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CLERK OF CIRCUIT COURT AND COUNTY COMPTROLLER

SARASOTA COUNTY

INVESTMENT POLICY

FINANCE DEPARTMENT

2013

"To Meet the Needs and Exceed the Expectations of Those We Serve, in Fulfilling Our Constitutional Obligations"

SARASOTA COUNTY

INVESTMENT POLICIES

TABLE OF CONTENTS

These investment policies apply to all financial assets of Sarasota County, which are under the direct control of the Board of County Commissioners of Sarasota County. These policies do not include any financial assets under the direct control of any of the Constitutional Officers of Sarasota County or the Sarasota/ Manatee Airport Authority. At such time as the funds under their direct control pass to Sarasota County, these policies will become applicable.

I. INVESTMENT RESPONSIBILITIES

A. LEGAL REQUIREMENTS

Investments of Sarasota County are subject to Florida Statutes, Chapter 218.415 (See Exhibit 1). These investment policies are established to supplement the existing statutory authority.

1. Investment Authority of Sarasota County

   Investments of Sarasota County must conform to the provisions of Florida Statutes, Chapter 218.415, as amended from time to time. The Board of County Commissioners shall establish the overall investment policies and the implementation is delegated to the Clerk of the Circuit Court and County Comptroller ("Comptroller"), acting in her capacity as Comptroller and Chief Financial Officer to the Board. The Comptroller is herewith delegated the responsibility of establishing detailed investment and accounting procedures to govern the day to day investment activities necessary to carry out these investment policies.

2. Authorized Investments

   Sarasota County is authorized under Florida Statutes, Chapter 218.415 to purchase the following authorized investments:

   a. The Local Government Surplus Funds Trust Fund (Exhibit 2 for Authorizing Resolution).

   b. Direct obligations of the U.S. Government.

   c. Obligations guaranteed by the U.S. Government as to principal and interest.

   d. Time deposits and savings accounts in banks and savings and loan associations, organized under the laws of the State of Florida or the United States, doing business in and situated in the State of Florida. All such deposits shall be collateralized as provided for by Florida Statutes, Chapter 280 (Exhibit 3).

   e. Obligations of the:
      i. Federal Farm Credit Banks (FFCB)
      ii. Federal Home Loan Mortgage Corporation (FHLMC) (participation certificates)
      iii. Federal Home Loan Bank (FHLB) or its banks
      iv. Government National Mortgage Association (GNMA)
      v. Federal National Mortgage Association (FNMA)
      vi. Student Loan Marketing Association (SLMA)
      vii. Tennessee Valley Authority (TVA)
      viii. Resolution Funding Corporation (REFCORP)
      ix. Financing Corporation (FICO)

Permitted investments in the above listed agencies and instrumentalities shall include bonds, debentures, notes or other evidence of indebtedness issued including mortgage pass-throughs, collateralized mortgage obligations, adjustable rate securities and adjustable rate mortgages. The County doesn't restrict the percentage of total investments to any single issuer.

f. In addition, Sarasota County is authorized to invest in the following securities:
   i. Commercial Paper of U.S. Corporations having a rating of at least two of the following three ratings: A-1, P-1 and F-1, as rated by Standard & Poor's Ratings Services ("S&P"), Moody's Investors Service ("Moody's"), and Fitch Ratings ("Fitch") rating agencies.
   ii. Bankers' Acceptances that are eligible for purchase by the Federal Reserve Banks and have a Letter of Credit rating of A or better.
   iii. Tax-exempt obligations, rated A+ or better, of the State of Florida and its various local governments, including Sarasota County.
   iv. Florida Local Government Investment Trust (FLGIT) Administered by Florida Association of Court Clerks and Comptrollers Service Corporation.

g. The Florida Municipal Investment Trust (FMIvT) fixed income portfolios with a modified duration of less than five (5) years, administered by the Florida League of Cities.

h. The Florida Municipal Pension Trust Fund (FMPTF) administered by the Florida League of Cities, only applicable for Other Post Employment Benefit (OPEB) plan assets.

i. Sarasota County is herewith authorized to enter into Repurchase Agreements (for purchase and subsequent sale) for any of the investments authorized above in Section I, A, 2, (b), (c), and (e) of this Policy.

j. Sarasota County is herewith authorized to borrow from other funds of the County (as investments), provided all necessary legal and accounting requirements have been complied with.

B. COLLATERAL REQUIREMENTS

1. General Requirements

   Sarasota County is required by the provisions in Florida Statutes, Chapter 280 to place its deposits only in a "qualified public depository", as defined in the Florida Statutes. Any deposit placed in a qualified public depository is deemed to be adequately collateralized. Subsequent failure by a qualified public depository to timely return public deposits to Sarasota County will be governed by Chapter 280, as amended. In the event of a repeal of Chapter 280, the County shall adopt alternative collateralization policies.

