mortgage Backed Securities - Mortgage-backed securities (MBS), backed by residential, multi-family or commercial mortgages, that are issued or fully guaranteed as to principal and interest by a U.S. Federal agency or government sponsored enterprise, including but not limited to pass-throughs, collateralized mortgage obligations (CMOs) and REMICs.
7. Asset-Backed Securities - Asset-backed securities (ABS) whose underlying collateral consists of loans, leases or receivables, including but not limited to auto loans/leases, credit card receivables, student loans, equipment loans/leases, or home-equity loans.
8. Non-Negotiable Certificate of Deposit and Savings Accounts - Non-negotiable interest bearing time certificates of deposit, or savings accounts in banks organized under the laws of this state or in national banks organized under the laws of the United States and doing business in this state, provided that any such deposits are secured by the Florida Security for Public Deposits Act, Chapter 280, Florida Statutes.
9. Commercial Paper – U.S. dollar denominated commercial paper issued or guaranteed by a domestic corporation, company, financial institution, trust or other entity, including both unsecured debt and asset-backed programs.
10. Repurchase Agreements - Repurchase agreements (Repo or RP) that meet the following requirements:
 - a. Must be governed by a written SIFMA Master Repurchase Agreement which specifies securities eligible for purchase and resale, and which provides the unconditional right to liquidate the underlying securities should the Counterparty default or fail to provide full timely repayment.
 - b. Counterparty must be a Federal Reserve Bank, a Primary Dealer as designated by the Federal Reserve Bank of New York, or a nationally chartered commercial bank.
 - c. Securities underlying repurchase agreements must be delivered to a third party custodian under a written custodial agreement and may be of deliverable or tri-party form. Securities must be held in the City’s custodial account or in a separate account in the name of the City.
 - d. Acceptable underlying securities include only securities that are direct obligations of, or that are fully guaranteed by, the United States or any agency of the United States, or U.S. Agency-backed mortgage related securities.
 - e. Underlying securities must have an aggregate current market value of at least 102% (or 100% if the counterparty is a Federal Reserve Bank) of the purchase price plus current accrued price differential at the close of each business day.
 - f. Final term of the agreement must be 1 year or less.
11. Money Market Funds - Shares in open-end and no-load money market mutual funds, provided such funds are registered under the Investment Company Act of 1940 and operate in accordance with Rule 2a-7.

A thorough investigation of any money market fund is required prior to investing, and on an annual basis. Attachment A is a questionnaire that contains a list of questions, to be answered prior to investing, that cover the major aspects of any investment pool/fund. A current prospectus must be obtained.
12. Local Government Investment Pools – State, local government or privately-sponsored investment pools that are authorized pursuant to state law.

A thorough investigation of any intergovernmental investment pool is required prior to investing, and on an annual basis. Attachment A is a questionnaire that contains a list of questions, to be answered prior to investing, that cover the major aspects of any investment pool/fund. A current prospectus must be obtained.

13. The Florida Local Government Surplus Funds Trust Funds (“Florida Prime”) A thorough investigation of the Florida Prime is required prior to investing, and on an annual basis. Attachment A is a questionnaire that contains a list of questions, to be answered prior to investing, that cover the major aspects of any investment pool/fund. A current prospectus or portfolio report must be obtained.

General Investment and Portfolio Limits

1. General investment limitations:

- a. Investments must be denominated in U.S. dollars and issued for legal sale in U.S. markets.
- b. Minimum ratings are based on the highest rating by any one Nationally Recognized Statistical Ratings Organization (“NRSRO”), unless otherwise specified.
- c. All limits and rating requirements apply at time of purchase.
- d. Should a security fall below the minimum credit rating requirement for purchase, the Investment Advisor will notify the Treasurer.
- e. The maximum maturity (or average life for MBS/ABS) of any investment is 5.50 years. Maturity and average life are measured from settlement date. The final maturity date can be based on any mandatory call, put, pre-refunding date, or other mandatory redemption date.

2. General portfolio limitations:

- a. The maximum effective duration of the aggregate portfolio is 3 years.

3. Investment in the following are permitted, provided they meet all other policy requirements:

- a. Callable, step-up callable, called, pre-refunded, putable and extendable securities, as long as the effective final maturity meets the maturity limits for the sector
- b. Variable-rate and floating-rate securities
- c. Subordinated, secured and covered debt, if it meets the ratings requirements for the sector
- d. Zero coupon issues and strips, excluding agency mortgage-backed Interest-only structures (I/Os)
- e. Treasury TIPS

4. The following are NOT PERMITTED investments, unless specifically authorized by statute and with prior approval of the governing body:

- a. Trading for speculation
- b. Derivatives
- c. Mortgage-backed interest-only structures (I/Os)
- d. Inverse or leveraged floating-rate and variable-rate instruments
- e. Currency, equity, index and event-linked notes (e.g. range notes), or other structures that could return less than par at maturity
- f. Private placements and direct loans, except as may be legally permitted by Rule 144A or commercial paper issued under a 4(2) exemption from registration
- g. Convertible, high yield, and non-U.S. dollar denominated debt
- h. Short sales
- i. Use of leverage
- j. Futures and options
- k. Mutual funds, other than fixed-income mutual funds and ETFs, and money market funds

1. Equities, commodities, currencies and hard assets

~~A. United States Government Securities~~

~~1. Purchase Authorization~~

~~Authorized Staff may invest in negotiable direct obligations, or obligations the principal and interest of which are unconditionally guaranteed by the United States Government. Such securities will include, but not be limited to the following:~~

~~Cash Management Bills~~

~~Treasury Securities—State and Local Government Series (SLGS)~~

~~Treasury Bills~~

~~Treasury Notes~~

~~Treasury Bonds~~

~~Treasury Strips~~

~~2. Portfolio Composition~~

~~A maximum of 100% of available funds may be invested in the United States Government Securities.~~

3. — Maturity Limitations

The length to maturity of any direct investment in the United States Government Securities is five (5) years from the date of purchase.

B. — United States Government Agencies (full faith and credit of the United States Government)

1. — Purchase Authorization

Authorized Staff may invest in bonds, debentures or notes issued or guaranteed by the United States Government agencies, provided such obligations are backed by the full faith and credit of the United States Government. Such securities will include, but not be limited to the following:

~~Government National Mortgage Association (GNMA)~~

~~United States Export—Import Bank~~

~~—— Direct obligations or fully guaranteed certificates of beneficial ownership~~

~~Farmer Home Administration~~

~~—— Certificates of beneficial ownership~~

~~Federal Financing Bank~~

~~—— Discount notes, notes and bonds~~

~~Federal Housing Administration Debentures~~

~~General Services Administration~~

~~New Communities Debentures~~

~~—— United States Government guaranteed debentures~~

~~United States Public Housing Notes and Bonds~~

~~—— United States Government guaranteed public housing notes and bonds~~

~~United States Department of Housing and Urban Development~~

~~—— Project notes and local authority bonds~~

2. — Portfolio Composition

~~A maximum of 50% of available funds may be invested in United States Government agencies.~~

3. — Limits on Individual Issuers

~~A maximum of 25% of available funds may be invested in individual United States Government agencies.~~

4. — Maturity Limitations

~~The length to maturity for an investment in any United States Government agency security is five (5) years from the date of purchase.~~

C. ~~Federal Instrumentalities (United States Government Sponsored Enterprises (“GSE”) which are non-full faith and credit).~~

1. ~~Purchase Authorization~~

~~Authorized Staff may invest in bonds, debentures or notes issued or guaranteed by United States Government Sponsored Enterprises (Federal Instrumentalities which are non-full faith and credit agencies) limited to the following:~~

~~Federal Farm Credit Bank (FFCB)~~

~~Federal Home Loan Bank or its District banks (FHLB)~~

~~Federal National Mortgage Association (FNMA)~~

~~Federal Home Loan Mortgage Corporation (Freddie Macs) including Federal Home Loan Mortgage Corporation participation certificates~~

2. ~~Portfolio Composition~~

~~A maximum of 80% of available funds may be invested in Federal Instrumentalities. The combined total of available funds invested in Federal Instrumentalities and Mortgage Backed Securities cannot be more than 80%.~~

3. ~~Limits on Individual Issuers~~

~~A maximum of 40% of available funds may be invested in any one issuer.~~

4. ~~Maturity Limitations~~

~~The length to maturity for an investment in any Federal Instrumentality is five (5) years from the date of purchase.~~

D. ~~Mortgage Backed Securities (MBS)~~

1. ~~Purchase Authorization~~

~~Authorized Staff may invest in mortgage-backed securities (MBS) which are based on mortgages that are guaranteed by a government agency or GSE for payment of principal and a guarantee of timely payment.~~

2. ~~Portfolio Composition~~

~~A maximum of 20% of available funds may be invested in MBS. The combined total of available funds invested in Federal Instrumentalities and Mortgage Backed Securities cannot be more than 80%.~~

3. ~~Limits of Individual Issuers~~

~~A maximum of 15% of available funds may be invested with any one issuer.~~

4. — Maturity Limitations

A maximum length to maturity for an investment in any MBS is five (5) years from the date of purchase.

The maturity of mortgage securities shall be considered the date corresponding to its average life. This date reflects the point at which an investor will have received back half of the original principal (face) amount. The average life may be different from the stated legal maturity included in a security's description.

E. — Non Negotiable Interest Bearing Time Certificates of Deposit

1. — Purchase Authorization

Authorized Staff may invest in non negotiable interest bearing time certificates of deposit or savings accounts in banks organized under the laws of this state and/or in national banks organized under the laws of the United States and doing business and situated in this state, provided that any such deposits are secured by the Florida Security for Public Deposits Act, Chapter 280, Florida Statutes.

2. — Portfolio Composition

A maximum of 50% of available funds may be invested in non negotiable interest bearing time certificates of deposit or savings accounts.

3. — Limits on Individual Issuers

A maximum of 25% of available funds may be deposited with any one issuer.

Maturity Limitations

The maximum maturity on any certificate shall be no greater than one (1) year from the date of purchase.

F. — Repurchase Agreements

1. — Purchase Authorization

a. — Authorized Staff may invest in repurchase agreements comprised of only those investments based on the requirements set forth by the School Board's Master Repurchase Agreement. All firms with whom the School Board enters into repurchase agreements will have in place an executed Master Repurchase Agreement with the School Board.

b. — A third party custodian, which may or may not be the portfolio custodian, shall hold collateral for all repurchase agreements with a term longer than one (1) business day.

c. — Securities authorized for collateral are negotiable direct obligations of the United States Government and Federal Instrumentalities with maturities under five (5) years and must have a mark to market value at a minimum of 102 percent during the term of the repurchase agreement.

Immaterial short term deviations from 102 percent requirement are permissible only upon the approval of the Authorized Staff.

