FINANCIAL MANAGEMENT POLICIES

CARROLL COUNTY, VIRGINIA

ADOPTED: MONTH DAY, YEAR

Table of Contents

1. Policy I – Reserves and Fund Balance

A. Purpose

Carroll County, Virginia (the "County") believes that sound financial management principles require that sufficient funds be retained by the County to provide a stable financial base at all times. To retain this stable financial base, the County must maintain a General Fund Balance sufficient to fund all cash flows of the County, to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature, and to provide funds for all opportunities that require an expenditure/reimbursement process. This policy also authorizes and directs the County Administrator to prepare financial reports which accurately categorize Fund Balance as required by GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

B. Classification

Fund balance is the difference between the assets and liabilities reported in a governmental fund. The following five fund balance classifications describe the relative strength of the spending constraints placed on the purposes for which the resources can be used:

1. <u>Non-spendable Fund Balance:</u> These are fund balance amounts that are not in a readily spendable form, such as inventories or prepayments, or trust or endowment funds where the balance must remain intact.

2. <u>Restricted Fund Balance:</u> These are amounts that have constraints placed on their use for a specific purpose by external sources such as creditors, or legal or constitutional provisions.

3. <u>Committed Fund Balances:</u> These amounts are designated for a specific purpose or constraints have been placed on the resources by the County Board of Supervisors. Amounts within this category require Board of Supervisors action to commit or to release the funds from their commitment.

4. <u>Assigned Fund Balances:</u> These are amounts set aside with the intent that they be used for specific purposes. The expression of intent can be by the County Board of Supervisors or their designee and does not necessarily require Board action to remove the constraint on the resources.

5. <u>Unassigned Fund Balance</u>: These are amounts not included in the previously defined categories. The County's General Fund should report a positive Unassigned Fund Balance. Amounts in this classification represent balances available for appropriation at the discretion of the Board. However, the Board recognizes that the Unassigned Fund Balance needs to be comprised of liquid cash and investments to meet the County's cyclical cash flow requirements and be at a level sufficient to allow the County to avoid the need for short term tax anticipation borrowing. The Unassigned Fund Balance should also allow for a margin of safety against unforeseen expenditures that could include, but not be limited to, natural disasters, severe economic downturns, and economic development opportunities. Unassigned Fund Balance shall not be used for annual recurring expenditures, except for unforeseen emergency circumstances.

C. The following individual policy items shall constitute the County General Fund Balance:

1. Committed Fund Balance - Committed fund balance consists of portions of fund balance that are constrained to a specific future use or are not available for appropriation or expenditure. These funds have been designated for a specific purpose by the Board of Supervisors through a resolution.

2. Assigned Fund Balance - The Board of Supervisors has authorized the County Administrator as the official authorized to assign fund balance to a specific purpose as approved by this fund balance policy.

3. Assigned for CIP/Economic Development – For short- and long-term planning purpose the Board of Supervisors recognizes the value of the Capital Improvement Plan (CIP). In doing such the Board directs the County Administrator to create a CIP Fund to be classified as assigned.

4. Unassigned Fund Balance (Fiscal Stability/Liquidity Purposes) - Sufficient Unassigned Fund Balance provides liquidity and enables the County to manage the differences between periodic revenue collections and monthly operating cash flow expenses without the need for short-term tax anticipation borrowing. In addition, excess Unassigned Fund Balance represents expendable available financial resources that can be used to meet contingencies, working capital requirements, and for non-recurring expenditures.

   Due to the cyclical nature of governmental revenue collections the County will maintain an Unassigned Fund Balance for long-term fiscal responsibility and liquidity purposes. It will provide for a sufficient base and ensure the revenue generated from the County's change to twice year tax collections remains intact for fiscal stability purposes. This amount shall be equal to not less than 16.7% of the combined budgeted expenditures of the County General Fund and the Carroll County School Board Operating Fund, net of the County's local share contribution to the School Board.

   Should these funds be needed for an unforeseen and unusual circumstance, that results in the amount being less than the 16.7% at year end, a plan must be approved to replenish amounts over the next three subsequent fiscal years will be established prior to any obligation of funds.

   The County Administrator shall annually calculate and verify to the Board the County's compliance with this policy.

5. Unassigned (Revenue Stabilization) – The County will maintain additional Unassigned Fund Balance for Revenue Stabilization (over and above Item 4 above) that shall be used for unforeseen, emergency expenditures or unplanned, unforeseen declines in revenues. This amount shall be equal to but not less than 3.0% of the combined budgeted expenditures of the County General Fund and the Carroll County School Board Operating Fund, net of the County's local share contribution to the School Board. The County Administrator shall annually calculate and verify to the Board the County's compliance with this policy.

6. Unassigned (Capital Improvement/Reserve Fund) – The County will maintain additional Unassigned Fund Balance (over and above items 4 and 5 above) for Capital Improvement purposes. This amount shall be approximately 2.0% of the combined budgeted expenditures of the County General Fund and the Carroll County School Board Operating Fund, net of the County's local share contribution to the School Board. The County may use budget use of these funds for one time capital improvement needs or to offset targeted debt service peaks in a given year(s) as a part of a comprehensive multi-year plan of finance for capital needs. The County Administrator shall annually calculate and verify to the Board the County's compliance with this policy.