2. Repurchase Agreements

   The County is herewith required to seek collateral for any Repurchase Agreement, not covered under Florida Statutes, Chapter 280. Collateral placed for any repurchase agreement will be governed by the Master Repurchase Agreements executed between Sarasota County and the various security brokers/dealers, including banks and savings and loan associations. The terms for collateral will be based on economic and financial conditions existing at the time of the repurchase agreement and credit risk of the particular broker/dealer or financial institution which enters into the repurchase agreement with Sarasota County. (See Exhibit 6)

C. <u>COUNTY FUNDS AND BOND RESOLUTION REQUIREMENTS</u>

1. All County funds under the direct control of the Board of County Commissioners are herewith covered by these Investment Policies.

2. Certain funds are invested in compliance with specific investment policies contained within bond resolutions and official statements. Those policies were adopted in accordance with Florida Statutes Chapter 125.31 and 218.415, and are not in conflict with these Investment Policies.

II. INVESTMENT OBJECTIVES

A. <u>SAFETY OF CAPITAL</u>

Safety of capital is regarded as the highest priority in the handling of investments for Sarasota County. All other investment objectives are secondary to the safety of capital. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they are from securities defaults or erosion of market value.

From time to time, securities may be traded for other similar securities to improve yield, maturity or credit risk. For these types of transactions, a loss may be incurred for accounting purposes, provided any of the following occurs with respect to the replacement security:

1. The yield has been increased, or
2. The maturity has been reduced, or
3. The quality of the investment has been improved.

B. <u>MAINTENANCE OF ADEQUATE LIQUIDITY</u>

The investment portfolio must be structured in such a manner that will provide sufficient liquidity to pay obligations as they become due. Specific policies describing the manner in which adequate liquidity is maintained are described in Section III B of these Policies.

C. <u>RETURN ON INVESTMENTS</u>

The County seeks to optimize return on investments within the constraints of safety and liquidity. The investment portfolio shall be designed with the annual objective of exceeding the average return on the corresponding treasury maturity (yearly rolling average), based on the portfolio’s average duration.

D. <u>PRUDENCE AND ETHICAL STANDARDS</u>

Investment officials shall utilize the Prudent Person Rule as defined by Florida State Statute 218.415(4) in the context of managing the overall investment portfolio. The Prudent Person Rule is herewith understood to mean 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."

Investment officials, or persons performing investment functions, acting in accordance with written policies and procedures, and exercising due diligence shall be relieved of personal liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

III. INVESTMENT POLICIES

A. POLICIES TO ENSURE SAFETY OF PRINCIPAL

The following policies are set forth below to provide additional guidance in implementing the first investment objective, safety of capital.

1. Reducing Credit Risk

a. Acceptable Investments:

Legally authorized investments were set forth above in Section I, A. The following is an expansion of that list.

i. **U.S. Treasury Obligations:**

U.S. Treasury Bills
U.S. Treasury Notes
U.S. Treasury Bonds

ii. **Obligations guaranteed by the U.S. Government, as to principal and interest:**

Export Import Bank
Farmers Home Administration
General Services Administration
Government National Mortgage Association (GNMA)
Penn Central Transportation Certificates
Ship Financing Bonds Title 13
Small Business Administration
Washington Metropolitan Transit Authority Bonds

iii. **Time Deposits and Savings Deposits of banks and savings and loans organized under the laws of the State of Florida or the U.S. Government and operating in the State of Florida:**

Savings Accounts
Money Market Accounts (NOW)
Certificates of Deposits (non-negotiable type)

iv. **Specific obligations of the following:**

Federal Farm Credit Banks (FFCB)
Federal Home Loan Mortgage Corporation (FHLMC), participation certificates or debentures
Federal Home Loan Bank (FHLB) or its banks
Government National Mortgage Association (GNMA); also see above under U.S. Government guaranteed
Federal National Mortgage Association (FNMA)
Student Loan Marketing Association (SLMA)
Tennessee Valley Authority (TVA)
Resolution Funding Corporation (REFCORP)
Financing Corporation (FICO)

Permitted investments in the above listed agencies and instrumentalities shall include bonds, debentures, notes or other evidence of indebtedness issued including mortgage pass-throughs, collateralized mortgage obligations, adjustable rate securities and adjustable rate mortgages. The County doesn't restrict the percentage of total investments to any single issuer.

v. **Commercial Paper:**

Commercial Paper of U.S. Corporations having a rating of at least two (2) of the following three (3) ratings: A-1, P-1 and F-1, as rated by S&P, Moody's, and Fitch rating agencies.

vi. **Bankers' Acceptances:**

Bankers' Acceptances that are eligible for purchase by the Federal Reserve Banks and have a Letter of Credit rating of A or better.

vii. **Tax-Exempt Obligations:**

Tax-exempt obligations, rated A+ or better, of the State of Florida and its various local governments, including Sarasota County.

viii. **Repurchase Agreements:**

Sarasota County is herewith authorized to enter into Repurchase Agreements (for purchase and subsequent sale) for any of the investments authorized in Section III, A, 1, a, i, ii, and iv of this Policy.

b. Approved Broker/Dealers

It is the policy of Sarasota County to purchase securities from those broker/dealer or banks that have been approved by the Comptroller. Approved broker/dealers and banks will be reviewed, on at least an annual basis, to ensure they meet the evaluation criteria.

