

March 11, 2014

TO: MEMBERS OF THE SCHOOL BOARD OF PINELLAS COUNTY

FROM: MICHAEL A. GREGO, ED.D., SUPERINTENDENT

RE: Request Adoption of the Investment Portfolio Financial Statements for the Quarter Ended December 31, 2013

BACKGROUND:

The Quarterly Investment Report is a quarterly and year-to-date summary of the portfolio performance.

STRATEGIC DIRECTION/GOAL: Effective & Efficient Use of Resources

ALTERNATIVES:

1. Adopt the financial statements.
2. Do not adopt the financial statements.

RECOMMENDATION:

Alternative 1 is recommended.

RATIONALE:

The most recent quarterly unaudited financial statements of the board's investment activities are included herein. The board's approval of this approach to investments has resulted in greater investment income than previously obtainable. The format includes comparative information with respect to earnings performance. The actual and Pro Forma information are condensed to facilitate comparisons. The quarterly investment report includes two benchmarks for comparison. Benchmark 1 is a composite of market indices and Benchmark 2 is the Florida Prime (formerly SBA LGIP) fund.

IMPACT STATEMENT:

The Managed Investment Program (MIP) earnings for the quarter ended December 31, 2013, totaled a negative \$2,479,994 after recognizing a market value adjustment of a negative \$3,649,992. For the quarter, the weighted average index (WAI) (benchmark 1) outperformed the MIP by \$2,714,465. For the quarter, the State Board of Administration (benchmark 2) outperformed the MIP by \$2,592,144. The MIP earnings have exceeded the potential State Board of Administration by \$29,131,458 since inception (as noted in footnote 3). The district's MIP currently has an unrealized market loss of \$7,969,583. Since the district's policy is to buy and hold securities, this loss will eventually be returned as principal is returned, or bonds mature. If the district's bonds were priced at par (100) as of December 31, 2013, the district's cumulative return over the SBA would be \$37,101,041.

During the December quarter there was continued concern in the financial markets over the ending of Quantitative Easing. Uncertainty about the direction the new Fed Chair would take added downward pressure on bond prices. As a new calendar year starts, there are a couple factors which should lead to improved performance of the District's investment portfolio. First, the financial markets are becoming more comfortable with the pace with which the Fed is reducing Quantitative Easing. Second, the influx of local millage revenue in November and December allowed staff to add investments with current, and therefore higher, yields. As evidence of this, during the month of January, the District's investment portfolio had a positive total return. The first positive monthly return since September 2013.

DATA SOURCE:

Kevin W. Smith, CPA, Associate Superintendent, Finance and Business Services
Andrew S. Jacobsen, Manager, Cash & Investments
Investment Oversight Committee (3/4/14)

SUBMITTED BY:

Kevin W. Smith, CPA, Associate Superintendent, Finance and Business Services

Quarterly Investment Report

December 31, 2013

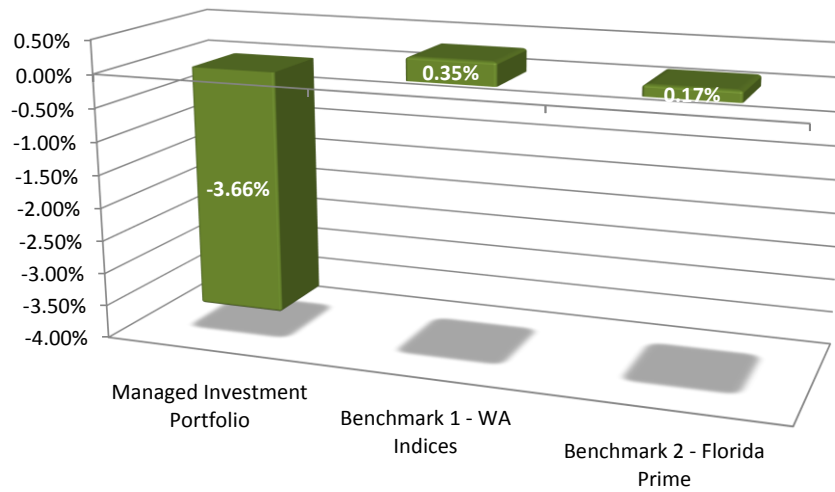


prepared by Cash Management Department

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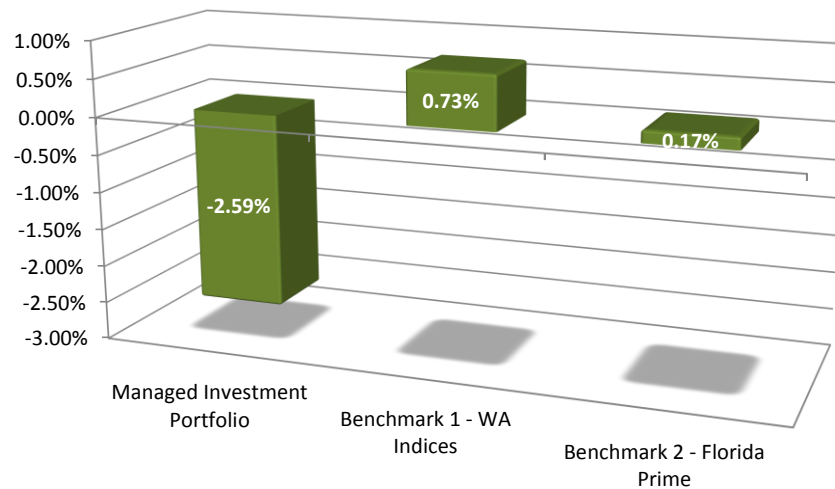
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Yield Comparison Current Quarter



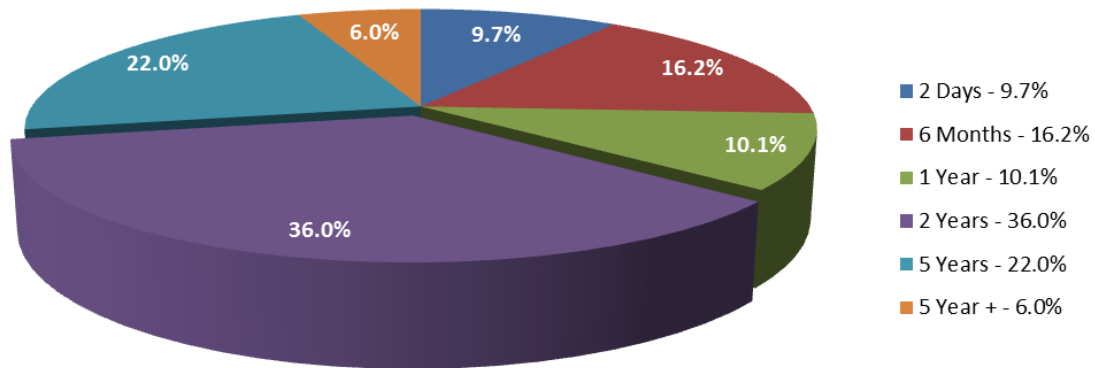
The yield on the district's managed investment program was a negative 3.66% for the quarter ended December 31, 2013.

Yield Comparison Year to Date



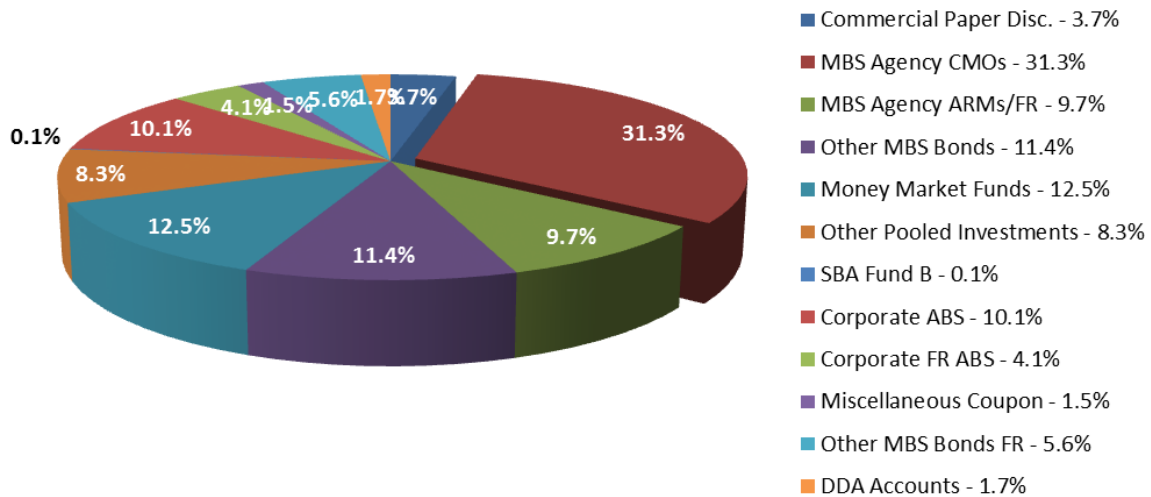
The yield on the district's managed investment program was a negative 2.59% for the fiscal year ended December 31, 2013.

Investments by Duration December 31, 2013



The above chart breaks down the duration of the district’s investment by time frame. The largest category, 2 years duration, represents liquid cash that can be accessed within 2 years. The other categories represent investments whose modified duration falls within that time frame.

Investments by Type December 31, 2013



The above chart breaks down the district’s portfolio by investment type. For example, the largest category is Agency, GNMA, FNMA, FHLMC, etc..., Mortgage-Backed Securities (MBS) representing 41% of the portfolio.