7. Unassigned Fund Balance – No Specification – Funds not otherwise reserved as required above represent balances available for appropriation at the discretion of the Board. However, the Board will make every effort to use these unassigned funds for the following purposes (listed in order of priority):

   a. Increase Committed Fund Balances as deemed necessary.

   b. Increase Assigned Fund Balances as deemed necessary.

   c. Increase amounts necessary for Unassigned Fund Balance amounts as specified above.

   d. Purchase of capital items identified on the currently adopted capital improvements program.

   e. Use as beginning cash balance in support of annual budget. The Board recognizes that any such funds should be appropriated for non-recurring expenditures as they represent prior year surpluses that may or may not materialize in subsequent fiscal years.

D. Monitoring and Reporting

The County Administrator shall:

1. Annually prepare a report documenting the status of the fund balance with this policy and present to the Board in conjunction with the development of the annual budget. Should the report disclose there are unassigned funds available; a recommendation for use of said funds shall be presented to the Board in the report.

2. The County Administrator shall annually calculate and verify to the Board the County's compliance with the Unassigned for Grants and Unassigned fund balance policy above.

E. Replenishment of the Unassigned Fund Balances

Should the Unassigned Fund Balances for Fiscal Stability/Liquidity Purposes or Revenue Stabilization amount fall below the designated levels, the Board must approve and adopt a plan to restore this balance to the target level within 24 months. The use of those funds will be restricted until proper reserves are restored.

2. Policy II - Cash Management

A. Effective cash management is an essential part of good financial management, particularly at a time when rising costs place mounting pressures on local revenues. Maximization of County investment returns on funds not immediately required for County operations can help offset this pressure. The County investment program must meet four criteria which are listed in the order of their importance:

1. Legality;
2. Safety;
3. Liquidity; and
4. Yield

B. The legality and safety of public investments are crucial. To allow for unforeseen expenditures, it must be possible to liquidate investments quickly without loss of principal. Only after these criteria are met should the maximization of investment yield be pursued.

Investment performance will be based upon the comparison of the County's investment yield to the LGIP and the average annual rate of return.

Within the constraints of normal trade practices, the County should increase the amount of funds available for investment by rapid collection of money owed to the County and decelerated payment of obligations.

A timely report of this information should be prepared by the Treasurer and submitted to the Board of Supervisors on a monthly basis.

3. Policy III - Debt Management

A. Background and Purpose

The debt policy provides guidance to Carroll County and its component units in the issuance of debt and support of other debt-like obligations which may or may not affect the allowable debt ratios of this policy of the County (principally moral obligation debt made through arrangements or agreements with other public bodies). For the purposes of this Policy, any debt or capital lease obligation whether legally considered debt of the County or not, shall be treated as such as described herein. This Policy shall apply to the County and component unit School Board receiving General Fund support for their debt financed capital projects. Debt ratios will be annually calculated, reviewed, and included in the capital improvement plan. Debt not associated with a capital asset will be excluded from this policy and calculations (i.e., pension liabilities, accrued leave, and other post-employment benefits).

This Policy addresses types of debt which may be issued by or on behalf of the County, allowable levels of these obligations, allowable corresponding annual debt service costs of these obligations and the approval requirements for the issuance of such obligations.

The purpose of this Policy is to ensure the issuance and repayment of all debt obligations are properly planned, approved, and executed to ensure the efficient and effective financial operations of the County.

The County may issue debt obligations to acquire, improve, renovate, or construct Capital Projects including buildings, machinery, equipment, furniture, and fixtures or other similar longer life assets.

B. Monitoring

As a part of the annual budgeting process, the County shall prepare a report summarizing compliance with this policy and present this report to the Board of Supervisors.

C. General Debt Guidelines

The County shall prepare an analysis of anticipated revenues, the potential tax impact and future operating costs associated with any project proposal for external financing. The final maturity of any obligation will not exceed the expected useful life of the assets or project for which the obligation is issued.

All obligations require approval by the Board of Supervisors. This approval shall indicate the Board of Supervisors approval of the identified funding for this Project and compliance with this Debt Policy.

D. Permitted Obligations

The County shall consider the following Obligation Types as Permitted Obligations for the purposes as stated.

1. Revenue Anticipation Notes:
    a. The County's Fund Balance Policy is designed to provide adequate cash flow to avoid the need for Revenue Anticipation Notes (RANs). The use of RANs is discouraged. The County may issue RANs as necessary in situations when budgeted revenues will be received after the related funds are scheduled to be distributed.
    b. The County will issue RANs for a period not to exceed the one-year period permitted under the Constitution of Virginia, Article VII Section 10.

2. Bond Anticipation Notes:
    a. The County may issue Bond Anticipation Notes (BANS) in expectation of the issuance of General Obligation Bonds or Revenue Bonds when funds are required for the financed capital project to be initiated or continued.
    b. The County may issue BANs when the long-term financial markets do not appear appropriate or if it is viewed as strategically advantageous to the County.
    c. The County may issue BANs with a maturity of up to five years in length.

3. General Obligation Bonds:

    a. The County may issue GO debt for any capital projects or other properly approved projects or programs after resolution/ordinance and approval of the voters in a duly-ordered referendum, if required, in accordance with the Public Finance Act, Va. Code § 15.2-2640.

    b. All debt secured by the General Obligation of the County will require a public hearing prior to approval by the Board of Supervisors.

    c. The Board of Supervisors will evaluate the need and appropriateness for School Board-related debt to be approved by referendum prior to issuance. Although general obligation bonds may be issued without referendum if such bonds are being issued for school purposes and sold to the State Literary Fund or to the Virginia Public School Authority, The Board of Supervisors will consider whether such referendum is nevertheless advisable under the circumstances.