Firms will be selected at the sole discretion of the Comptroller and evaluated based on the following criteria:

i. Banks and savings and loan associations must be a Qualified Public Depository, as determined by the State of Florida and as published in the Florida Administrative Weekly. Other financial institutions may be approved if they have a shareholder's equity of at least $250 million. For a wholly-owned subsidiary, statements of the parent holding company may be accepted to satisfy the equity requirement.

ii. Brokers and dealers must be primary government securities dealers as indicated on the Federal Reserve Bank of New York list. Additionally, those broker/dealers who have a contractual relationship, or previous or current satisfactory fiduciary responsibility with the County in some other capacity. (Exhibit 4)

iii. Repurchase Agreements will be conducted only with principals and not through third-party brokers acting as agents. Repurchase Agreements will be in the form specified in Section III, A, 1, h of this Policy.

iv. Completion of the broker/ dealer application/ questionnaire provided by the Comptroller's Office.

The supervising officer of an approved broker/ dealer will be required to submit a certification document (Exhibit 9). The document will certify that the officer has reviewed and accepted the investment policy and objectives of the County and further agrees to disclose potential conflicts or risks to County funds that might arise out of business transactions between the firm and the Comptroller's Office or County. All approved broker/ dealers shall agree to undertake reasonable efforts to preclude imprudent transactions involving County funds. The supervising officer shall agree to exercise due diligence in monitoring the activities of other officers and subordinate staff members engaged in dealings with the Comptroller's Office.

c. Safekeeping of Securities

To protect against potential fraud and embezzlement, the investment securities of the County shall be secured through third-party custody and safekeeping procedures. Copies of the current custody and safekeeping agreements are provided in Exhibit 5. Investments held in custody and safekeeping by the Federal Reserve Bank of Jacksonville or any other Reserve Bank will qualify as third-party safekeeping. Other banks may qualify as third-party banks for safekeeping provided the securities are held in the Trust Department of the bank, and the total assets of the bank are in excess of $4 billion.

Certificates of deposits and other time deposits do not need to be placed with a third-party custodian, since they are collateralized through Chapter 280 of the Florida Statutes.

Prior to any transfer of securities to a third-party custodian bank, a custodian/safekeeping agreement will be executed by the custodian bank and the Comptroller on behalf of the County and filed for record.

d. Delivery vs. Payment

Securities transactions between a broker/dealer and the custodian involving purchase or sale of securities by transfer of money or securities must be made on a "delivery vs.

payment" basis, if applicable, to insure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction.

Delivery in or out of safekeeping with a Federal Reserve Bank will not be done simultaneous.

e. Collateralization

Collateral for public deposits is controlled by the State of Florida through Chapter 280 of the Florida Statutes. The County shall not be under any obligation to secure additional collateral beyond the provisions set forth in Chapter 280, except in the case of Repurchase Agreements.

Collateral requirements for Repurchase Agreements will be contained in the Master Repurchase Agreement, executed between the Comptroller on behalf of the County and the broker/dealer or bank. The actual collateral requirements will be based on economic and financial conditions existing at the time of execution, as well as the credit risk of the particular broker/dealer or financial institution which enters into the repurchase agreement with the County.

At no time will the collateral (margin ratios) be less than the following provisions:

i. Margin Ratios

For purposes of calculating the margin amount, the following ratios shall be applied to the market value of the purchased securities, depending on their maturity:

Maturity of Purchased Securities	U.S. Treasury Securities & Agencies
Under 1 Year	101%
Over 1 Year	102%

ii. Market Value

In determining market value, dealers' bid prices shall be used, as quoted daily in the Wall Street Journal, or other acceptable media, and accrued interest shall be included.

f. Bidding Process

All investments, except the daily open repurchase agreement with the depository bank as it relates to the overall banking agreement, will be purchased through a competitive bidding process, using the dealers and banks on the approved list. The County is under no obligation to secure competitive bids from all the dealers or banks on the approved list. Rather a decision will be made by the investment officials as to the institutions that have been the most competitive over the last few weeks, and these will be contacted for a bid. Documentation will be retained for all bids, with the winning bid clearly identified. If for any reason, the highest interest rate bid was not selected, then the reasons leading to that decision will be clearly indicated on the bidding forms.