2. — Portfolio Composition

~~A maximum of 50% of available funds may be invested in repurchase agreements with the exception of one (1) business day agreements and overnight sweep agreements.~~

~~3. — Limits on Individual Issuers~~

~~A maximum of 25% of available funds may be invested with any one institution with the exception of one (1) business day agreements and overnight sweep agreements.~~

~~4. — Maturity Limitations~~

~~The maximum length to maturity of any repurchase agreement is 60 days from the date of purchase.~~

~~G. — Commercial Paper~~

~~1. — Purchase Authorization~~

~~Authorized Staff may invest in commercial paper of any United States company that is rated, at the time of purchase, "Prime-1" by Moody's and "A-1" by Standard & Poor's (prime commercial paper). If backed by a letter of credit (LOC), the long term debt of the LOC provider must be rated at least single "A" category by any two Nationally Recognized Statistical Rating Organizations ("NRSROs").~~

~~2. — Portfolio Composition~~

~~A maximum of 25% of available funds may be directly invested in prime commercial paper.~~

~~3. — Limits on Individual Issuers~~

~~A maximum of 15% of available funds may be invested with any one issuer.~~

~~4. — Maturity Limitations~~

~~The maximum length to maturity for prime commercial paper shall be 270 days from the date of purchase.~~

H. — Corporate Notes

1. — Purchase Authorization

Authorized Staff may invest in corporate notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States that have a long term debt rating, at the time of purchase, at a minimum single "A" category by any two NRSROs.

2. — Portfolio Composition

A maximum of 25% of available funds may be directly invested in corporate notes.

3. — Limits on Individual Issuers

A maximum of 5% of available funds may be invested with any one issuer.

4. — Maturity Limitations

The maximum length to maturity for corporate notes shall be five (5) years from the date of purchase.

I. — Bankers' Acceptances

1. — Purchase Authorization

Authorized Staff may invest in bankers' acceptances which are issued by a domestic bank which has at the time of purchase, an unsecured, uninsured and unguaranteed obligation rating of at least "Prime 1" by Moody's or "A-1" by Standard & Poor's.

2. — Portfolio Composition

A maximum of 35% of available funds may be directly invested in bankers' acceptances.

3. — Limits on Individual Issuers

A maximum of 20% of available funds may be invested with any one issuer.

4. — Maturity Limitations

The maximum length to maturity for bankers' acceptances shall be 180 days from the date of purchase.

J. — State and/or Local Government Taxable and/or Tax Exempt Debt

1. — Purchase Authorization

Authorized Staff may invest in state and/or local government taxable and/or tax exempt debt, general obligation and/or revenue bonds, rated at the time of purchases, at a minimum single "A" category by any two NRSROs, or rated at least "MIG-2" by Moody's or "SP-2" by Standard & Poor's for short term debt.

2. — Portfolio Composition

A maximum of 20% of available funds may be invested in taxable and tax exempt debts.

~~3. Limits on Individual Issuers~~

~~A maximum of 10% of available funds may be invested with any one issuer.~~

~~4. Maturity Limitations~~

~~A maximum length to maturity for an investment in any state or local government debt security is five (5) years from the date of purchase.~~

~~K. Registered Investment Companies (Money Market Mutual Funds)~~

~~1. Purchase Authorization~~

~~Authorized Staff may invest in shares in open end and no load money market funds provided such funds are registered under the Federal Investment Company Act of 1940 and operate in accordance with 17 C.F.R. § 270.2a-7, which stipulates that money market funds must have an average weighted maturity of 60 days or less. In addition, the share value of the money market funds must be equal to \$1.00.~~

~~2. Portfolio Composition~~

~~A maximum of 50% of available funds may be invested in money market funds.~~

~~3. Limits of Individual Issuers~~

~~A maximum of 25% of available funds may be invested with any one money market fund.~~

~~4. Rating Requirements~~

~~The money market funds shall be rated "AAA" by Standard & Poor's or the equivalent by another NRSRO.~~

~~5. Due Diligence Requirements~~

~~A thorough review of any money market fund is required prior to investing, and on a continual basis. Attachment B is a questionnaire that contains a list of questions, to be answered prior to investing, that cover the major aspects of any investment pool/fund.~~

L. — Intergovernmental Investment Pool

1. — Purchase Authorization

~~Authorized Staff may invest in intergovernmental investment pools that are authorized pursuant to the Florida Interlocal Cooperation Act, as provided in s. 163.01, F.S.~~

2. — Portfolio Composition

~~A maximum of 25% of available funds may be invested in intergovernmental investment pools.~~

3. — Rating Requirements

~~The Intergovernmental Investment Pool shall be rated “AAA” by Standard & Poor’s or the equivalent by another NRSRO.~~

4. — Due Diligence Requirements

~~A thorough review of any investment pool/fund is required prior to investing, and on a continual basis. Attachment B is a questionnaire that contains a list of questions, to be answered prior to investing, that cover the major aspects of any investment pool/fund.~~

The Florida PRIME

1. — Purchase Authorization

~~Authorized Staff may invest in the Florida PRIME.~~

2. — Portfolio Composition

~~A maximum of 75% of available funds may be invested in the Florida PRIME.~~

Rating Requirements

~~The Florida PRIME shall be rated “AAAm” by Standard & Poor’s or the equivalent by another NRSRO.~~

Due Diligence Requirements

~~A thorough review of the Florida PRIME is required prior to investing, and on a continual basis. Attachment B is a questionnaire that contains a list of questions, to be answered prior to investing, that cover the major aspects of any investment pool/fund.~~

XVH. DERIVATIVES AND REVERSE REPURCHASE AGREEMENTS

Investment in any derivative products or the use of reverse repurchase agreements is prohibited, unless otherwise stated in Section XIV. A “derivative” is defined as a financial instrument the value of which depends on, or is derived from, the value of one or more underlying assets or indices or asset values. For example this includes, but is not limited to the following: options, forward contracts, futures, stripped mortgage-backed securities, structured notes and swaps.

XVI. PERFORMANCE MEASUREMENTS

In order to assist in the evaluation of portfolio performance, the School Board will use performance benchmarks for short-term and long-term portfolios. The use of benchmarks will allow the School Board to measure its returns against other investors in the same markets.

- A. Investment performance of funds designated as short-term funds and other funds that must maintain a high degree of liquidity will be compared to the return on the S&P Rated GIP Index Government 30 Day Yield. Investments of current operating funds shall have maturities of no longer than twenty-four (24) months.
- B. Investment performance of funds designated as core funds and other non-operating funds that have a longer-term investment horizon will be compared to the Merrill Lynch 1-3 Year U.S. Treasury Note Index and the portfolio's total rate of return will be compared to this benchmark. The appropriate index will have a duration and asset mix that approximates the portfolio and will be utilized as a benchmark to be compared to the portfolio's total rate of return.

XVII. REPORTING

The Treasurer, management designee and/or Investment Advisor(s) shall provide the Chief Financial Officer with a "Quarterly Investment Report" that summarizes but not limited to the following:

- A. Recent market conditions, economic developments and anticipated investment conditions.
- B. The investment strategies employed in the most recent quarter.
- C. A description of all securities held in investment portfolios at month-end.
- D. If applicable, the total rate of return for the quarter and year-to-date versus appropriate benchmarks or quarter end yield to maturity of cost versus the benchmark's yield.
- E. Any areas of the Policy concern warranting possible revisions to current or planned investment strategies. The market values presented in these reports will be consistent with accounting guidelines in GASB Statement 31.

On an annual basis, the Treasurer's designee shall submit to the School Board a written report on all invested funds. The annual report shall provide all, but not limited to, the following: a complete list of all invested funds, name or type of security in which the funds are invested, the amount invested, the maturity date, earned income, the book value, the market value, the yield on each investment.

The annual report will show performance on both a book value and total rate of return basis and will compare the results to the above-stated performance benchmarks. All investments shall be reported at fair value per GASB Statement 31. Investment reports shall be available to the public.

XVIII. THIRD-PARTY CUSTODIAL AGREEMENTS

Securities, with the exception of certificates of deposits, shall be held with a third party custodian; and all securities purchase by, and all collateral obtained by the School Board should be properly designated as an asset of the School Board. The securities must be held in an account separate and apart from the assets of the financial institution. A third party custodian is defined as any bank depository chartered by the Federal Government, the State of Florida, or any other state or territory of the United States which

has a branch or principal place of business in the State of Florida, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in the State of Florida. Certificates of deposits will be placed in the provider's safekeeping department for the term of the deposit.

The custodian shall accept transaction instructions only from those persons who have been duly authorized by the Chief Financial Officer and which authorization has been provided, in writing, to the custodian. No withdrawal of securities, in whole or in part, shall be made from safekeeping, shall be permitted unless by such a duly authorized person.

The custodian shall provide the Treasurer or management designee with safekeeping statements that provide detail information on the securities held by the custodian. On a monthly basis, the custodian will also provide reports that list all securities held for the School Board, the book value of holdings and the market value as of month-end.

Security transactions between a broker/dealer and the custodian involving the purchase or sale of securities by transfer of money or securities must be made on a "delivery vs. payment" basis, if applicable, to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction. Securities held as collateral shall be held free and clear of any liens.

XIXHH. INVESTMENT POLICY ADOPTION

The Investment Policy shall be adopted by School Board resolution. The Treasurer and the Investment Advisor shall review the Policy annually and submit recommendations to the Chief Financial Officer for review and approval. If a change in the Policy is recommended for approval by the Chief Financial Officer, the Treasurer will prepare the necessary report to the School Board.

Attachment A
Glossary of Cash and Investment Management Terms

Accrued Interest. Interest earned but which has not yet been paid or received.

Agency. See "Federal Agency Securities."

Ask Price. Price at which a broker/dealer offers to sell a security to an investor. Also known as "offered price."

Asset Backed Securities (ABS). A fixed-income security backed by notes or receivables against assets other than real estate. Generally issued by special purpose companies that "own" the assets and issue the ABS. Examples include securities backed by auto loans, credit card receivables, home equity loans, manufactured housing loans, farm equipment loans, and aircraft leases.

Average Life. The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

Bankers' Acceptance (BA's). A draft or bill of exchange drawn upon and accepted by a bank. Frequently used to finance shipping of international goods. Used as a short-term credit instrument, bankers' acceptances are traded at a discount from face value as a money market instrument in the secondary market on the basis of the credit quality of the guaranteeing bank.

Basis Point. One hundredth of one percent, or 0.01%. Thus 1% equals 100 basis points.

Bearer Security. A security whose ownership is determined by the holder of the physical security. Typically, there is no registration on the issuer's books. Title to bearer securities is transferred by delivery of the physical security or certificate. Also known as "physical securities."

Benchmark Bills: In November 1999, FNMA introduced its Benchmark Bills program, a short-term debt securities issuance program to supplement its existing discount note program. The program includes a schedule of larger, weekly issues in three- and six-month maturities and biweekly issues in one-year for Benchmark Bills. Each issue is brought to market via a Dutch (single price) auction. FNMA conducts a weekly auction for each Benchmark Bill maturity and accepts both competitive and non-competitive bids through a web based auction system. This program is in addition to the variety of other discount note maturities, with rates posted on a daily basis, which FNMA offers. FNMA's Benchmark Bills are unsecured general obligations that are issued in book-entry form through the Federal Reserve Banks. There are no periodic payments of interest on Benchmark Bills, which are sold at a discount from the principal amount and payable at par at maturity. Issues under the Benchmark program constitute the same credit standing as other FNMA discount notes; they simply add organization and liquidity to the short-term Agency discount note market.