4. VPSA Bonds and State Literary Fund Loans:

    a. The County shall attempt to use Literary Funds when possible taking into account budgetary cash flow for debt service and affordability. Analysis of cost of funding, structure of repayment and accessibility should be taken into account when determining whether to use the General Obligation, VPSA or the Literary Fund.

    b. Approval of the School Board is required prior to approval by the Board of Supervisors for projects funded with VPSA or State Literary Fund Loans.

5. Revenue Bonds:

    a. The County may issue Revenue Bonds to fund enterprise activities, such as water and sewer utilities, solid waste disposal facilities or for capital projects. In most cases the activity/project will generate a revenue stream sufficient to fund the annual debt service costs of the Revenue Bonds.

    b. The Revenue Bonds, or related performance or funding agreements will include written covenants which will require that the revenue sources be sufficient to fund operating expenses and all debt service requirements.

6. Capital Leases:

    a. The County may execute Capital Leases or other functionally-equivalent instruments with independent parties to provide for the use of buildings, machinery, equipment, furniture, and fixtures.

7. Moral Obligation Debt:

    a. The County may enter into agreements with other public bodies which provide for the payment of debt service when revenues of such public bodies or agencies may prove insufficient to cover debt service.

    b. While such moral obligation support does not affect the Allowable Debt Ratios of the County, the amount of bonds issued with the County's moral obligation should be controlled to limit potential demands on the County and any expected use of this type of obligation should be within the parameter of this Debt Policy.

8. Allowable Debt Ratios:

   The County shall maintain compliance with the following Debt Ratios:

   a. Net debt as a percentage of Assessed Value of real estate within the County will not exceed the range of 3.0% – 3.50%. Net debt is defined as the principal balances of general obligation County debt and included capital lease obligations.

   b. The ratio of debt service expenditures as a percentage of government fund budget expenditures shall not exceed 8.0%. Government fund budget expenditures is calculated as a combination of County and School Board expenditures minus the County appropriation to the School.

   c. The County debt service and expenditures and shall be calculated using the most recent audited Annual Financial Statements.

   d. Prior to approval of any new debt obligations by the Board, including lease revenue financing, the County Administrator shall run the appropriate calculations and include such analysis in the agenda item for approval of the borrowing for review of the Board of Supervisors.

4. Policy IV - Capital Improvement Plan

A. The County will adopt an annually updated multi-year Capital Improvement Plan (CIP) that sets forth desired capital improvements and the sources of funding for such improvements. Where general obligation bonds or other types of long-term debt are proposed, their impact on the County's debt ratios, real property tax rate will be examined and this policy. The expenses of operating proposed facilities and any new programs associated with them are vital and will be included in the annual capital budgeting process. The revenues necessary to fund these expenditures are to be estimated and provided as part of the overall financial impact of the capital improvement program. The utilization of this process will result in an orderly approach to meeting capital requirements and a manageable schedule for the payment of debt service and operating costs.

B. A contribution from current revenues to the County's capital improvement program reduces future debt services requirements and provides a safety margin to protect the County from revenue shortfalls. It shall be the County's objective to dedicate the required amount of the annual General Fund revenues allocated to the County's operating budget to fund projects included in the County's Capital Improvement Plan.

C. For strategic planning and monitoring purposes the Board of Supervisors directs the County Administrator to create a CIP Fund. This fund will hold an assigned fund balance as the funds are to be held for specific CIP purposes. This fund will be presented separately in the County's annually audited financial statements.

D. For long-range planning and in accordance with *§ 15.2-2239. Local planning commissions to prepare and submit annually capital improvement programs to governing body or official charged with preparation of budget*, the Board of Supervisors directs the Planning Commission to annually prepare and present a long-range Capital Improvement Program based on the County's Comprehensive Plan.

1. The Planning Commission shall prepare and revise annually a capital improvement program based on the comprehensive plan of the locality for a period not to exceed the ensuing five years. The commission shall submit the program annually in November to the Board of Supervisors. The capital improvement program shall include the commission's recommendations, and estimates of cost of the facilities and life cycle costs, including any road improvement and any transportation improvement the locality chooses to include in its capital improvement plan and as provided for in the comprehensive plan, and the means of financing them, to be undertaken in the ensuing fiscal year and in a period not to exceed the next four years, as the basis of the capital budget for the locality. In the preparation of its capital budget recommendations, the commission shall consult with the County Administrator, the heads of departments and interested citizens and organizations and shall hold such public hearings as it deems necessary.

5. Policies V – Other General Policies

A. Revenues

The County will strive to maintain a diversified mix of revenues in order to balance the sources of revenue amongst taxpayers and to provide ongoing stability and predictability and to shelter it from short-term fluctuations in any one revenue source.

Current revenues will fund current expenditures. The County must balance the need for services and the County's ability to raise fees, charges, and taxes to support those services.

B. Revenue Collections

The County will monitor all taxes to ensure they are equitably administered and collections are timely and accurate. The County will aggressively collect property taxes and related penalties and interest as authorized by the Code of Virginia.

C. Fees and Charges

As much as is reasonably possible, County services that provide private benefit should be supported by fees and charges in order to provide maximum flexibility in use of general County taxes to meet the cost of services of broader public benefit. Charges for services that benefit specific users should recover full costs, including all direct costs, capital costs, department overhead, and Countywide overhead. Departments that impose fees or service charges should prepare and periodically update cost-of-service studies for such services. A subsidy of a portion of the costs for such services may be considered when consistent with legal requirements to meet other County interests and objectives, such as remaining competitive within the region.