The competitive bidding policy may be waived for a potential purchase or sale of certain securities due to market availability (supply and demand). Under these circumstances, the Comptroller or Director of Finance must approve the transaction.

From time to time, various government agencies announce the issuance of new securities to the financial markets. Since all new issues are sold at par, the County would not realize any benefit by purchasing these securities through the competitive bid process. If the new issue or "To Be Announced" (TBA) security falls within the portfolio diversification and maturity requirements of one of the various funds of the County, the Treasury Management Officer shall, at his discretion, place the investment with the bank or broker who initiated the contact on the investment opportunity.

g. Diversification of Portfolio

Prudent investing necessitates that the portfolio be diversified as to instruments and dealers. The following maximum limits are guidelines established for diversification by instrument. These guidelines may be revised by the Comptroller for specific circumstances:

Repurchase Agreements	50%
Certificates of Deposit	40%
U.S. Treasury Bills/Note	100%
Other U.S. Government Agencies	65%
State Investment Pool /FLGIT/FMIvT	75%
Commercial Paper (*)	25%
Bankers' Acceptances (*)	25%

(*) 5% of the total portfolio or a maximum of $25,000,000 may be purchased per issuer (credit).

To allow efficient and effective placement of proceeds from bond sales, the limit on repurchase agreements may be exceeded for a maximum of five (5) business days following the receipt of bond proceeds, on the direction of the Comptroller.

Money Market Funds may be used by Trustees, Paying Agents, Safekeeping Agents, etc., as a temporary investment for bond proceeds or payouts.

No more than 25% of the entire portfolio may be placed with any one security dealer or bank.

h. Written Repurchase Agreements

All repurchase agreements must be in written form using the Public Securities Association (PSA) Master Repurchase Agreement as a guide. Annex 1 of this guide shall materially conform to the recommendations by the Government Finance Officers Association. Agreements not substantially conforming to this Master and Annex 1 are unacceptable.

Copies of the most recent repurchase agreements with banks and security dealers are included in Exhibit 6.

2. Reducing Interest Rate Risk

   Generally, the longer the maturity of a particular investment, the greater its price volatility. Accordingly, the County seeks to limit its risk by maintaining an investment portfolio with limited volatility. Guidelines are established below.

   i. Pooled Cash and Investment (no restrictions)

      No security shall have an estimated average return of principal exceeding five (5) years. The weighted average duration of principal return for the portfolio shall be less than two (2) years. These restrictions shall be modified for adjustable rate securities, whose maturities could be as much as thirty (30) years. The total adjustable rate securities purchased shall not be more than 40% of the total portfolio.

   ii. Restricted Accounts

      Securities will have a maximum maturity consistent with the nature of the restricted accounts.

B. POLICIES TO ENSURE ADEQUATE LIQUIDITY

1. Maintenance of Liquidity Base

   A liquidity base of approximately two (2) months of anticipated disbursements, excluding bond construction payments or other bond payments made from escrow or trust accounts, will be kept in relatively short-term investments. These would include the Florida Local Government Surplus Trust Fund, Repurchase Agreements and U.S. Treasury Obligations.

2. Maximum Maturity on Repurchase Agreement

   The maximum maturity for any single Repurchase Agreement, except for the daily repurchase agreement with the concentration bank, will be one (1) year.

3. Purchase Securities with Active Secondary Market

   Many securities are legally authorized but are not very desirable from a liquidity standpoint. Accordingly, although investments may be on the authorized list, only those securities with an active secondary market may be purchased.

C. POLICIES TO ACHIEVE INVESTMENT RETURN OBJECTIVES

1. Active Portfolio Management

   It is the policy of the County to actively manage the investment portfolio within the constraints outlined in these investment policies. In recognition that specific investments and markets are dynamic, that relative values can change over time, and by regularly re-assessing their analysis and projected performance and making timely re-allocations of investments, it is the policy to review and pursue those opportunities that are consistent with long term optimization (active management). Outside consulting managers may be used to direct a portion of the portfolio using approved investments to enhance returns, subject to approval by the Comptroller.

2. Portfolio Maturity Management

   When structuring the maturity composition of the portfolio, it is the policy of the County to evaluate current and expected interest rate yields, by evaluating the general economic conditions. Whenever interest rates are expected to increase in the near future, actions will be taken by the County Finance Director on the portfolio to shorten the maturities. Accordingly, whenever interest rates are expected to decrease, the maturities of the portfolio will be lengthened, as appropriate. Specific procedures for evaluating the general economic conditions are to be incorporated into the Investment Procedures.