Benchmark Notes/Bonds: Benchmark Notes and Bonds are a series of FNMA "bullet" maturities (non-callable) issued according to a pre-announced calendar. Under its Benchmark Notes/Bonds program, 2, 3, 5, 10, and 30-year maturities are issued each quarter. Each Benchmark Notes new issue has a minimum size of \$4 billion, 30-year new issues having a minimum size of \$1 billion, with re-openings based on investor demand to further enhance liquidity. The amount of non-callable issuance has allowed FNMA to build a yield curve in Benchmark Notes and Bonds in maturities ranging from 2 to 30 years. The liquidity emanating from these large size issues has facilitated favorable financing opportunities through the development of a liquid overnight and term repo market. Issues under the Benchmark program constitute the same credit standing as other FNMA issues; they simply add organization and liquidity to the intermediate- and long-term Agency market.

Benchmark. A market index used as a comparative basis for measuring the performance of an investment portfolio. A performance benchmark should represent a close correlation to investment guidelines, risk tolerance, and duration of the actual portfolio's investments.

Bid Price. Price at which a broker/dealer offers to purchase a security from an investor.

Bond. Financial obligation for which the issuer promises to pay the bondholder (the purchaser or owner of the bond) a specified stream of future cash-flows, including periodic interest payments and a principal repayment.

Book Entry Securities. Securities that are recorded in a customer's account electronically through one of the financial markets electronic delivery and custody systems, such as the Fed Securities wire, DTC, and PTC

(as opposed to bearer or physical securities). The trend is toward a certificate-free society in order to cut down on paperwork and to diminish investors' concerns about the certificates themselves. The vast majority of securities are now book entry securities.

Book Value. The value at which a debt security is reflected on the holder's records at any point in time. Book value is also called "amortized cost" as it represents the original cost of an investment adjusted for amortization of premium or accretion of discount. Also called "carrying value." Book value can vary over time as an investment approaches maturity and differs from "market value" in that it is not affected by changes in market interest rates.

Broker/Dealer. A person or firm transacting securities business with customers. A "broker" acts as an agent between buyers and sellers, and receives a commission for these services. A "dealer" buys and sells financial assets from its own portfolio. A dealer takes risk by owning inventory of securities, whereas a broker merely matches up buyers and sellers. See also "Primary Dealer."

Bullet Notes/Bonds. Notes or bonds that have a single maturity date and are non-callable.

Call Date. Date at which a call option may be or is exercised.

Call Option. The right, but not the obligation, of an issuer of a security to redeem a security at a specified value and at a specified date or dates prior to its stated maturity date. Most fixed-income calls are a par, but can be at any previously established price. Securities issued with a call provision typically carry a higher yield than similar securities issued without a call feature. There are three primary types of call options (1) European - one-time calls, (2) Bermudan - periodically on a predetermined schedule (quarterly, semi-annual, annual), and (3) American - continuously callable at any time on or after the call date. There is usually a notice period of at least 5 business days prior to a call date.

Callable Bonds/Notes. Securities which contain an imbedded call option giving the issuer the right to redeem the securities prior to maturity at a predetermined price and time.

Certificate of Deposit (CD). Bank obligation issued by a financial institution generally offering a fixed rate of return (coupon) for a specified period of time (maturity). Can be as long as 10 years to maturity, but most CDs purchased by public agencies are one year and under.

Collateral. Investment securities or other property that a borrower pledges to secure repayment of a loan, secure deposits of public monies, or provide security for a repurchase agreement.

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

Collateralized Mortgage Obligation (CMO). A security that pools together mortgages and separates them into short, medium, and long-term positions (called tranches). Tranches are set up to pay different rates of interest depending upon their maturity. Interest payments are usually paid monthly. In "plain vanilla" CMOs, principal is not paid on a tranche until all shorter tranches have been paid off. This system provides interest and principal in a more predictable manner. A single pool of mortgages can be carved up into numerous tranches each with its own payment and risk characteristics.

Commercial Paper. Short term unsecured promissory note issued by a company or financial institution. Issued at a discount and matures for par or face value. Usually a maximum maturity of 270 days and given a short-term debt rating by one or more NRSROs.

Convexity. A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

Corporate Note. A debt instrument issued by a corporation with a maturity of greater than one year and less than ten years.

Counterparty. The other party in a two party financial transaction. "Counterparty risk" refers to the risk that the other party to a transaction will fail in its related obligations. For example, the bank or broker/dealer in a repurchase agreement.

Coupon Rate. Annual rate of interest on a debt security, expressed as a percentage of the bond's face value.

Current Yield. Annual rate of return on a bond based on its price. Calculated as (coupon rate / price), but does not accurately reflect a bond's true yield level.

Custody. Safekeeping services offered by a bank, financial institution, or trust company, referred to as the "custodian." Service normally includes the holding and reporting of the customer's securities, the collection and disbursement of income, securities settlement, and market values.

Dealer. A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his/her own account.

Delivery Versus Payment (DVP). Settlement procedure in which securities are delivered versus payment of cash, but only after cash has been received. Most security transactions, including those through the Fed Securities Wire system and DTC, are done DVP as a protection for both the buyer and seller of securities.

Depository Trust Company (DTC). A firm through which members can use a computer to arrange for securities to be delivered to other members without physical delivery of certificates. A member of the Federal Reserve System and owned mostly by the New York Stock Exchange, the Depository Trust Company uses computerized debit and credit entries. Most corporate securities, commercial paper, CDs, and BAs clear through DTC.

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). For hedging purposes, common derivatives are options, futures, interest rate swaps, and swaptions.

Derivative Security. Financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

Designated Bond. FFCB's regularly issued, liquid, non-callable securities that generally have a 2 or 3 year original maturity. New issues of Designated Bonds are \$1 billion or larger. Re-openings of existing Designated Bond issues are generally a minimum of \$100 million. Designated Bonds are offered through a syndicate of two to six dealers. Twice each month the Funding Corporation announces its intention to issue a new Designated Bond, reopen an existing issue, or to not issue or reopen a Designated Bond. Issues under the Designated Bond program constitute the same credit standing as other FFCB issues; they simply add organization and liquidity to the intermediate- and long-term Agency market.

Discount Notes. Unsecured general obligations issued by Federal Agencies at a discount. Discount notes mature at par and can range in maturity from overnight to one year. Very large primary (new issue) and secondary markets exist.

Discount Rate. Rate charged by the system of Federal Reserve Banks on overnight loans to member banks. Changes to this rate are administered by the Federal Reserve and closely mirror changes to the "fed funds rate."

Discount Securities. Non-interest bearing money market instruments that are issued at discount and redeemed at maturity for full face value. Examples include: U.S. Treasury Bills, Federal Agency Discount Notes, Bankers' Acceptances, and Commercial Paper.

Discount. The amount by which a bond or other financial instrument sells below its face value. See also "Premium."

Diversification. Dividing investment funds among a variety of security types, maturities, industries, and issuers offering potentially independent returns.

Dollar Price. A bond's cost expressed as a percentage of its face value. For example, a bond quoted at a dollar price of 95 ½, would have a principal cost of \$955 per \$1,000 of face value.

Duff & Phelps. One of several NRSROs that provide credit ratings on corporate and bank debt issues.

Duration. The weighted average maturity of a security's or portfolio's cash-flows, where the present values of the cash-flows serve as the weights. The greater the duration of a security/portfolio, the greater its percentage price volatility with respect to changes in interest rates. Used as a measure of risk and a key tool for managing a portfolio versus a benchmark and for hedging risk. There are also different kinds of duration used for different purposes (e.g. MacAuley Duration, Modified Duration).

Fannie Mae. See "Federal National Mortgage Association."

Fed Money Wire. A computerized communications system that connects the Federal Reserve System with its member banks, certain U. S. Treasury offices, and the Washington D.C. office of the Commodity Credit Corporation. The Fed Money Wire is the book entry system used to transfer cash balances between banks for themselves and for customer accounts.

Fed Securities Wire. A computerized communications system that facilitates book entry transfer of securities between banks, brokers and customer accounts, used primarily for settlement of U.S. Treasury and Federal Agency securities.

Fed. See "Federal Reserve System."

Federal Agency Security. A debt instrument issued by one of the Federal Agencies. Federal Agencies are considered second in credit quality and liquidity only to U.S. Treasuries.

Federal Agency. Government sponsored/owned entity created by the U.S. Congress, generally for the purpose of acting as a financial intermediary by borrowing in the marketplace and directing proceeds to specific areas of the economy considered to otherwise have restricted access to credit markets. The largest Federal Agencies are GNMA, FNMA, FHLMC, FHLB, FFCB, SLMA, and TVA.

Federal Deposit Insurance Corporation (FDIC). Federal agency that insures deposits at commercial banks, currently to a limit of \$250,000 per depositor per bank.

Federal Farm Credit Bank (FFCB). One of the large Federal Agencies. A government sponsored enterprise (GSE) system that is a network of cooperatively-owned lending institutions that provides credit services to farmers, agricultural cooperatives and rural utilities. The FFCBs act as financial intermediaries that borrow
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money in the capital markets and use the proceeds to make loans and provide other assistance to farmers and farm-affiliated businesses. Consists of the consolidated operations of the Banks for Cooperatives, Federal Intermediate Credit Banks, and Federal Land Banks. Frequent issuer of discount notes, agency notes and callable agency securities. FFCB debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and agricultural industry. Also issues notes under its "designated note" program.

Federal Funds (Fed Funds). Funds placed in Federal Reserve Banks by depository institutions in excess of current reserve requirements, and frequently loaned or borrowed on an overnight basis between depository institutions.

Federal Funds Rate (Fed Funds Rate). The interest rate charged by a depository institution lending Federal Funds to another depository institution. The Federal Reserve influences this rate by establishing a "target" Fed Funds rate associated with the Fed's management of monetary policy.

Federal Home Loan Bank System (FHLB). One of the large Federal Agencies. A government sponsored enterprise (GSE) system, consisting of wholesale banks (currently twelve district banks) owned by their member banks, which provides correspondent banking services and credit to various financial institutions, financed by the issuance of securities. The principal purpose of the FHLB is to add liquidity to the mortgage markets. Although FHLB does not directly fund mortgages, it provides a stable supply of credit to thrift institutions that make new mortgage loans. FHLB debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes and callable agency securities. Also issues notes under its "global note" and "TAP" programs.

Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac"). One of the large Federal Agencies. A government sponsored public corporation (GSE) that provides stability and assistance to the secondary market for home mortgages by purchasing first mortgages and participation interests financed by the sale of debt and guaranteed mortgage backed securities. FHLMC debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes, callable agency securities, and MBS. Also issues notes under its "reference note" program.