D. Reassessment

Reassessment will be made of all real property on a scheduled basis as determined by the County. The County will maintain sound appraisal procedures to keep property values current. Property will be assessed at 100% of full market value.

E. Intergovernmental Aid

The County will pursue intergovernmental aid, including grants, for those programs and activities that address a recognized need and are consistent with the County's long-range objectives, and will attempt to recover all allowable costs associated with those programs. Any decision to pursue intergovernmental aid should include the consideration of the following:

1. Present and future funding requirements;
2. Cost of administering the funds;
3. Costs associated with special conditions or regulations attached to the grant award
4. When grants or other intergovernmental aid are reduced or eliminated, the program or project it supported will be reduced by a commensurate amount.

F. Revenue Forecasts

The estimate of the County's revenues shall be set at realistic and attainable levels, sufficiently conservative to avoid shortfalls, yet accurate enough to avoid a systematic pattern of setting tax rates that produce significantly more revenue than is necessary to meet expenditure, fund balance and reserve requirements.

G. Restricted Revenue

Restricted revenue shall only be used for the purpose intended and in a fiscally responsible manner.

H. Use of One-Time Revenues

The County will limit the use of one-time revenues to one-time expenditures such as non-recurring capital projects. However, to the extent that dedicated capital reserve funds are set aside and it can be demonstrated that use of such funds in the operating budget may provide a temporary and strategic benefit to defray targeted expenditures (i.e., debt service) for a defined period of time, the County may incorporate use of such one-time funds in its operating budget.

Capital reserve funds may be comprised of Unassigned Fund Balance in excess of policy targets, operating surpluses from a given fiscal year, "banked revenues", budgeted contingencies, or some combination thereof.

I. Use of Fund Balance

The County's General Fund equity balance will be utilized to provide sufficient working capital in anticipation of current budgeted revenues and to finance unforeseen emergencies without borrowing. The General Fund equity of the County (Unassigned Fund Balance) should not be used to finance current operations.

J. Expenditures

The County should accommodate ongoing expenditures within current resources. One-time expenditures should be funded with an offsetting revenue or from an established and adequately funded capital reserve fund. Expenditures will be evaluated based on the fiscal impact on current and future operations. On-going expenses will be monitored in comparison with budget appropriations, effectiveness of the services, and operational efficiency.

K. Continual Improvements

The County will seek to optimize the efficiency and effectiveness of its services through Improvement efforts, performance measures, and by assessing its services with comparable cities to reduce costs and improve service quality.

L. Monitoring

Department Directors are responsible for managing program expenses within the total adopted operating budget.

M. Budgets

The County will annually adopt and execute a budget for such funds as may be required by law or by sound financial practices and generally accepted accounting principles. The budget shall control the levy of taxes and the expenditure of money for all County purposes during the ensuing fiscal year. The County budget shall be balanced within all available operating revenues, including the fund balance, and adopted by the Board.

N. Balanced Budget

The annual budget of the County will be considered balance when all payments for operations, debt service, and annual capital plan needs do not exceed budgeted revenues.

O. Current Revenues to Support Current Expenditures

Ongoing and stable revenues will be used to support ongoing operating costs.

P. One-time Revenues and One-time Expenditures

The use of one-time revenues and one-time expenditure savings (excess cash balances) will be used for non-recurring expenditures, subject to certain exceptions as provided under Unassigned Fund Balance (items 5 and 6).

Q. Revenue and Expenditure Projections

The County will prepare annually a financial forecast utilizing trend indicators and projections of annual operating revenues, expenditures, capital improvements and related debt service and operating costs, and fund balance levels.

R. Budget Performance Monitoring

All departments of the County will periodically examine and effect changes in program delivery responsibilities or management which would improve productivity, lower costs, enhance service, and further communication with the public. The County will maintain a budgetary control system to ensure adherence to the budget and will prepare monthly reports comparing actual revenues and expenditures (expenses) to budgeted amounts.

S. Budget Adjustments

The County Administrator may authorize adjustments to the adopted budget as requested by staff between individual line items. Board approval is needed to increase the total budget expenses.

T. County Financial Disclosure

The County is committed to full and complete financial disclosure, and to cooperating fully with rating agencies, institutional and individual investors, County departments, and the general public to share clear, comprehensive, and accurate financial information. The County is committed to meeting secondary market disclosure requirements on a timely and comprehensive basis through the Municipal Securities Rulemaking Board's ("MSRB") Electronic Municipal Market Access ("EMMA") dataport, if applicable.

EMMA Procedures (if applicable): The County will undertake the following procedures to ensure prompt and timely submission of its continuing disclosure information if the County is required to do so in connection with a public offering of debt or obligation requiring disclosure through EMMA.

1. Email reminders are to established and maintained through the EMMA dataport to automatically generate 30 days prior to the filing due date each year. These emails are scheduled to be delivered to the Director of Finance ("Primary Contact"), County Administrator ("Secondary Contact"), and Deputy County Administrator ("Secondary Contact").
2. After the email reminders have been received by the individuals listed above, a new continuing disclosure submission is created by the Primary Contact. All information is then reviewed for accuracy by the Secondary Contacts and then submitted by Primary Contact on or before the required filing due date. If the required continuing disclosure information will not be ready prior to the required filing due date, then a notice of failure to file the continuing disclosure information will be filed that contains an estimated filing date for the required continuing disclosure information.
3. The County shall file any material event notices within 10 days of such event occurring. If the County is unsure of the materiality of an event, it shall be discussed with its Bond Counsel and/or Financial Advisor to confirm if such event should be filed.