3. Bond Swaps

   It shall be the policy of the County to pursue bond swaps as they may present themselves over the term of any investment. The following categories of bond swaps are considered appropriate for the County:

   a. Swaps to Increase Yield

   Market aberrations are often caused by supply and demand conditions for particular securities. For example, if a short supply exists for a particular maturity range, then it may be advantageous to swap out of the security in a short supply and into another similar security in a different maturity range.

   b. Swaps to Reduce Maturity

   Market aberrations occasionally create a situation where longer maturity securities are yielding the same or less than securities with a shorter maturity. Portfolio quality can be improved by switching from the longer maturity security to the shorter maturity with little or no interest rate penalty.

   c. Swaps to Increase Portfolio Quality

   Market aberrations occasionally create a situation where certain higher risk securities yield the same or less than an equivalent lower risk security. Portfolio quality can be improved by switching from the higher risk security to a lower risk security without any interest rate penalty.

   Temporary accounting losses on swaps can be incurred provided the loss is more than offset by the higher yield. Procedures for evaluating and recording bond swaps will be developed by the investment officials.

D. <u>POLICIES TO ENSURE ETHICAL AND PRUDENT ACTION</u>

1. Establishment of Internal Controls

It is the policy of the County to establish a system of internal controls, which shall be in writing. The internal controls shall address the following points:

a. Control of collusion

Collusion is a situation where two or more employees are working in conjunction to defraud their employer or gain something illegally.

b. Separation of functions

Separation of key functions provides the County the ability to prevent fraud and errors by disseminating tasks and associated privileges amongst multiple employees.

c. Custodial safekeeping

Securities purchased from any bank or dealer, including appropriate collateral, should be placed into a third-party bank for custodial safekeeping.

d. Third-party acknowledgement

Any monies managed on behalf of Sarasota County will adhere to the current investment policy and ordinance.

e. Clear delegation of authority to subordinate staff members

Subordinate staff members must have a clear understanding of their authority and responsibilities, to avoid any improper actions. Clear delegation of authority also preserves the internal control structure that is built around the various staff positions and their respective responsibilities.

f. Specific limitations regarding securities losses and remedial action

Securities losses may be necessary to implement this Investment Policy. These losses should be restricted to specified purposes and proper documentation and required approval should be clearly defined for each staff person.

g. Written confirmation of telephone transactions for investments and wire transfers

Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by written communications and approved by the appropriate person.

h. Documentation of transactions and strategies

All transactions and the strategies that may have been used to develop the transactions should be documented in writing and approved by the appropriate person.

i. Development of a wire transfer agreement with the depository bank as it relates to the overall banking agreement

This agreement should outline the various controls and security provisions for making and receiving wire transfers.

j. Investigation and due diligence of government sponsored pools and/or mutual funds

The use of pools/funds shall be fully investigated and documented. A listing of the required due diligence questions to be completed for the use of pools/funds are listed in Exhibit 8.

2. Investment Report

The Comptroller's Office shall prepare an investment report on a monthly basis for the Board of County Commissioners and the Investment Policy/ Advisory Committee. The report shall include information regarding the type, book value and diversification of the securities in the portfolio, as well as the investment strategy and earned income information. The reports shall be made available to the public.

3. Training and Education

It is the policy of the County to provide periodic training in investments for the investment officials through courses and seminars offered by the Government Finance Officers Association and other organizations. The Treasury Management Officer (or other officials responsible for making investment decisions) shall annually complete no less than twenty-four (24) hours of continuing education in subjects or courses of study related to investment practices and products, in accordance with Section 218.415 (14), Florida Statutes.

4. Independent Review of the Investment Portfolio and Investment Policy

The Comptroller shall engage a qualified rating agency or analytical firm to review the investment portfolio of the County annually. Such review should include, but not be limited to, a review of the organization, investment team, operating policies, internal controls, maturity and credit quality of the portfolio investments and sensitivity of the portfolio to changing market conditions.

IV. GLOSSARY OF TERMS

1. ACCRUED INTEREST: The accumulated interest due on a bond from the last interest payment made by the issuer.

2. ACTIVE INVESTMENT STRATEGY: An investment strategy involving ongoing buying and selling actions by the investor. Active investors purchase investments and continuously monitor their activity in order to take advantage of advantageous conditions.

3. AGENCIES: Federal agency securities and/or government-sponsored enterprises.

4. AMORTIZATION: The systematic reduction of the amount owed on a debt issue through periodic payments of principal.

5. ASKED: The price at which securities are offered.

6. ASSET-BACKED SECURITY (ABS): A security backed by notes or receivables against assets other than real estate and mortgage-backed securities.

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

8. BASIS POINT: A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield, e.g., "1/4" of 1 percent is equal to 25 basis points.

9. BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

10. BID: The indicated price at which a buyer is willing to purchase a security or commodity.

11. BOOK VALUE: The value at which a security is carried on the inventory lists or other financial records of an investor. The book value may differ significantly from the security's current value in the market.

12. BROKER: A broker brings buyers and sellers together for a commission.

13. CALL PRICE: The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

14. CALL RISK: The risk to a bondholder that a bond may be redeemed prior to maturity.

15. CALLABLE BOND: A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

16. CASH SALE/PURCHASE: A transaction, which calls for delivery and payment of securities on the same day that the transaction is initiated.

17. CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CD's are typically negotiable.

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

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

20. COMMERCIAL PAPER: An unsecured short-term promissory note issued by corporations, with maturities ranging up to 270 days.

21. COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for Sarasota County, Florida. It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

22. 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.

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

24. CREDIT QUALITY: The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

25. CREDIT RISK: The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

26. CURRENT YIELD (CURRENT RETURN): A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

27. CUSTODIAL/SAFEKEEPING: *See* “Safekeeping”.

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

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

30. DELIVERY VERSUS PAYMENT (DVP): There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

31. DERIVATIVES: (a) 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 (b) financial contracts based upon notional amounts whose value is derived from

an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

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

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

34. DIVERSIFICATION: This risk management technique mixes a wide variety of investments within a portfolio to smooth out unsystematic risk events in the portfolio to allow the positive performance of some investments to neutralize the negative performance of others. The rationale behind this technique contends that a portfolio of different kinds if investments will, on average, yield higher returns and pose a lower risk than any individual investment found within the portfolio.

35. DURATION: A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

36. EXPORT-IMPORT BANK (EX-IM BANK): Ex-Im Bank is the official export credit agency of the United States federal government. It was established in 1934 by an executive order, and made an independent agency in the Executive branch by Congress in 1945, for the purposes of financing and insuring foreign purchases of United States goods for customers unable or unwilling to accept credit risk. Ex-Im Bank does not compete with private sector lenders, but rather provides financing for transactions that would otherwise not take place because commercial lenders are either unable or unwilling to accept the political or commercial risks inherent in the deal.

37. FARMER'S HOME ADMINISTRATION (FmHA): A unit of the Department of Agriculture which makes loans for community centers, farms, and homes in rural areas.

38. FAIR VALUE: The amount, at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

39. FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, *e.g.*, S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

40. FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to $250,000 per depositor, per insured bank, for each account ownership category.

41. FEDERAL FARM CREDIT BANKS (FFCB): The Federal Farm Credit Banks Funding Corporation issues debt securities as fiscal agent for the Farm Credit System, which is a nationwide network of borrower-owned lending institutions and service organizations specializing in agricultural and rural America. The mission of this government-sponsored enterprise is to ensure the availability of sound, dependable funding for agricultural producers, cooperatives, and certain farm related business.

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

43. FEDERAL FUNDS RATE: Interest rate charged by one institution lending federal funds to the other.

44. FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

45. FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC): FHLMC, commonly referred to as Freddie Mac, is a government sponsored enterprise that provides liquidity to the mortgage markets, much like FNMA and FHLB.

46. FEDERAL HOUSING ADMINISTRAION (FHA): A federally sponsored agency that insures lenders against loss on residential mortgages. Founded in 1934, it was the forerunner of a group of government agencies responsible for the growing secondary market for mortgages (GNMA & FNMA).

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

48. FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

49. FEDERAL RESERVE SYSTEM: The central banking system of the United States created by Congress. Congress established three key objectives for monetary policy—maximum employment, stable prices, and moderate long-term interest rates—in the Federal Reserve Act. The Federal Reserve is independent within government in that its monetary policy decisions do not have to be approved by the President or anyone else in the executive or legislative branches of government. The Federal Reserve System's structure is composed of the presidentially appointed Board of Governors (or Federal Reserve Board), the Federal Open Market Committee (FOMC), twelve regional Federal Reserve Banks located in major cities throughout the nation, numerous privately owned U.S. member banks and various advisory councils.

50. FINANCIAL INDUSTRY REGULATORY AUTHORITY (FINRA): A self-regulatory organization (SRO) of brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

51. FINANCING CORPORATION (FICO): A mixed-ownership United States government-sponsored enterprise that operated as a financing vehicle for the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund. Its bond interest payments are funded by the Deposit Insurance Fund (DIF) premiums of the Federal Deposit Insurance Corporation (FDIC).

52. FLORIDA LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND (FLORIDA PRIME/ SBA): The aggregate of all funds from political subdivisions that are placed in the custody of the State Board of Administration for investment and reinvestment.