Federal National Mortgage Association (FNMA or "Fannie Mae"). One of the large Federal Agencies. A government sponsored public corporation (GSE) that provides liquidity to the residential mortgage market by purchasing mortgage loans from lenders, financed by the issuance of debt securities and MBS (pools of mortgages packaged together as a security). FNMA debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes, callable agency securities and MBS. Also issues notes under its "benchmark note" program.

Federal Reserve Bank. One of the 12 distinct banks of the Federal Reserve System.

Federal Reserve System (the Fed). The independent central bank system of the United States that establishes and conducts the nation's monetary policy. This is accomplished in three major ways: (1) raising or lowering bank reserve requirements, (2) raising or lowering the target Fed Funds Rate and Discount Rate, and (3) in open market operations by buying and selling government securities. The Federal Reserve System is made up of twelve Federal Reserve District Banks, their branches, and many national and state banks throughout the nation. It is headed by the seven member Board of Governors known as the "Federal Reserve Board" and headed by its Chairman.

Financial Industry Regulatory Authority, Inc. (FINRA). A private corporation that acts as a self-regulatory organization (SRO). FINRA is the successor to the National Association of Securities Dealers, Inc. (NASD).

Though sometimes mistaken for a government agency, it is a non-governmental organization that performs financial regulation of member brokerage firms and exchange markets. The government also has a regulatory arm for investments, the Securities and Exchange Commission (SEC).

Fiscal Agent/Paying Agent. A bank or trust company that acts, under a trust agreement with a corporation or municipality, in the capacity of general treasurer. The agent performs such duties as making coupon payments, paying rents, redeeming bonds, and handling taxes relating to the issuance of bonds.

Fitch Investors Service, Inc. One of several NRSROs that provide credit ratings on corporate and municipal debt issues.

Floating Rate Security (FRN or "floater"). A bond with an interest rate that is adjusted according to changes in an interest rate or index. Differs from variable-rate debt in that the changes to the rate take place immediately when the index changes, rather than on a predetermined schedule. See also "Variable Rate Security."

Freddie Mac. See "Federal Home Loan Mortgage Corporation."

Ginnie Mae. See "Government National Mortgage Association."

Global Notes: Notes designed to qualify for immediate trading in both the domestic U.S. capital market and in foreign markets around the globe. Usually large issues that are sold to investors worldwide and therefore have excellent liquidity. Despite their global sales, global notes sold in the U.S. are typically denominated in U.S. dollars.

Government National Mortgage Association (GNMA or "Ginnie Mae"). One of the large Federal Agencies. Government-owned Federal Agency that acquires, packages, and resells mortgages and mortgage purchase commitments in the form of mortgage-backed securities. Largest issuer of mortgage pass-through securities. GNMA debt is guaranteed by the full faith and credit of the U.S. government (one of the few agencies that are actually full faith and credit of the U.S. government).

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. See "Treasury Bills, Notes, Bonds, and SLGS."

Government Sponsored Enterprise (GSE). Privately owned entity subject to federal regulation and supervision, created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy such as students, farmers, and homeowners. GSEs carry the implicit backing of the U.S. government, but they are not direct obligations of the U.S. government. For this reason, these securities will offer a yield premium over U.S. Treasuries. Examples of GSEs include: FHLB, FHLMC, FNMA, and SLMA.

Government Sponsored Enterprise Security. A security issued by a Government Sponsored Enterprise. Considered Federal Agency Securities.

Index. A compilation of statistical data that tracks changes in the economy or in financial markets.

Interest-Only (IO) STRIP. A security based solely on the interest payments from the bond. After the principal has been repaid, interest payments stop and the value of the security falls to nothing. Therefore, IOs are considered risky investments. Usually associated with mortgage-backed securities.

Internal Controls. An internal control structure ensures that the assets of the entity 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 that 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. Internal controls should address the following points:

1. **Control of collusion** - Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
2. **Separation of transaction authority from accounting and record keeping** - A separation of duties is achieved by separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction.
3. **Custodial safekeeping** - Securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.
4. **Avoidance of physical delivery securities** - Book-entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
5. **Clear delegation of authority to subordinate staff members** - Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
6. **Written confirmation of transactions for investments and wire transfers** - Due to the potential for error and improprieties arising from telephone and electronic transactions, all transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and if the safekeeping institution has a list of authorized signatures.
7. **Development of a wire transfer agreement with the lead bank and third-party custodian** - The designated official should ensure that an agreement will be entered into and will address the following points: controls, security provisions, and responsibilities of each party making and receiving wire transfers.

Inverse Floater. A floating rate security structured in such a way that it reacts inversely to the direction of interest rates. Considered risky as their value moves in the opposite direction of normal fixed-income investments and whose interest rate can fall to zero.

Investment Advisor. A company that provides professional advice managing portfolios, investment recommendations, and/or research in exchange for a management fee.

Investment Adviser Act of 1940. Federal legislation that sets the standards by which investment companies, such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

Investment Grade. Bonds considered suitable for preservation of invested capital, including bonds rated a minimum of Baa3 by Moody's, BBB- by Standard & Poor's, or BBB- by Fitch. Although "BBB" rated bonds are considered investment grade, most public agencies cannot invest in securities rated below "A."

Liquidity. Relative ease of converting an asset into cash without significant loss of value. Also, a relative measure of cash and near-cash items in a portfolio of assets. Additionally, it is a term describing the marketability of a money market security correlating to the narrowness of the spread between the bid and ask prices.

Local Government Investment Pool (LGIP). An investment by local governments in which their money is pooled as a method for managing local funds, (e.g., Florida State Board of Administration's Florida Prime Fund).

Long-Term Core Investment Program. Funds that are not needed within a one-year period.

Market Value. The fair market value of a security or commodity. The price at which a willing buyer and seller would pay for a security.

Mark-to-market. Adjusting the value of an asset to its market value, reflecting in the process unrealized gains or losses.

Master Repurchase Agreement. A widely accepted standard agreement form published by the Securities Industry and Financial Markets Association (SIFMA) that is used to govern and document Repurchase Agreements and protect the interest of parties in a repo transaction.

Maturity Date. Date on which principal payment of a financial obligation is to be paid.

Medium Term Notes (MTN's). Used frequently to refer to corporate notes of medium maturity (5-years and under). Technically, any debt security issued by a corporate or depository institution with a maturity from 1 to 10 years and issued under an MTN shelf registration. Usually issued in smaller issues with varying coupons and maturities, and underwritten by a variety of broker/dealers (as opposed to large corporate deals issued and underwritten all at once in large size and with a fixed coupon and maturity).

Money Market. The market in which short-term debt instruments (bills, commercial paper, bankers' acceptance, etc.) are issued and traded.

Money Market Mutual Fund (MMF). A type of mutual fund that invests solely in money market instruments, such as: U.S. Treasury bills, commercial paper, bankers' acceptances, and repurchase agreements. Money market mutual funds are registered with the SEC under the Investment Company Act of 1940 and are subject to "rule 2a-7" which significantly limits average maturity and credit quality of holdings. MMF's are managed to maintain a stable net asset value (NAV) of \$1.00. Many MMFs carry ratings by a NRSRO.

Moody's Investors Service. One of several NRSROs that provide credit ratings on corporate and municipal debt issues.

Mortgage Backed Securities (MBS). Mortgage-backed securities represent an ownership interest in a pool of mortgage loans made by financial institutions, such as savings and loans, commercial banks, or mortgage companies, to finance the borrower's purchase of a home or other real estate. The majority of MBS are issued and/or guaranteed by GNMA, FNMA, and FHLMC. There are a variety of MBS structures with varying levels of risk and complexity. All MBS have reinvestment risk as actual principal and interest payments are dependent on the payment of the underlying mortgages which can be prepaid by mortgage holders to refinance and lower rates or simply because the underlying property was sold.

Mortgage Pass-Through Securities. A pool of residential mortgage loans with the monthly interest and principal distributed to investors on a pro-rata basis. The largest issuer is GNMA.

Municipal Note/Bond. A debt instrument issued by a state or local government unit or public agency. The vast majority of municipals are exempt from state and federal income tax, although some non-qualified issues are taxable.

Mutual Fund. Portfolio of securities professionally managed by a registered investment company that issues shares to investors. Many different types of mutual funds exist (e.g., bond, equity, and money market funds); all except money market funds operate on a variable net asset value (NAV).

Negotiable Certificate of Deposit (Negotiable CD). Large denomination CDs (\$100,000 and larger) that are issued in bearer form and can be traded in the secondary market.

Net Asset Value. The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets including securities, cash, and any accrued earnings, then subtracting the total assets from the fund's liabilities, and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio. (See below.)

$$\frac{[(\text{Total assets}) - (\text{Liabilities})]}{(\text{Number of shares outstanding})}$$

NRSRO. A "Nationally Recognized Statistical Rating Organization" (NRSRO) is a designated rating organization that the SEC has deemed a strong national presence in the U.S. NRSROs provide credit ratings on corporate and bank debt issues. Only ratings of a NRSRO may be used for the regulatory purposes of rating. Includes Moody's, S&P, Fitch, and Duff & Phelps.

Offered Price. See also "Ask Price."

Open Market Operations. A Federal Reserve monetary policy tactic entailing the purchase or sale of government securities in the open market by the Federal Reserve System from and to primary dealers in order to influence the money supply, credit conditions, and interest rates.

Par Value. The face value, stated value, or maturity value of a security.

Physical Delivery. Delivery of readily available underlying assets at contract maturity.

Portfolio. Collection of securities and investments held by an investor.

Premium. The amount by which a bond or other financial instrument sells above its face value. See also "Discount."

Primary Dealer. A designation given to certain government securities dealer by the Federal Reserve Bank of New York. Primary dealers can buy and sell government securities directly with the Fed. Primary dealers also submit daily reports of market activity and security positions held to the Fed and are subject to its informal oversight. Primary dealers are the largest buyers and sellers by volume in the U.S. Treasury securities market.

Prime Paper. Commercial paper of high quality. Highest rated paper is A-1+/A-1 by S&P and P-1 by Moody's.

Principal. Face value of a financial instrument on which interest accrues. May be less than par value if some principal has been repaid or retired. For a transaction, principal is par value times price and includes any premium or discount.

Prudent Expert Rule. Standard that requires that a fiduciary manage a portfolio with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. This statement differs from the "prudent person" rule in that familiarity with such matters suggests a higher standard than simple prudence.

Prudent Investor Standard. Standard that requires that when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. More stringent than the "prudent person" standard as it implies a level of knowledge commensurate with the responsibility at hand.

Qualified Public Depository - Per Subsection 280.02(26), F.S., "qualified public depository" means any bank, savings bank, or savings association that:

1. Is organized and exists under the laws of the United States, the laws of this state or any other state or territory of the United States.
2. Has its principal place of business in this state or has a branch office in this state which is authorized under the laws of this state or of the United States to receive deposits in this state.
3. Has deposit insurance under the provision of the Federal Deposit Insurance Act, as amended, 12 U.S.C. ss.1811 et seq.
4. Has procedures and practices for accurate identification, classification, reporting, and collateralization of public deposits.
5. Meets all requirements of Chapter 280, F.S.
6. Has been designated by the Chief Financial Officer as a qualified public depository.