The procedures listed above will continue annually, however the individuals listed may change.

U. Financial Reporting

1. Accounting Standards

   The County's financial statements will conform to generally accepted accounting principles (GAAP) as established by the Government Accounting Standards Board (GASB).

2. Accounting Records

   The County will maintain an accounting system to allow for the accurate and timely preparation of financial statements.

3. Audit Requirements

   An independent certified public accountant will perform an annual audit of the County's financial statements. Audit results will be presented to the Board for acceptance.

V. Economic Development

Prior to any formal or informal introduction of a potential Economic Development Project that may require the County's direct or indirect support, the County Administrator, or his designee, and the Director of Economic Development will be required to provide an independent assessment of the proposed Economic Development Project to the Board. In providing such independent assessment, the County Administrator, or his designee, and the Director of Economic Development may be assisted by the County's financial advisor and any other consultants that are deemed appropriate. Ample time shall be provided so that the independent assessment will include, at a minimum, the following:

1. Identification of business risk/going concern risks of the business prospect;
2. Construction costs, including contingencies, of the Proposed Project;
3. The direct and/or indirect County commitment involved with the Proposed Project;
4. Evaluation of inflationary impact, if any, related to the Proposed Project or County's commitment;
5. Evaluation of any performance management contracts that may be entered into in conjunction with the Proposed Project;
6. Identification of any potential contingent liabilities to the County that may result from the Proposed Project; and
7. Identification of all annual revenues and expenses (i.e. incentives, maintenance, debt service, etc.) that would result from the Proposed Project. In addition, the independent assessment shall provide, if possible, an annual cash flow pro-forma analysis so as to determine the annual impact on the County's General Fund and/or other fund as applicable.

Finally, the independent assessment shall include a determination of the impact, if any, on the County's current and/or future debt capacity.

6. Policies VI – Investments

A. Policy Statement

It is the policy of Carroll County, Virginia that the investment and administration of its funds be made in accordance with the Code of Virginia Investment of Public Funds Act, the applicable provisions of any outstanding bond documents, as applicable, and this policy. The County shall be in complete compliance with all applicable federal, state and local laws, and other regulations and statutes governing the investment of public funds. Within those parameters, the goals of this policy are to ensure the safekeeping of the County's invested funds, enable the County to have sufficient liquid investments and achieve the highest rate of return to the extent possible given the first two goals. See Appendix 1 for a Glossary of Investment Terms.

B. Investment Committee

The County will establish an Investment Committee consisting of the County Administrator, Deputy County Administrator, Director of Finance, and County Treasurer. This Committee will provide broad policy oversight of investments and shall meet on a monthly basis to review the County's invested funds. This Investment Policy will be reviewed on an annual basis. Any changes must be approved by the Investment Committee and be reaffirmed by the Board of Supervisors.

Should the County utilize the services of an external portfolio manager, this Committee, at a minimum, will conduct a monthly review of the investment reports provided by the external portfolio manager. In addition, this Committee will conduct an annual review of the external portfolio manager via its annual financial statements (i.e., operating results, balance sheet, capital position, etc.) or other disclosure documentation in order to assess the external portfolio manager's wherewithal and ability to continue providing portfolio management services.

C. Scope

This policy applies to the investment of all the financial assets and funds held by the County. Specific requirements or limitations imposed upon the investment of Bond Proceeds, Sinking Funds, Debt Service Funds, and Debt Service Reserve Funds governed by federal tax law may be additive to these policies from time to time. These Funds are accounted for in the County's Comprehensive Annual Financial Report and include the General Fund, Self-insurance Fund, and the School Operating Fund.

D. Objectives

The primary objectives, in priority order, of the County's investment activities are as follows:

1. Safety

   Safety of principal is the foremost objective of the County's investment program. Investments of the County shall be undertaken in a manner that seeks to ensure the preservation of capital in the entire portfolio. The objective is to mitigate credit risk and interest rate risk.

   a. Credit Risk - The County will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

      i. Limiting investments to the safest types of securities;

      ii. Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the County will do business;

      iii. Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

   b. Interest Rate Risk - The County will minimize interest risk, the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:

      i. Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity;

ii. Investing funds needed to meet operating expenses and capital project needs primarily in shorter-term securities, money market mutual funds, or similar investment pools.

2. Liquidity

The County's investment portfolio will remain sufficiently liquid to meet all operating requirements, which might be reasonably anticipated. The County will primarily meet disbursement requirements using current receipts. Furthermore, because all possible cash demands cannot be anticipated, the portfolio should consist primarily of securities with active secondary or resale markets.

3. Return on Investment

The investment portfolio shall be designed to maximize the rate of return throughout budgetary and economic cycles, after taking into account the investment risk constraint and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities may be sold prior to maturity for the following reasons:

a. A security with declining credit to mitigate the risk of loss of principal;

b. To improve the quality, yield, or target duration in the portfolio;

c. Meet liquidity needs of the portfolio or operations, if necessary.

E. Delegation of Authority

Under the guidance of the Investment Committee, the County Treasurer is the official charged with collecting, safeguarding and disbursing County funds. In this capacity, and with consensus from the Investment Committee, the County Treasurer is responsible for establishing staff roles and responsibilities, considering the quality and capability of staff, selecting investment advisors and consultants involved in investment management, and developing and maintaining appropriate administrative procedures for the operation of the investment program. Examples of key staff roles and responsibilities include, but are not limited to, solicitation of investment offerings, placement of purchase and sell orders, confirmation of trades, and preparation of reports and other activities as required for the daily operations of the investment area. Subject to the approval of the Investment Committee, the County Treasurer may employ financial consultants and portfolio managers to assist in the development and implementation of investment procedures and policies, to monitor the effectiveness and continued compliance with such policies and procedures, and to provide guidance in investment matters.