53. FLORIDA LOCAL GOVERNMENT INVESTMENT TRUST: A local government investment pool (LGIP) developed through the joint efforts of the Florida Association of Court Clerks and Comptrollers (FACC) and the Florida Association of Counties (FAC). Organized on December 12, 1991, The Florida Trust is designed to complement existing investment programs by providing investment vehicles for funds that can be invested in short- to intermediate-term securities and have returns generally greater than the national average for money market instruments. The Florida Trust offers two open-ended, professionally managed funds available only to public entities in Florida.

54. FLORIDA MUNICIPAL INVESTMENT TRUST (FMIvT): The FMIvT, administered by the Florida League of Cities, Inc., is an interlocal governmental entity created under the laws of the State of Florida. The FMIVT is an Authorized Investment under Sec. 163.01 Florida Statutes.

55. FLORIDA MUNICIPAL PENSION TRUST FUND (FMPTF): The Florida League of Cities established the FMPTF in 1983. The Trust provides professional and cost effective services for all types of retirement plans, and operates as a non-profit, tax exempt entity.

56. FLORIDA SECURITY FOR PUBLIC DEPOSITS ACT: Chapter 280, Florida Statutes establishes a statewide “pool” program ensuring the protection from financial institution failure of public deposits of the state and its political subdivisions not covered by federal deposit insurance. All qualified public depositories are required to meet certain collateral requirements established by the Chief Financial Officer of the State of Florida.

57. GENERAL SERVICES ADMINISTRATION (GSA): An independent agency of the United States government, established in 1949 to help manage and support the basic functioning of federal agencies.

58. GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA/ GINNIE MAE): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FmHA mortgages. The term “pass-throughs” is often used to describe Ginnie Maes.

59. INTEREST RATE: *See* “Coupon Rate”.

60. INTEREST RATE RISK: The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.

61. INTERNAL CONTROLS: An internal control structure designed to ensure 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.

62. INVERTED YIELD CURVE: A chart formation that illustrates long-term securities having lower yields than short-term securities. This configuration usually occurs during periods of high inflation coupled with low levels of confidence in the economy and a restrictive monetary policy.

63. INVESTMENT: A security or other asset acquired primarily for the purpose of obtaining income or profit.

64. INVESTMENT COMPANY 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.

65. INVESTMENT POLICY: A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

66. INVESTMENT-GRADE OBLIGATIONS: An investment instrument suitable for purchase by institutional investors under the Prudent Person Rule. Investment-grade is restricted to those obligations rated BBB or higher by a rating agency.

67. LETTER OF CREDIT: An obligation issued by a bank on behalf of a bank customer to a third party. There are many different kinds of letter of credit. The two most common are commercial letters and standby letters. A commercial or trade letter of credit is a bank promise to pay the third party for the purchase of goods by the bank's customer. A standby letter of credit is a bank promise to pay the third party in the event of some defined failure by the bank's customer, usually, but not always a failure to pay. Standby letters of credit are often used as credit enhancements for securities.

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

69. LIQUIDITY RISK: The risk that a liquid asset cannot be converted without a substantial loss of value or earnings.

70. 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 "SBA").

71. MARK-TO-MARKET: The process whereby the book value or collateral value of security is adjusted to reflect its current market value.

72. MARKET RISK: The risk that the value of a security will rise or decline as a result of changes in market conditions.

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

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

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

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

77. MONEY MARKET MUTUAL FUND: Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, repos and federal funds).

78. MUTUAL FUND: An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by the following Securities and Exchange Commission (SEC) disclosure guidelines:

    a. Report standardized performance calculations.
    b. Disseminate timely and accurate information regarding the fund's holdings, performance, management and general investment policy.
    c. Have the fund's investment policies and activities supervised by a board of trustees, which are independent of the adviser, administrator or other vendor of the fund.
    d. Maintain the daily liquidity of the fund's shares.
    e. Value their portfolios on a daily basis.
    f. Have all individuals who sell SEC-registered products licensed with a self-regulating organization (SRO) such as the National Association of Securities Dealers (NASD).
    g. Have an investment policy governed by a prospectus which is updated and filed by the SEC annually.

79. NOMINAL YIELD: The stated rate of interest that a bond pays its current owner, based on par value of the security. It is also known as the "coupon", "coupon rate", or "interest rate".

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

81. OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

82. PAR: Face value or principal value of a bond, typically $1,000 per bond.

83. PASSIVE IVESTMENT STRATEGY: Passive investment management is an investment strategy in which securities are bought with the intention of holding them to maturity or investing in benchmark products designed to yield a market rate of return.

84. PORTFOLIO: Collection of securities held by an investor.

85. POSITIVE YIELD CURVE: A chart formation that illustrates short-term securities having lower yields than long-term securities.

86. PREMIUM: The amount by which the price paid for a security exceeds the security's par value.

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

88. PRIME RATE: A preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are keyed to this rate.

89. PRINCIPAL: The face value or par value of a debt instrument. Also may refer to the amount of capital invested in a given security.

90. PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state—the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

    In conjunction with Florida State Statute 218.415(4) the Prudent Person Rule is herewith understood to mean 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."

91. QUALIFIED PUBLIC DEPOSITORIES: Any bank, savings bank, or savings association that is organized under the laws of the United States or the State of Florida; has its principal place of business or a branch office to receive deposits in Florida; has deposit insurance under the provisions of the Federal Deposit Insurance Act;

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

93. REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security “buyer” in effect lends the “seller” money for the period of the agreement, and the

terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is, increasing bank reserves.

94. RESOLUTION FUNDING CORPORATION (REFCORP): A mixed-ownership government corporation established by Congress in 1989 in conjunction with the Resolution Trust Corporation (RTC). The two corporations were established to rescue savings and loan (S&L) institutions that failed during the savings and loan crisis. REFCORP provided liquidity to these organizations by issuing bonds.

95. RULE 2a-7 OF THE INVESTMENT COMPANY ACT: Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13- month maturity limit and a 90-day average maturity on investments, to help maintain a constant net asset value of one dollar ($1.00).

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

97. SEC RULE 15C3-1: See "Uniform Net Capital Rule".

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

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

100. SECURITIES LENDING: The act of loaning a stock, derivative, other security to an investor or firm. Securities lending requires the borrower to put up collateral, whether cash, security or a letter of credit. When a security is loaned, the title and the ownership are also transferred to the borrower.

101. SECURITY: A transferable financial instrument that evidences ownership or creditorship, whether in physical or book entry form.

102. SERIAL BOND: A bond issue, usually of a municipality, with various maturity dates scheduled at regular intervals until the entire issue is retired.

103. SINKING FUND: Money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.

104. SLUGS: Nonmarketable US Treasury securities sold to states and municipalities. These parties then deposit the securities into escrow accounts until they use them to pay off their own bonds at maturity.

105. SMALL BUSINESS ADMINISTRATION (SBA): The SBA is a United States government agency that provides support to entrepreneurs and small businesses. SBA loans are made through banks, credit unions and other lenders who partner with the SBA. The SBA provides a government-backed guarantee on part of the loan.

106. SPREAD: (a) The yield or price difference between the bid and offer on an issue, or (b) The yield or price difference between different issues.

107. STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, and derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

108. STUDENT LOAN MARKETING ASSOCIATION (SLMA): SLMA, commonly referred to as Sallie Mae, provides federally guaranteed student loans originated under the Federal Family Education Loan Program. Congress created Sallie Mae in 1972 as a government sponsored enterprise. Sallie Mae began privatizing its operations in 1997 and completely severed its ties to the federal government in 2004.

109. SWAP: Trading one asset for another.

110. TENNESSEE VALLEY AUTHORITY (TVA): The TVA is a federally owned corporation and is not authorized to issue stock. Additionally, the TVA does not receive any federal funding. Instead, it finances its operations through the sale of TVA bonds and through the sale of energy. The TVA sells four kinds of bonds: Putable Automatic Rate Reset Securities (PARRS); TVA ElectroNotes; Discount Notes; and Other TVA Power Bonds, which are issued domestically and internationally and carry a wide variety of maturities, terms, returns and currency denominations. Per Congressional mandate, the TVA cannot have more than $30 billion of debt outstanding at any one time, and it can only issue bonds to fund its power program or refinance existing debt.

111. TERM BOND: Bonds comprising a large part or all of a particular issue which come due in a single maturity. The issuer usually agrees to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity.

112. TIME DEPOSITS: *See* “CD’s”.

113. TOTAL RETURN: The sum of all investment income plus changes in the capital value of the portfolio.

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

115. TREASURY BONDS: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

116. TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

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

118. VOLATILITY: A degree of fluctuation in the price and valuation of securities.

119. WEIGHTED AVERAGE MATURITY (WAM): The average maturity of all the securities that comprise a portfolio. According to SEC rule 2a-7, the WAM for SEC registered money market mutual funds may not exceed 90 days and no one security may have a maturity that exceeds 397 days.

120. YIELD: The current rate of return on an investment security generally expressed as a percentage of the security's current price.

121. YIELD CURVE: A graph showing the relationship at a single point in time between the available maturities of a security or similar securities with essentially identical credit risk and the yields that can be earned for each of those available maturities. A graphical depiction of the term structure of interest rates at any given point in time. Yield curves may be constructed for different instruments.

122. YIELD-TO-CALL: The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date. Yield Curve - A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.

123. YIELD-TO-MATURITY: The rate of return yielded by a debt security held to maturity when both interest payments and the investor's potential capital gain or loss are included in the calculation of return.