Range Note. A type of structured note that accrues interest daily at a set coupon rate that is tied to an index. Most range notes have two coupon levels; a higher accrual rate for the period the index is within a designated range, the lower accrual rate for the period that the index falls outside the designated range. This lower rate may be zero and may result in zero earnings.

Rate of Return. Amount of income received from an investment, expressed as a percentage of the amount invested.

Realized Gains (Losses). The difference between the sale price of an investment and its book value. Gains/losses are “realized” when the security is actually sold, as compared to “unrealized” gains/losses which are based on current market value. See “Unrealized Gains (Losses).”

Reference Bills: FHLMC’s short-term debt program created to supplement its existing discount note program by offering issues from one month through one year, auctioned on a weekly or on an alternating four-week basis (depending upon maturity) offered in sizeable volumes (\$1 billion and up) on a cycle of regular, standardized issuance. Globally sponsored and distributed, Reference Bill issues are intended to encourage active trading and market-making and facilitate the development of a term repo market. The program was designed to offer predictable supply, pricing transparency, and liquidity, thereby providing alternatives to U.S. Treasury bills. FHLMC’s Reference Bills are unsecured general corporate obligations. This program supplements the corporation’s existing discount note program. Issues under the Reference program constitute the same credit standing as other FHLMC discount notes; they simply add organization and liquidity to the short-term Agency discount note market.

Reference Notes: FHLMC’s intermediate-term debt program with issuances of 2, 3, 5, 10, and 30-year maturities. Initial issuances range from \$2 - \$6 billion with re-openings ranging \$1 - \$4 billion.

The notes are high-quality bullet structures securities that pay interest semiannually. Issues under the Reference program constitute the same credit standing as other FHLMC notes; they simply add organization and liquidity to the intermediate- and long-term Agency market.

Repurchase Agreement (Repo). A short-term investment vehicle where an investor agrees to buy securities from a counterparty and simultaneously agrees to resell the securities back to the counterparty at an agreed upon time and for an agreed upon price. The difference between the purchase price and the sale price represents interest earned on the agreement. In effect, it represents a collateralized loan to the investor, where the securities are the collateral. Can be DVP, where securities are delivered to the investor’s custodial bank, or “tri-party” where the securities are delivered to a third party intermediary. Any type of security can be used as “collateral.”

but only some types provide the investor with special bankruptcy protection under the law. Repos should be undertaken only when an appropriate Securities Industry and Financial Markets Association (SIFMA) approved master repurchase agreement is in place.

Reverse Repurchase Agreement (Reverse Repo). A repo from the point of view of the original seller of securities. Used by dealers to finance their inventory of securities by essentially borrowing at short-term rates. Can also be used to leverage a portfolio and in this sense, can be considered risky if used improperly.

Safekeeping. Service offered for a fee, usually by financial institutions, for the holding of securities and other valuables. Safekeeping is a component of custody services.

Secondary Market. Markets for the purchase and sale of any previously issued financial instrument.

Securities Industry and Financial Markets Association (SIFMA). The bond market trade association representing the largest securities markets in the world. In addition to publishing a Master Repurchase Agreement, widely accepted as the industry standard document for Repurchase Agreements, the SIFMA also recommends bond market closures and early closes due to holidays.

Securities Lending. An arrangement between an investor and a custody bank that allows the custody bank to “loan” the investor's investment holdings, reinvest the proceeds in permitted investments, and shares any profits with the investor. Should be governed by a securities lending agreement. Can increase the risk of a portfolio in that the investor takes on the default risk on the reinvestment at the discretion of the custodian.

Sinking Fund. A separate accumulation of cash or investments (including earnings on investments) in a fund in accordance with the terms of a trust agreement or indenture, funded by periodic deposits by the issuer (or other entity responsible for debt service), for the purpose of assuring timely availability of moneys for payment of debt service. Usually used in connection with term bonds.

Spread. The difference between the price of a security and similar maturity U.S. Treasury investments, expressed in percentage terms or basis points. A spread can also be the absolute difference in yield between two securities. The securities can be in different markets or within the same securities market between different credits, sectors, or other relevant factors.

Standard & Poor's. One of several NRSROs that provide credit ratings on corporate and municipal debt issues.

STRIPS (Separate Trading of Registered Interest and Principal of Securities). Acronym applied to U.S. Treasury securities that have had their coupons and principal repayments separated into individual zero-coupon Treasury securities. The same technique and “strips” description can be applied to non-Treasury securities (e.g., FNMA strips).

Structured Notes. Notes that have imbedded into their structure options such as step-up coupons or derivative-based returns.

Supranational. Supranational organizations are international financial institutions that are generally established by agreements among nations, with member nations contributing capital and participating in management. These agreements provide for limited immunity from the laws of member countries. Bonds issued by these institutions are part of the broader class of Supranational, Sovereign, and Non-U.S. Agency (SSA) sector bonds. Supranational bonds finance economic and infrastructure development and support environmental protection, poverty reduction, and renewable energy around the globe. For example, the World Bank, International Finance Corporation (IFC), and African Development Bank (AfDB) have “green bond” programs specifically designed for energy resource conservation and management. Supranational bonds, which are issued by multi-national organizations that transcend national boundaries. Examples include the World Bank, African Development Bank, and European Investment Bank.

Swap. Trading one asset for another.

TAP Notes: Federal Agency notes issued under the FHLB TAP program. Launched in 6/99 as a refinement to the FHLB bullet bond auction process. In a break from the FHLB's traditional practice of bringing numerous small issues to market with similar maturities, the TAP Issue Program uses the four most common maturities and reopens them up regularly through a competitive auction. These maturities (2, 3, 5, and 10 year) will remain open for the calendar quarter, after which they will be closed and a new series of TAP issues will be opened to replace them. This reduces the number of separate bullet bonds issued, but generates enhanced awareness and liquidity in the marketplace through increased issue size and secondary market volume.

Tennessee Valley Authority (TVA). One of the large Federal Agencies. A wholly owned corporation of the United States government that was established in 1933 to develop the resources of the Tennessee Valley region in order to strengthen the regional and national economy and the national defense. Power operations are separated from non-power operations. TVA securities represent obligations of TVA, payable solely from TVA's net power proceeds, and are neither obligations of nor guaranteed by the United States. TVA is currently authorized to issue debt up to \$30 billion. Under this authorization, TVA may also obtain advances from the U.S. Treasury of up to \$150 million. Frequent issuer of discount notes, agency notes, and callable agency securities.

Total Return. Investment performance measured over a period of time that includes coupon interest, interest on interest, and both realized and unrealized gains or losses. Total return includes, therefore, any market value appreciation/depreciation on investments held at period end.

Treasuries. Collective term used to describe debt instruments backed by the U.S. government and issued through the U.S. Department of the Treasury. Includes Treasury bills, Treasury notes, and Treasury bonds. Also a benchmark term used as a basis by which the yields of non-Treasury securities are compared (e.g., "trading at 50 basis points over Treasuries").

Treasury Bills (T-Bills). Short-term direct obligations of the United States government issued with an original term of one year or less. Treasury bills are sold at a discount from face value and do not pay interest before maturity. The difference between the purchase price of the bill and the maturity value is the interest earned on the bill. Currently, the U.S. Treasury issues 4-week, 13-week, and 26-week T-Bills.

Treasury Bonds. Long-term interest-bearing debt securities backed by the U.S. government and issued with maturities of ten years and longer by the U.S. Department of the Treasury.

Treasury Notes. Intermediate interest-bearing debt securities backed by the U.S. government and issued with maturities ranging from one to ten years by the U.S. Department of the Treasury. The Treasury currently issues 2-year, 3-year, 5-year, and 10-year Treasury Notes.

Trustee. A bank designated by an issuer of securities as the custodian of funds and official representative of bondholders. Trustees are appointed to insure compliance with the bond documents and to represent bondholders in enforcing their contract with the issuer.

Uniform Net Capital Rule. SEC Rule 15c3-1 that outlines the minimum net capital ratio (ratio of indebtedness to net liquid capital) of member firms and non-member broker/dealers.

Unrealized Gains (Losses). The difference between the market value of an investment and its book value. Gains/losses are "realized" when the security is actually sold, as compared to "unrealized" gains/losses which are based on current market value. See also "Realized Gains (Losses)."

Variable-Rate Security. A bond that bears interest at a rate that varies over time based on a specified schedule of adjustment (e.g., daily, weekly, monthly, semi-annually, or annually). See also "Floating Rate Note."

Weighted Average Maturity (or just "Average Maturity"). The average maturity of all securities and investments of a portfolio, determined by multiplying the par or principal value of each security or investment by its maturity (days or years), summing the products, and dividing the sum by the total principal value of the portfolio. A simple measure of risk of a fixed-income portfolio.

Weighted Average Maturity to Call. The average maturity of all securities and investments of a portfolio, adjusted to substitute the first call date per security for maturity date for those securities with call provisions.

Yield Curve. A graphic depiction of yields on like securities in relation to remaining maturities spread over a time line. The traditional yield curve depicts yields on U.S. Treasuries, although yield curves exist for Federal Agencies and various credit quality corporates as well. Yield curves can be positively sloped (normal) where longer-term investments have higher yields, or "inverted" (uncommon) where longer-term investments have lower yields than shorter ones.

Yield to Call (YTC). Same as "Yield to Maturity," except the return is measured to the first call date rather than the maturity date. Yield to call can be significantly higher or lower than a security's yield to maturity.

Yield to Maturity (YTM). Calculated return on an investment, assuming all cash-flows from the security are reinvested at the same original yield. Can be higher or lower than the coupon rate depending on market rates and whether the security was purchased at a premium or discount. There are different conventions for calculating YTM for various types of securities.