F. Standards of Care

The standard of prudence to be used by investment personnel shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. The "prudent person" standard states:

> "Investments shall be made with judgment and care – under circumstances then prevailing – which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

The County Treasurer, and those delegated investment authority under this Policy, when 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 expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

G. Ethics and Conflicts of Interest

Officers and employees of the County involved in the investment process shall refrain from personal business activities that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business and any personal investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the County. Officers and employees are required to abide by the provisions of the Virginia Conflict of Interests Act. The Act prohibits County officers and employees from seeking or accepting money or any other thing of value for the performance of their duties, using confidential information for their own benefit and having a personal interest in a company with which the County is doing business. "Officer" means any person appointed or elected to the County's government whether or not he/she receives compensation or other emolument of office. "Employee" means all persons employed by the County.

H. Collateral and Safekeeping Arrangements

In accordance with the Section 2.2-4515 of the Code of Virginia: All investment securities purchased by the County shall be held in third-party safekeeping at a qualified public depository that may not otherwise be a counterparty to the investment transaction. The provisions of this section shall not apply to investments with a maturity of less than 31 calendar days. (A qualified public depository is defined under Virginia law as a national banking association, federal savings and loan association or federal savings bank located in Virginia and any bank, trust company or savings institution organized under Virginia law that receives or holds public deposits which are secured pursuant to Section 2.2-4400 of the Code of Virginia (the "Virginia Security for Public Deposits Act").

All securities in the County's portfolio shall be held in the name of the County and will be free and clear of any lien. All investment transactions will be conducted on a delivery-vs-payment basis. The depository shall issue a safekeeping receipt to the County listing the specific instrument, rate, maturity, and other pertinent information. On a monthly basis, the depository will also provide reports that list all securities held for the County, the book value and the market value as of month end.

Appropriate County officials and representatives of the depository responsible for or in any manner involved with the safekeeping and custody process of the County shall be bonded in such a fashion as to protect the County from losses from malfeasance and misfeasance.

Securities purchased for the County shall be held by the Treasurer or the County's designated custodial agent. Securities held by a custodial agent shall be recorded in name of the County on the custodian's records. If a custodial agent is used, a written agreement defining the responsibilities of the agent and the custodial agent shall not be a counterparty to purchase of securities held by the custodial agent. This shall not apply to investments with a maturity of less than thirty-one calendar days.

I. External Investment Management and/or Portfolio Management

In order to better manage yield in changing interest rate environments, the Treasurer may decide to contract for external investment management and/or portfolio management services. This portion of the investment portfolio may be invested for periods greater than one year but not more than five years. Since these funds have been set aside they are not currently required to meet the near term liquidity needs of the County. Before any funds are turned over to an external portfolio manager, the County shall demonstrate that there is no intended use of such funds over the investment horizon (e.g., 1 Year cycle). Professionally managed funds may not exceed 45% of the net balance of the County's cash and investments. A portion of the interest earnings of this fund and the general portfolio earnings can be used to pay for banking, financial, and investments management services. The external portfolio manager must comply with all the requirements of the Code of Virginia and this policy with respect to the investment of local funds.

J. Suitable and Authorized Investments – Without Exception, Only the Following Investments Are Suitable and Authorized for all County Funds except Bond Proceeds, Sinking Funds, Debt Service Funds, and Debt Service Reserve Funds

1. United States Treasury Obligations – Obligations issued and unconditionally guaranteed as to the payment of principal and interest by the U.S. Government. Bonds, notes and bills issued by the United States Treasury or certificates representing ownership of treasury bond principal or coupons (STRIPS).
2. Agency Securities (GNMA, FHLB, FNMA, FFCB, FHLMC) – Fixed rate obligations issued and guaranteed as to principal and interest by the Government National Mortgage Association, Federal Home Loan Bank, the Federal National Mortgage Association, the Federal Farm Credit Bank or Federal Home Loan Mortgage Corporation. The County may invest in any agencies not specifically mentioned in this section upon review and approval by the County's Investment Committee.

3. Negotiable Certificates of Deposit (CD) – issued by Virginia banks and saving institutions or domestic national banks with Virginia branches. Investments in CDs shall be federally insured and/or collateralized according to the requirements specified under the Virginia Security of Public Deposits Act.
4. Overnight, Open and Term Repurchase Agreements – collateralized by the U.S. Treasury/Agency securities limited to items specified in 1 and 2 above. Repurchase agreements are required to have collateralization in excess of 102% and be marked to market weekly with option to liquidate by the County if the deficiency is not corrected by the counterparty. The counterparty must be rated at least AA by Standard & Poor's and Aa2 by Moody's Investors Service and insured by FDIC, or is a Broker-Dealer subject to SIPC protection.
5. Open-End Investment Funds (Mutual Funds) – Open-end investment funds (mutual funds) which trade on a constant net asset value and are registered under the Securities Act of the Commonwealth of Virginia or the Federal Investment Co. Act of 1940 and which invest solely in instruments otherwise permitted under items 1 and 2 above.
6. Banker's Acceptances – maturing within 180 days and rated at least A-1 by Standard & Poor's and P-1 by Moody's Investors Service; provided that the issuer is a major domestic bank and not rated lower than Tier-1 by any two (2) Nationally Recognized Statistical Rating Organizations (i.e. Standard & Poor's, Moody's Investors Service etc.).
7. Prime Commercial Paper – Commercial Paper issued under Section 3(a)(3) of the Securities Act of 1933 and maturing within 270 days of the date of purchase with at least two (2) of the following ratings: P-1 or higher by Moody's Investors Service, A-1 or higher by Standard & Poor's, F-1 or higher by Fitch, provided that the issuing corporation (or guarantor) has a net worth of at least $50 million, average net income of $3 million for the past 5 years AND a long-term debt rating of A or better by at least two (2) of the following National Credit Rating Agencies: Moody's Investors Service, Standard & Poor's or Fitch. Asset backed commercial paper shall not be permitted. Commercial paper rated lower than A-1, or equivalent tier, by any rating agency shall not be permitted.
8. Tax-Exempt and Taxable Municipal Bonds – Municipal Bonds or other obligations of the Commonwealth of Virginia, or any other state or political subdivision of the Commonwealth of Virginia. General Obligation and Revenue bonds maturing within 5 years from date of purchase and rated AA or higher by at least two of the following National Credit Rating Agencies: Moody's Investors Service, Standard & Poor's or Fitch.
9. Virginia Local Government Investment Pool - the pooled fund known as the "LGIP" as provided for in Section 2.2-4600 of the Code of Virginia.
10. Virginia State Non-Arbitrage Program.

K. Suitable and Authorized Investments – Restricted Funds

Unless further restricted by bond documentation, funds defined as Bond Proceeds, Sinking Funds, Debt Service Funds, and Debt Service Reserve Funds under the Virginia code may be invested in items listed in Section J.1 and J.2 above, repurchase agreements and mutual funds collateralized by those investments, and in the Virginia State Non-Arbitrage Program or other authorized Arbitrage Investment Management Program.

L. Credit Quality

The County portfolio will in all cases place emphasis on securities of high credit quality and marketability. Holdings are subject to the credit quality limitations in Section J at time of purchase. The Investment Committee shall be responsible for review of the portfolio on a monthly basis to confirm that the investments in the County's portfolio meets all financial policies herein and credit quality limitations herein. Should the Investment Committee (or the investment management advisor or external portfolio manager, if applicable) discover that a security fails to meet the credit quality limitations after purchase (i.e., credit downgrades), the Investment Committee (or external portfolio manager) shall notify the County Treasurer within one business day, of each security that fails to meet the credit quality limitations. Such security must then be sold within 60 calendar days, or earlier if so directed by County Treasurer, unless otherwise determined and approved in writing by the County Treasurer under the direction of the Investment Committee.

M. Diversification

The County portfolio will diversify investments by security type and by issuer and the following shall apply:

1. The portfolio will be diversified with no more than 5% of the value of the portfolio invested in the securities of any single issuer. This limitation shall not apply to the U.S. Government, or Agency thereof, or U.S. Government sponsored corporation securities and fully insured and/or collateralized certificates of deposit.
2. The maximum percentage of the Investment Portfolio in each eligible security type is limited as follows:

U.S. Treasury	100%
Agency Securities (no more than 35% in any one agency)	100%
Money Market Mutual Funds	100%
Repurchase Agreements	40%
Municipal Obligations (no more than 5%* in any one issuer)	20%
Bankers Acceptances (no more than 5%* in any one bank)	20%
Negotiable Certificates of Deposits (no more than 5%* in any one bank)	20%
Commercial Paper (no more than 5%* in any one issuing corporation)	20%
Virginia Local Government Investment Pool	100%
Virginia State Non-Arbitrage Program	100% of Bond Proceeds

** or $1 Million, whichever is greater.*

N. Prohibited Investments or Actions

1. Inverse floaters, IOs, POs, and Z-tranche securities.
2. Futures, options, options on futures, margin buying, leveraging, and commodities. Forward trades are permitted as long as they are procured during normal “when issued” periods for individual markets and as long as cash is reserved or a security will mature to cover the purchase.
3. Asset backed obligations, collateralized mortgage obligations.
4. High Yield Bonds.
5. Any security not strictly authorized in Section J must be approved in advance, in writing by the County Treasurer with authorization from the Investment Committee.

O. Maturity Limitations

To the extent necessary, the County will attempt to match investments with anticipated cash requirements. County funds will be invested at maturities determined to be most beneficial to the portfolio. No investment shall exceed five (5) years or as otherwise limited in Section I.

P. Internal Controls

Under the guidance of the Investment Committee, the County Treasurer will establish and maintain an internal control structure designed to ensure that the assets of the County are protected from loss, theft or misuse. The internal control structure will be 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. The internal control structure will address the following points:

1. Control of collusion
2. Separation of transaction authority from accounting and record keeping
3. Custodial safekeeping
4. Avoidance of physical delivery of securities
5. Clear delegation of authority to subordinate staff members
6. Written confirmation of transactions for investments and wire transfers
7. Development of a wire transfer agreement with the lead bank and third-party custodian

Q. Reporting

The Treasurer will ensure that a cash balances report will be prepared at the close of each month. If investments are held, this report will include information that provides an analysis of the status of the current investment portfolio and whether investment activities during the reporting period have conformed to the investment policy herein. The report shall include the following details:

1. Listing of securities held at the end of the reporting period
2. Realized and unrealized gains or losses resulting from appreciation or depreciation
3. Average weighted yield to maturity of portfolio on investments compared to benchmarks

4. Credit rating of the investment
5. Listing of investment by maturity type
6. Percentage of the total portfolio which each type of investment represents

Appendix 1: Glossary of Investment Terms

Accrued Interest – The accumulated interest due on a bond as of the last interest payment made by the issuer.