Yield. There are numerous methods of yield determination. In this glossary, see also "Current Yield," "Yield Curve," "Yield to Call," and "Yield to Maturity."~~**Accrued Interest.** Interest earned but which has not yet been paid or received.~~

~~**Agency.** See "Federal Agency Securities."~~

~~**Ask Price.** Price at which a broker/dealer offers to sell a security to an investor. Also known as "offered price."~~

~~**Asset Backed Securities (ABS).** A fixed income security backed by notes or receivables against assets other than real estate. Generally issued by special purpose companies that "own" the assets and issue the ABS. Examples include securities backed by auto loans, credit card receivables, home equity loans, manufactured housing loans, farm equipment loans and aircraft leases.~~

~~**Average Life.** The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.~~

~~**Bankers' Acceptance (BA's).** A draft or bill of exchange drawn upon and accepted by a bank. Frequently used to finance shipping of international goods. Used as a short-term credit instrument, bankers' acceptances are traded at a discount from face value as a money market instrument in the secondary market on the basis of the credit quality of the guaranteeing bank.~~

~~**Basis Point.** One hundredth of one percent, or 0.01%. Thus 1% equals 100 basis points.~~

~~**Bearer Security.** A security whose ownership is determined by the holder of the physical security. Typically, there is no registration on the issuer's books. Title to bearer securities is transferred by delivery of the physical security or certificate. Also known as "physical securities."~~

~~**Benchmark Bills:** In November 1999, FNMA introduced its Benchmark Bills program, a short-term debt securities issuance program to supplement its existing discount note program. The program includes a schedule of larger, weekly issues in three and six-month maturities and biweekly issues in one year for Benchmark Bills. Each issue is brought to market via a Dutch (single price) auction. FNMA conducts a weekly auction for each Benchmark Bill maturity and accepts both competitive and non-competitive bids through a web-based auction~~

system. This program is in addition to the variety of other discount note maturities, with rates posted on a daily basis, which FNMA offers. FNMA's Benchmark Bills are unsecured general obligations that are issued in book-entry form through the Federal Reserve Banks. There are no periodic payments of interest on Benchmark Bills, which are sold at a discount from the principal amount and payable at par at maturity. Issues under the Benchmark program constitute the same credit standing as other FNMA discount notes; they simply add organization and liquidity to the short-term Agency discount note market.

Benchmark Notes/Bonds: Benchmark Notes and Bonds are a series of FNMA "bullet" maturities (non-callable) issued according to a pre-announced calendar. Under its Benchmark Notes/Bonds program, 2, 3, 5, 10 and 30-year maturities are issued each quarter. Each Benchmark Notes new issue has a minimum size of \$4 billion, 30-year new issues having a minimum size of \$1 billion, with re-openings based on investor demand to further enhance liquidity. The amount of non-callable issuance has allowed FNMA to build a yield curve in Benchmark Notes and Bonds in maturities ranging from 2 to 30 years. The liquidity emanating from these large size issues has facilitated favorable financing opportunities through the development of a liquid overnight and term repo market. Issues under the Benchmark program constitute the same credit standing as other FNMA issues; they simply add organization and liquidity to the intermediate and long-term Agency market.

Benchmark. A market index used as a comparative basis for measuring the performance of an investment portfolio. A performance benchmark should represent a close correlation to investment guidelines, risk tolerance and duration of the actual portfolio's investments.

Bid Price. Price at which a broker/dealer offers to purchase a security from an investor.

Bond. Financial obligation for which the issuer promises to pay the bondholder (the purchaser or owner of the bond) a specified stream of future cash flows, including periodic interest payments and a principal repayment.

Book Entry Securities. Securities that are recorded in a customer's account electronically through one of the financial markets electronic delivery and custody systems, such as the Fed Securities wire, DTC and PTC

(as opposed to bearer or physical securities). The trend is toward a certificate-free society in order to cut down on paperwork and to diminish investors' concerns about the certificates themselves. The vast majority of securities are now book-entry securities.

Book Value. The value at which a debt security is reflected on the holder's records at any point in time. Book value is also called "amortized cost" as it represents the original cost of an investment adjusted for amortization of premium or accretion of discount. Also called "carrying value." Book value can vary over time as an investment approaches maturity and differs from "market value" in that it is not affected by changes in market interest rates.

Broker/Dealer. A person or firm transacting securities business with customers. A "broker" acts as an agent between buyers and sellers, and receives a commission for these services. A "dealer" buys and sells financial assets from its own portfolio. A dealer takes risk by owning inventory of securities, whereas a broker merely matches up buyers and sellers. See also "Primary Dealer."

Bullet Notes/Bonds. Notes or bonds that have a single maturity date and are non-callable.

Call Date. Date at which a call option may be or is exercised.

Call Option. The right, but not the obligation, of an issuer of a security to redeem a security at a specified value and at a specified date or dates prior to its stated maturity date. Most fixed income calls are at par, but can be at any previously established price. Securities issued with a call provision typically carry a higher yield than similar securities issued without a call feature. There are three primary types of call options (1) European—one time calls, (2) Bermudan—periodically on a predetermined schedule (quarterly, semi-annual, annual), and (3)

~~American—continuously callable at any time on or after the call date. There is usually a notice period of at least 5 business days prior to a call date.~~

~~**Callable Bonds/Notes.** Securities, which contain an imbedded call option giving the issuer, the right to redeem the securities prior to maturity at a predetermined price and time.~~

~~**Certificate of Deposit (CD).** Bank obligation issued by a financial institution generally offering a fixed rate of return (coupon) for a specified period of time (maturity). Can be as long as 10 years to maturity, but most CDs purchased by public agencies are one year and under.~~

~~**Collateral.** Investment securities or other property that a borrower pledges to secure repayment of a loan, secure deposits of public monies, or provide security for a repurchase agreement.~~

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

~~**Collateralized Mortgage Obligation (CMO).** A security that pools together mortgages and separates them into short, medium, and long term positions (called tranches). Tranches are set up to pay different rates of interest depending upon their maturity. Interest payments are usually paid monthly. In “plain vanilla” CMOs, principal is not paid on a tranche until all shorter tranches have been paid off. This system provides interest and principal in a more predictable manner. A single pool of mortgages can be carved up into numerous tranches each with its own payment and risk characteristics.~~

~~**Commercial Paper.** Short term unsecured promissory note issued by a company or financial institution. Issued at a discount and matures for par or face value. Usually a maximum maturity of 270 days, and given a short term debt rating by one or more NRSROs.~~

~~**Convexity.** A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.~~

~~**Corporate Note.** A debt instrument issued by a corporation with a maturity of greater than one year and less than ten years.~~

~~**Counterparty.** The other party in a two party financial transaction. “Counterparty risk” refers to the risk that the other party, to a transaction, will fail in its related obligations. For example, the bank or broker/dealer in a repurchase agreement.~~

~~**Coupon Rate.** Annual rate of interest on a debt security, expressed as a percentage of the bond's face value.~~

~~**Current Yield.** Annual rate of return on a bond based on its price. Calculated as (coupon rate / price), but does not accurately reflect a bond's true yield level.~~

~~**Custody.** Safekeeping services offered by a bank, financial institution or trust company, referred to as the “custodian.” Service normally includes the holding and reporting of the customer's securities, the collection and disbursement of income, securities settlement and market values.~~

~~**Dealer.** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.~~

~~**Delivery Versus Payment (DVP).** Settlement procedure in which securities are delivered versus payment of cash, but only after cash has been received. Most security transactions, including those through the Fed Securities Wire system and DTC, are done DVP as a protection for both the buyer and seller of securities.~~

~~**Depository Trust Company (DTC).** A firm through which members can use a computer to arrange for securities to be delivered to other members without physical delivery of certificates. A member of the Federal~~

Reserve System and owned mostly by the New York Stock Exchange, the Depository Trust Company uses computerized debit and credit entries. Most corporate securities, commercial paper, CDs and BAs clear through DTC.

Derivatives. For hedging purposes, common derivatives are options, futures, swaps and swaptions. All Collateralized Mortgage Obligations ("CMOs") are 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).

Derivative Security. Financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

Designated Bond. FFCB's regularly issued, liquid, non-callable securities that generally have a 2 or 3 year original maturity. New issues of Designated Bonds are \$1 billion or larger. Re-openings of existing Designated Bond issues are generally a minimum of \$100 million. Designated Bonds are offered through a syndicate of two to six dealers. Twice each month the Funding Corporation announces its intention to issue a new Designated Bond, reopen an existing issue, or to not issue or reopen a Designated Bond. Issues under the Designated Bond program constitute the same credit standing as other FFCB issues; they simply add organization and liquidity to the intermediate and long term Agency market.

Discount Notes. Unsecured general obligations issued by Federal Agencies at a discount. Discount notes mature at par and can range in maturity from overnight to one year. Very large primary (new issue) and secondary markets.

Discount Rate. Rate charged by the system of Federal Reserve Banks on overnight loans to member banks. Changes to this rate are administered by the Federal Reserve and closely mirror changes to the "fed funds rate."

Discount Securities. Non-interest bearing money market instruments that are issued at discount and redeemed at maturity for full face value. Examples include: U.S. Treasury Bills, Federal Agency Discount Notes, Bankers' Acceptances and Commercial Paper.

Discount. The amount by which a bond or other financial instrument sells below its face value. See also "Premium."

Diversification. Dividing investment funds among a variety of security types, maturities, industries and issuers offering potentially independent returns.

Dollar Price. A bond's cost expressed as a percentage of its face value. For example, a bond quoted at a dollar price of 95 1/2, would have a principal cost of \$955 per \$1,000 of face value.

Duff & Phelps. One of several NRSROs that provide credit ratings on corporate and bank debt issues.

Duration. The weighted average maturity of a security's or portfolio's cash flows, where the present values of the cash flows serve as the weights. The greater the duration of a security/portfolio, the greater its percentage price volatility with respect to changes in interest rates. Used as a measure of risk and a key tool for managing a portfolio versus a benchmark and for hedging risk. There are also different kinds of duration used for different purposes (e.g. MacAuley Duration, Modified Duration).

Fannie Mae. See "Federal National Mortgage Association."

Fed Money Wire. A computerized communications system that connects the Federal Reserve System with its member banks, certain U. S. Treasury offices, and the Washington D.C. office of the Commodity Credit

~~Corporation. The Fed Money Wire is the book entry system used to transfer cash balances between banks for themselves and for customer accounts.~~

~~**Fed Securities Wire.** A computerized communications system that facilitates book entry transfer of securities between banks, brokers and customer accounts, used primarily for settlement of U.S. Treasury and Federal Agency securities.~~

~~**Fed.** See "Federal Reserve System."~~

~~**Federal Agency Security.** A debt instrument issued by one of the Federal Agencies. Federal Agencies are considered second in credit quality and liquidity only to U.S. Treasuries.~~

~~**Federal Agency.** Government sponsored/owned entity created by the U.S. Congress, generally for the purpose of acting as a financial intermediary by borrowing in the marketplace and directing proceeds to specific areas of the economy considered to otherwise have restricted access to credit markets. The largest Federal Agencies are GNMA, FNMA, FHLMC, FHLB, FFCB, SLMA, and TVA.~~

~~**Federal Deposit Insurance Corporation (FDIC).** Federal agency that insures deposits at commercial banks, currently to a limit of \$250,000 per depositor per bank.~~

~~**Federal Farm Credit Bank (FFCB).** One of the large Federal Agencies. A government sponsored enterprise (GSE) system that is a network of cooperatively owned lending institutions that provides credit services to farmers, agricultural cooperatives and rural utilities. The FFCBs act as financial intermediaries that borrow money in the capital markets and use the proceeds to make loans and provide other assistance to farmers and farm affiliated businesses. Consists of the consolidated operations of the Banks for Cooperatives, Federal Intermediate Credit Banks, and Federal Land Banks. Frequent issuer of discount notes, agency notes and callable agency securities. FFCB debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and agricultural industry. Also issues notes under its "designated note" program.~~

~~**Federal Funds (Fed Funds).** Funds placed in Federal Reserve Banks by depository institutions in excess of current reserve requirements, and frequently loaned or borrowed on an overnight basis between depository institutions.~~

~~**Federal Funds Rate (Fed Funds Rate).** The interest rate charged by a depository institution lending Federal Funds to another depository institution. The Federal Reserve influences this rate by establishing a "target" Fed Funds rate associated with the Fed's management of monetary policy.~~

~~**Federal Home Loan Bank System (FHLB).** One of the large Federal Agencies. A government sponsored enterprise (GSE) system, consisting of wholesale banks (currently twelve district banks) owned by their member banks, which provides correspondent banking services and credit to various financial institutions, financed by the issuance of securities. The principal purpose of the FHLB is to add liquidity to the mortgage markets. Although FHLB does not directly fund mortgages, it provides a stable supply of credit to thrift institutions that make new mortgage loans. FHLB debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes and callable agency securities. Also issues notes under its "global note" and "TAP" programs.~~

~~**Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac").** One of the large Federal Agencies. A government sponsored public corporation (GSE) that provides stability and assistance to the secondary market for home mortgages by purchasing first mortgages and participation interests financed by the sale of debt and guaranteed mortgage backed securities. FHLMC debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S.~~

financial system and housing market. Frequent issuer of discount notes, agency notes, callable agency securities and MBS. Also issues notes under its "reference note" program.

Federal National Mortgage Association (FNMA or "Fannie Mae"). One of the large Federal Agencies. A government sponsored public corporation (GSE) that provides liquidity to the residential mortgage market by purchasing mortgage loans from lenders, financed by the issuance of debt securities and MBS (pools of mortgages packaged together as a security). FNMA debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes, callable agency securities and MBS. Also issues notes under its "benchmark note" program.

Federal Reserve Bank. One of the 12 distinct banks of the Federal Reserve System.

Federal Reserve System (the Fed). The independent central bank system of the United States that establishes and conducts the nation's monetary policy. This is accomplished in three major ways: (1) raising or lowering bank reserve requirements, (2) raising or lowering the target Fed Funds Rate and Discount Rate, and (3) in open market operations by buying and selling government securities. The Federal Reserve System is made up of twelve Federal Reserve District Banks, their branches, and many national and state banks throughout the nation. It is headed by the seven member Board of Governors known as the "Federal Reserve Board" and headed by its Chairman.

Financial Industry Regulatory Authority, Inc (FINRA). is a private corporation that acts as a self-regulatory organization (SRO). FINRA is the successor to the National Association of Securities Dealers, Inc. (NASD). Though sometimes mistaken for a government agency, it is a non-governmental organization that performs financial regulation of member brokerage firms and exchange markets. The government also has a regulatory arm for investments, the Securities and Exchange Commission.

Fiscal Agent/Paying Agent. A bank or trust company that acts, under a trust agreement with a corporation or municipality, in the capacity of general treasurer. The agent performs such duties as making coupon payments, paying rents, redeeming bonds, and handling taxes relating to the issuance of bonds.

Fitch Investors Service, Inc. One of several NRSROs that provide credit ratings on corporate and municipal debt issues.

Floating Rate Security (FRN or "floater"). A bond with an interest rate that is adjusted according to changes in an interest rate or index. Differs from variable rate debt in that the changes to the rate take place immediately when the index changes, rather than on a predetermined schedule. See also "Variable Rate Security."

Freddie Mac. See "Federal Home Loan Mortgage Corporation".

Ginnie Mac. See "Government National Mortgage Association".

Global Notes: Notes designed to qualify for immediate trading in both the domestic U.S. capital market and in foreign markets around the globe. Usually large issues that are sold to investors worldwide and therefore have excellent liquidity. Despite their global sales, global notes sold in the U.S. are typically denominated in U.S. dollars.

Government National Mortgage Association (GNMA or "Ginnie Mae"). One of the large Federal Agencies. Government-owned Federal Agency that acquires, packages, and resells mortgages and mortgage purchase commitments in the form of mortgage-backed securities. Largest issuer of mortgage pass-through securities. GNMA debt is guaranteed by the full faith and credit of the U.S. government (one of the few agencies that is actually full faith and credit of the U.S.).

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. See "Treasury Bills, Notes, Bonds, and SLGS."

Government Sponsored Enterprise (GSE).—Privately owned entity subject to federal regulation and supervision, created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy such as students, farmers, and homeowners. GSEs carry the implicit backing of the U.S. Government, but they are not direct obligations of the U.S. Government. For this reason, these securities will offer a yield premium over U.S. Treasuries. Some consider GSEs to be stealth recipients of corporate welfare. Examples of GSEs include: FHLB, FHLMC, FNMA and SLMA.

Government Sponsored Enterprise Security.—A security issued by a Government Sponsored Enterprise. Considered Federal Agency Securities.

Index.—A compilation of statistical data that tracks changes in the economy or in financial markets.

Interest-Only (IO) STRIP.—A security based solely on the interest payments from the bond. After the principal has been repaid, interest payments stop and the value of the security falls to nothing. Therefore, IOs are considered risky investments. Usually associated with mortgage-backed securities.

Internal Controls.—An internal control structure ensures that the assets of the entity 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 that 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. Internal controls should address the following points:

1. **Control of collusion**—Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
2. **Separation of transaction authority from accounting and record keeping**—By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
3. **Custodial safekeeping**—Securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.
4. **Avoidance of physical delivery securities**—Book entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
5. **Clear delegation of authority to subordinate staff members**—Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
6. **Written confirmation of transactions for investments and wire transfers**—Due to the potential for error and improprieties arising from telephone and electronic transactions, all transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and if the safekeeping institution has a list of authorized signatures.
6. **Development of a wire transfer agreement with the lead bank and third-party custodian**—The designated official should ensure that an agreement will be entered into and will address the following

points: controls, security provisions, and responsibilities of each party making and receiving wire transfers.

Inverse Floater. A floating rate security structured in such a way that it reacts inversely to the direction of interest rates. Considered risky as their value moves in the opposite direction of normal fixed income investments and whose interest rate can fall to zero.

Investment Advisor. A company that provides professional advice managing portfolios, investment recommendations and/or research in exchange for a management fee.

Investment Adviser Act of 1940. Federal legislation that sets the standards by which investment companies, such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

Investment Grade. Bonds considered suitable for preservation of invested capital; bonds rated a minimum of Baa3 by Moody's, BBB by Standard & Poor's, or BBB by Fitch. Although "BBB" rated bonds are considered investment grade, most public agencies cannot invest in securities rated below "A."

Liquidity. Relative ease of converting an asset into cash without significant loss of value. Also, a relative measure of cash and near cash items in a portfolio of assets. Also, a term describing the marketability of a money market security correlating to the narrowness of the spread between the bid and ask prices.

Local Government Investment Pool (LGIP). An investment by local governments in which their money is pooled as a method for managing local funds, (i.e., Florida State Board of Administration's Florida Prime Fund).

Long-Term Core Investment Program. Funds that are not needed within a one year period.

Market Value. The fair market value of a security or commodity. The price at which a willing buyer and seller would pay for a security.

Mark-to-market. Adjusting the value of an asset to its market value, reflecting in the process unrealized gains or losses.

Master Repurchase Agreement. A widely accepted standard agreement form published by the Securities Industry and Financial Markets Association (SIFMA) that is used to govern and document Repurchase Agreements and protect the interest of parties in a repo transaction.

Maturity Date. Date on which principal payment of a financial obligation is to be paid.

Medium Term Notes (MTN's). Used frequently to refer to corporate notes of medium maturity (5 years and under). Technically, any debt security issued by a corporate or depository institution with a maturity from 1 to 10 years and issued under an MTN shelf registration. Usually issued in smaller issues with varying coupons and maturities, and underwritten by a variety of broker/dealers (as opposed to large corporate deals issued and underwritten all at once in large size and with a fixed coupon and maturity).

Money Market. The market in which short-term debt instruments (bills, commercial paper, bankers' acceptance, etc.) are issued and traded.

Money Market Mutual Fund (MMF). A type of mutual fund that invests solely in money market instruments, such as: U.S. Treasury bills, commercial paper, bankers' acceptances, and repurchase agreements. Money market mutual funds are registered with the SEC under the Investment Company Act of 1940 and are subject "rule 2a-7" which significantly limits average maturity and credit quality of holdings. MMF's are managed to maintain a stable net asset value (NAV) of \$1.00. Many MMFs carry ratings by a NRSRO.

Moody's Investors Service. One of several NRSROs that provide credit ratings on corporate and municipal debt issues.

Mortgage Backed Securities (MBS). Mortgage-backed securities represent an ownership interest in a pool of mortgage loans made by financial institutions, such as savings and loans, commercial banks, or mortgage companies, to finance the borrower's purchase of a home or other real estate. The majority of MBS are issued and/or guaranteed by GNMA, FNMA and FHLMC. There are a variety of MBS structures, some of which can be very risky and complicated. All MBS have reinvestment risk as actual principal and interest payments are dependent on the payment of the underlying mortgages which can be prepaid by mortgage holders to refinance and lower rates or simply because the underlying property was sold.

Mortgage Pass Through Securities. A pool of residential mortgage loans with the monthly interest and principal distributed to investors on a pro-rata basis. Largest issuer is GNMA.

Municipal Note/Bond. A debt instrument issued by a state or local government unit or public agency. The vast majority of municipals are exempt from state and federal income tax, although some non-qualified issues are taxable.

Mutual Fund. Portfolio of securities professionally managed by a registered investment company that issues shares to investors. Many different types of mutual funds exist (bond, equity, money fund); all except money market funds operate on a variable net asset value (NAV).

Negotiable Certificate of Deposit (Negotiable CD). Large denomination CDs (\$100,000 and larger) that are issued in bearer form and can be traded in the secondary market.

Net Asset Value. The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets which includes securities, cash, and any accrued earnings, subtracting this from the fund's liabilities and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio. (See below.)

$$\frac{[(\text{Total assets}) - (\text{Liabilities})]}{(\text{Number of shares outstanding})}$$

NRSRO. A "Nationally Recognized Statistical Rating Organization." A designated rating organization that the SEC has deemed a strong national presence in the U.S. NRSROs provide credit ratings on corporate and bank debt issues. Only ratings of a NRSRO may be used for the regulatory purposes of rating. Includes Moody's, S&P, Fitch and Duff & Phelps.

Offered Price. See also "Ask Price."

Open Market Operations. Federal Reserve monetary policy tactic entailing the purchase or sale of government securities in the open market by the Federal Reserve System from and to primary dealers in order to influence the money supply, credit conditions, and interest rates.

Par Value. Face value, stated value or maturity value of a security.

Physical Delivery. Delivery of readily available underlying assets at contract maturity.

Portfolio. Collection of securities and investments held by an investor.

Premium. The amount by which a bond or other financial instrument sells above its face value. See also "Discount."

Primary Dealer. Any of a group of designated government securities dealers designated by to the Federal Reserve Bank of New York. Primary dealers can buy and sell government securities directly with the Fed.