Agency – A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government. Federally sponsored agencies (FSA's) are backed by each particular agency with a market perception that there is an implicit government guarantee. An example of a federal agency is the Government National Mortgage Association (GNMA). An example of a FSA is the Federal National Mortgage Association (FNMA).

Amortization – The systematic reduction of the amount owed on a debt issue through periodic payment of principal.

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.

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., "one-quarter" of 1 percent is equal to 25 basis points.

Bid – The indicated price at which a buyer is willing to purchase a security or commodity.

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.

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.

Call Risk – The risk to a bondholder that a bond may be redeemed prior to maturity.

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.

Cash Sale/Purchase – A transaction which calls for delivery and payment of securities on the same day that the transaction is initiated.

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

Commercial Paper – An unsecured short-term promissory note issued by corporations, with maturities ranging from 2 to 270 days.

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.

Coupon Rate – The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as the "interest rate."

Credit Quality – The measurement of the financial strength of a bond issuer to help 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.

Credit Risk – The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

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.

Delivery Versus Payment (DVP) – A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or his/her custodian.

Discount – The amount by which the par value of a security exceeds the price paid for the security.

Diversification – A process of investing assets among a range of security types by sector, maturity, and quality rating.

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.

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.

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

Federal Funds Rate – Interest rate charged by one institution lending federal funds to the other.

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, and Bonds."

Interest Rate – See "Coupon Rate"

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.

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. 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 the 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 or email 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.

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.

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

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.

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

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

Mark-to-Market – The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

Market Risk – The risk that the value of a security will rise or decline as a result of changes in market conditions.

Market Value – Current market price of a security.

Maturity – The date on which payment of a financial obligation is due. The final stated maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder. See “Weighted Average Maturity.”

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).

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:

1. Report standardized performance calculations.

2. Disseminate timely and accurate information regarding the fund's holdings, performance, management and general investment policy.

3. 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.

4. Maintain the daily liquidity of the fund's shares.

5. Value their portfolios on a daily basis.

6. Have all individuals who sell SEC-registered products licensed with a self-regulating organization (SRO) such as the National Association of Securities Dealers (NASD).

7. Have an investment policy governed by a prospectus which is updated and filed by the SEC annually.

Mutual Fund Statistical Services – Companies that track and rate mutual funds, e.g. IBC/Donoghue, Lipper Analytical Services, and Morningstar.

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

Nationally Recognized Statistical Rating Organization (NRSRO) – A credit rating agency that is recognized by the U.S. Securities and Exchange Commission and assess the creditworthiness of an obligor or entity with respect to specific securities or money market instruments.

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.)
[(Total assets) – (Liabilities] / (Number of shares outstanding)

No Load Fund – A mutual fund which does not levy a sales charge on the purchase of its shares.

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."

Offer – An indicated price at which market participants are willing to sell a security or commodity. Also referred to as the "Ask price."

Par – Face value or principal value of a bond, typically $1,000 per bond.

Positive Yield Curve – A chart formation that illustrates short-term securities having lower yields than long-term securities.

Premium – The amount by which the price paid for a security exceeds the security's par value.

Prime Rate – A preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are keyed to this rate.

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

Prospectus – A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC. This can include information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements.

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

Regular Way Delivery – Securities settlement that calls for delivery and payment on the third business day following the trade date (T+3); payment on a T+1 basis is currently under consideration. Mutual funds are settled on a same day basis; government securities are settled on the next business day.

Reinvestment Risk – The risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by that holding.

Repurchase Agreement (repo or RP) – An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date.

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

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).

Safekeeping – Holding of assets (e.g., securities) by a financial institution.

Serial Bond – A bond issue, usually of a municipality, with various maturity dates scheduled at regular intervals until the entire issue is retired.

Sinking Fund – Money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.

Swap – Trading one asset for another.

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.

Total Return – The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period. (Price Appreciation) + (Dividends paid) + (Capital gains) = Total Return.

Treasury Bills – Short-term U.S. government non-interest bearing debt securities with maturities of no longer than one year and issued in minimum denominations of $10,000. Auctions of three- and six-month bills are weekly, while auctions of one-year bills are monthly. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.

Treasury Bonds – Long-term U.S. government debt securities with maturities of ten years or longer and issued in minimum denominations of $1,000. Currently, the longest outstanding maturity for such securities is 30 years.

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

Uniform Net Capital Rule – SEC Rule 15C3-1 outlining capital requirements for broker/dealers.

Volatility – A degree of fluctuation in the price and valuation of securities.

"Volatility Risk" Rating – A rating system to clearly indicate the level of volatility and other non-credit risks associated with securities and certain bonds funds. The ratings for bond funds range from those that have extremely low sensitivity to changing market conditions and offer the greatest stability of the returns ("AAA" by S&P; "V-1" by Fitch) to those that are highly sensitive with currently identifiable market volatility risk ("CCC"-S&P, "V-10" by Fitch).

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.

When Issued (WI) – A conditional transaction in which an authorized new security has not been issued. All "when issued" transactions are settled when the actual security is issued.

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

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.

Yield-to-Call (YTC) – The rate of return an investor earns on a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

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.

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