Primary dealers also submit daily reports of market activity and security positions held to the Fed and are subject to its informal oversight. Primary dealers are considered the largest players in the U.S. Treasury securities market.

Prime Paper. Commercial paper of high quality. Highest rated paper is A-1+/A-1 by S&P and P-1 by Moody's.

Principal. Face value of a financial instrument on which interest accrues. May be less than par value if some principal has been repaid or retired. For a transaction, principal is par value times price and includes any premium or discount.

Prudent Investor Standard. Standard that requires that when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. More stringent than the "prudent person" standard as it implies a level of knowledge commensurate with the responsibility at hand.

Qualified Public Depository—Per Florida Statute 280, means any bank, saving bank or savings association that:

- 0. Is organized and exists under the laws of the United States, the laws of this state or any other state or territory of the United States;
- 0. Has its principal place of business in this state or has a branch office in this state which is authorized under the laws of this state or of the United States to receive deposits in this state.
- 0. Has deposit insurance under the provision of the Federal Deposit Insurance Act, as amended, 12 U.S.C. ss.1811 seq.
- 0. Meets all requirements of F.S. 280
- 0. Has been designed by the Treasurer as a qualified public depository.

Range Note. A type of structured note that accrues interest daily at a set coupon rate that is tied to an index. Most range notes have two coupon levels; a higher accrual rate for the period the index is within a designated range, the lower accrual rate for the period that the index falls outside the designated range. This lower rate may be zero and may result in zero earnings.

Rate of Return. Amount of income received from an investment, expressed as a percentage of the amount invested.

Realized Gains (Losses). The difference between the sale price of an investment and its book value. Gains/losses are "realized" when the security is actually sold, as compared to "unrealized" gains/losses which are based on current market value. See "Unrealized Gains (Losses)."

Reference Bills: FHLMC's short term debt program created to supplement its existing discount note program by offering issues from one month through one year, auctioned on a weekly or on an alternating four-week basis (depending upon maturity) offered in sizeable volumes (\$1 billion and up) on a cycle of regular, standardized issuance. Globally sponsored and distributed, Reference Bill issues are intended to encourage active trading and market making and facilitate the development of a term repo market. The program was designed to offer predictable supply, pricing transparency and liquidity, thereby providing alternatives to U.S. Treasury bills. FHLMC's Reference Bills are unsecured general corporate obligations. This program supplements the corporation's existing discount note program. Issues under the Reference program constitute the same credit

standing as other FHLMC discount notes; they simply add organization and liquidity to the short term Agency discount note market.

Reference Notes: FHLMC's intermediate term debt program with issuances of 2, 3, 5, 10 and 30 year maturities. Initial issuances range from \$2-\$6 billion with re-openings ranging \$1-\$4 billion.

The notes are high quality bullet structures securities that pay interest semiannually. Issues under the Reference program constitute the same credit standing as other FHLMC notes; they simply add organization and liquidity to the intermediate and long term Agency market.

Repurchase Agreement (Repo). A short term investment vehicle where an investor agrees to buy securities from a counterparty and simultaneously agrees to resell the securities back to the counterparty at an agreed upon time and for an agreed upon price. The difference between the purchase price and the sale price represents interest earned on the agreement. In effect, it represents a collateralized loan to the investor, where the securities are the collateral. Can be DVP, where securities are delivered to the investor's custodial bank, or "tri party" where the securities are delivered to a third party intermediary. Any type of security can be used as "collateral," but only some types provide the investor with special bankruptcy protection under the law. Repos should be undertaken only when an appropriate BMA approved master repurchase agreement is in place.

Reverse Repurchase Agreement (Reverse Repo). A repo from the point of view of the original seller of securities. Used by dealers to finance their inventory of securities by essentially borrowing at short term rates. Can also be used to leverage a portfolio and in this sense, can be considered risky if used improperly.

Safekeeping. Service offered for a fee, usually by financial institutions, for the holding of securities and other valuables. Safekeeping is a component of custody services.

Secondary Market. Markets for the purchase and sale of any previously issued financial instrument.

Securities Industry and Financial Markets Association (SIFMA). The bond market trade association representing the largest securities markets in the world. In addition to publishing a Master Repurchase Agreement, widely accepted as the industry standard document for Repurchase Agreements, the SIFMA also recommends bond market closures and early closes due to holidays.

Securities Lending. An arrangement between an investor and a custody bank that allows the custody bank to "loan" the investor's investment holdings, reinvest the proceeds in permitted investments, and share any profits with the investor. Should be governed by a securities lending agreement. Can increase the risk of a portfolio in that the investor takes on the default risk on the reinvestment at the discretion of the custodian.

Sinking Fund. A separate accumulation of cash or investments (including earnings on investments) in a fund in accordance with the terms of a trust agreement or indenture, funded by periodic deposits by the issuer (or other entity responsible for debt service), for the purpose of assuring timely availability of moneys for payment of debt service. Usually used in connection with term bonds.

Spread. The difference between the price of a security and similar maturity U.S. Treasury investments, expressed in percentage terms or basis points. A spread can also be the absolute difference in yield between two securities. The securities can be in different markets or within the same securities market between different credits, sectors, or other relevant factors.

Standard & Poor's. One of several NRSROs that provide credit ratings on corporate and municipal debt issues.

STRIPS (Separate Trading of Registered Interest and Principal of Securities). Acronym applied to U.S. Treasury securities that have had their coupons and principal repayments separated into individual zero coupon Treasury securities. The same technique and "strips" description can be applied to non-Treasury securities (e.g. FNMA strips).

Structured Notes. Notes that have imbedded into their structure options such as step-up coupons or derivative-based returns.

Swap. Trading one asset for another.

TAP Notes: Federal Agency notes issued under the FHLB TAP program. Launched in 6/99 as a refinement to the FHLB bullet bond auction process. In a break from the FHLB's traditional practice of bringing numerous small issues to market with similar maturities, the TAP Issue Program uses the four most common maturities and reopens them up regularly through a competitive auction. These maturities (2, 3, 5 and 10 year) will remain open for the calendar quarter, after which they will be closed and a new series of TAP issues will be opened to replace them. This reduces the number of separate bullet bonds issued, but generates enhanced awareness and liquidity in the marketplace through increased issue size and secondary market volume.

Tennessee Valley Authority (TVA). One of the large Federal Agencies. A wholly owned corporation of the United States government that was established in 1933 to develop the resources of the Tennessee Valley region in order to strengthen the regional and national economy and the national defense. Power operations are separated from non power operations. TVA securities represent obligations of TVA, payable solely from TVA's net power proceeds, and are neither obligations of nor guaranteed by the United States. TVA is currently authorized to issue debt up to \$30 billion. Under this authorization, TVA may also obtain advances from the U.S. Treasury of up to \$150 million. Frequent issuer of discount notes, agency notes and callable agency securities.

Total Return. Investment performance measured over a period of time that includes coupon interest, interest on interest, and both realized and unrealized gains or losses. Total return includes, therefore, any market value appreciation/depreciation on investments held at period end.

Treasuries. Collective term used to describe debt instruments backed by the U.S. Government and issued through the U.S. Department of the Treasury. Includes Treasury bills, Treasury notes, and Treasury bonds. Also a benchmark term used as a basis by which the yields of non Treasury securities are compared (e.g., "trading at 50 basis points over Treasuries").

Treasury Bills (T-Bills). Short term direct obligations of the United States Government issued with an original term of one year or less. Treasury bills are sold at a discount from face value and do not pay interest before maturity. The difference between the purchase price of the bill and the maturity value is the interest earned on the bill. Currently, the U.S. Treasury issues 4 week, 13 week and 26 week T-Bills

Treasury Bonds. Long term interest bearing debt securities backed by the U.S. Government and issued with maturities of ten years and longer by the U.S. Department of the Treasury. The Treasury stopped issuing Treasury Bonds in August 2001.

Treasury Notes. Intermediate interest bearing debt securities backed by the U.S. Government and issued with maturities ranging from one to ten years by the U.S. Department of the Treasury. The Treasury currently issues 2-year, 5-year and 10-year Treasury Notes.

Trustee. A bank designated by an issuer of securities as the custodian of funds and official representative of bondholders. Trustees are appointed to insure compliance with the bond documents and to represent bondholders in enforcing their contract with the issuer.

Uniform Net Capital Rule. SEC regulation 15C3-1 that outlines the minimum net capital ratio (ratio of indebtedness to net liquid capital) of member firms and non-member broker/dealers.

Unrealized Gains (Losses). The difference between the market value of an investment and its book value. Gains/losses are "realized" when the security is actually sold, as compared to "unrealized" gains/losses which are based on current market value. See also "Realized Gains (Losses)."

~~**Variable Rate Security.** A bond that bears interest at a rate that varies over time based on a specified schedule of adjustment (e.g., daily, weekly, monthly, semi-annually or annually). See also "Floating Rate Note."~~

~~**Weighted Average Maturity (or just "Average Maturity").** The average maturity of all securities and investments of a portfolio, determined by multiplying the par or principal value of each security or investment by its maturity (days or years), summing the products, and dividing the sum by the total principal value of the portfolio. A simple measure of risk of a fixed income portfolio.~~

~~**Weighted Average Maturity to Call.** The average maturity of all securities and investments of a portfolio, adjusted to substitute the first call date per security for maturity date for those securities with call provisions.~~

~~**Yield Curve.** A graphic depiction of yields on like securities in relation to remaining maturities spread over a time line. The traditional yield curve depicts yields on U.S. Treasuries, although yield curves exist for Federal Agencies and various credit quality corporates as well. Yield curves can be positively sloped (normal) where longer term investments have higher yields, or "inverted" (uncommon) where longer term investments have lower yields than shorter ones.~~

~~**Yield to Call (YTC).** Same as "Yield to Maturity," except the return is measured to the first call date rather than the maturity date. Yield to call can be significantly higher or lower than a security's yield to maturity.~~

~~**Yield to Maturity (YTM).** Calculated return on an investment, assuming all cash flows from the security are reinvested at the same original yield. Can be higher or lower than the coupon rate depending on market rates and whether the security was purchased at a premium or discount. There are different conventions for calculating YTM for various types of securities.~~

~~**Yield.** There are numerous methods of yield determination. In this glossary, see also "Current Yield," "Yield Curve," "Yield to Call" and "Yield to Maturity."~~

Attachment B
Investment Pool/Fund Questionnaire

1. A description of eligible investment securities, and a written statement of investment policy and objectives.
2. A description of interest calculations and how it is distributed, and how gains and losses are treated.
3. A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
4. Does the pool have a stable net asset value or floating net asset value?
- ~~3-5.~~ What are the liquidity ~~gates~~ fees and/or redemption gates?
- 4.6. A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
- ~~5-7.~~ A schedule for receiving statements and portfolio listings.
- ~~6-8.~~ Are reserves, retained earnings, etc. utilized by the pool/fund?
- ~~7-9.~~ A fee schedule, and when and how is it assessed.
- 8-10. Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?