Portfolio Assets	12/31/13	6/30/13
Investment in U.S. Treasury and Agency Securities:		
Investments (securities at market value)	\$336,380,636	\$249,912,713
Other Pooled Investments	36,178,213	26,319,979
State Board of Administration Fund B	457,403	589,726
Accrued Interest Receivable and Prepaid Interest	709,031	621,244
Total U.S. Treasury and Agency Securities	\$373,725,283	\$277,443,662
Cash Investments		
Money market funds	54,236,682	35,660,687
Bank accounts (DDA & MMA)	7,301,039	4,432,255
Total Cash Investments	\$61,537,721	\$40,092,942
Total Managed Investment Portfolio Value	\$435,263,003	\$317,536,604

Portfolio Income	Quarter End 12/31/13	Y-T-D 12/31/13	Prior Year 6/30/13
Interest Earned			
U.S. Government Securities & Other Pooled Accounts	1,177,800	2,827,040	7,913,641
Money Market Funds	8,200	10,618	28,906
Bank Accounts	9,409	15,478	39,667
Total Interest Earned	1,195,409	2,853,135	7,982,215
Net increase/(decrease) in fair value of investments - Note 2	(3,675,403)	(6,263,142)	(9,105,286)
Total Managed Investment Portfolio Income	(\$2,479,994)	(\$3,410,007)	(\$1,123,071)

Yield Comparison - Page 5	Quarter End 12/31/13	Y-T-D 12/31/13	Prior Year 6/30/13
<i>Managed Investment Portfolio</i>			
Annualized Rate of Return	-3.66%	-2.59%	-0.36%
<i>Benchmark 1 - Weighted Average of Comparable Indices</i>			
Annualized Rate of Return	0.35%	0.73%	-0.05%
Managed Investment Portfolio Yield vs. Benchmark 1	-4.01%	-3.32%	-0.31%
<i>Benchmark 2 - Florida Prime MMF (SBA LGIP)</i>			
Annualized Rate of Return	0.17%	0.17%	0.24%
Managed Investment Portfolio Yield vs. Benchmark 2	-3.83%	-2.76%	-0.60%

Security Description	CUSIP	Book Value	Market Value	Unrealized Gain/Loss	Prepaid & Accrued Interest	Total Investment Value	Rtg	Mod. Dur.
Commercial Paper Disc. - 3.68%								
DCAT 0% CP	24023HA62	2,999,890	2,999,890	(0)	0	\$2,999,890	A1/P1	0.01
DCAT 0% CP	24023HAA3	6,499,571	6,499,571	0	0	\$6,499,571	A1/P1	0.02
DCAT 0% CP	24023HAH8	6,499,209	6,499,209	0	0	\$6,499,209	A1/P1	0.04
subtotal		\$15,998,670	\$15,998,670	(\$0)	\$0	\$15,998,670	AAA	0.03
Corporate ABS - 10.09%								
CHAIT 12-A3 A3	161571FJ8	20,096,976	20,067,600	(29,376)	7,461	\$20,075,061	AAA	1.45
SDART 10-A A4	80282FAG2	23,900,922	23,835,488	(65,434)	25,127	\$23,860,615	AAA	0.64
subtotal		\$43,997,898	\$43,903,088	(\$94,810)	\$32,588	\$43,935,676	AAA	1.01
Corporate FR ABS - 4.08%								
MSC 05-T19 A4A	61745M5G4	17,834,861	17,705,432	(129,429)	68,786	\$17,774,218	AAA	1.29
subtotal		\$17,834,861	\$17,705,432	(\$129,429)	\$68,786	\$17,774,218	AAA	1.29
Miscellaneous Coupon - 1.50%								
LBUBS 08-C1 AAB	50180LAB6	6,608,992	6,508,141	(100,851)	9,397	\$6,517,539	AAA	1.21
subtotal		\$6,608,992	\$6,508,141	(\$100,851)	\$9,397	\$6,517,539	AAA	1.21
MBS Agency CMOs - 31.38%								
FHR 2948 YD	31395PQP0	54,210	51,682	(2,527)	237	\$51,919	AAA	0.05
FHR 3986 TC	3137AKBY6	6,600,826	6,510,052	(90,775)	10,671	\$6,520,723	AAA	2.68
FHR 4039 JA	3137AQNA2	4,659,949	4,357,461	(302,488)	5,840	\$4,363,301	AAA	5.63
FHR 4165-CA	3137AYQY0	8,789,463	8,496,688	(292,775)	9,102	\$8,505,790	AAA	3.30
FNR 12-90 DA	3136A7RE4	17,722,990	16,227,093	(1,495,897)	21,914	\$16,249,007	AAA	3.03
FNR 12-138 MA	3136AAFH3	15,509,072	14,906,798	(602,274)	12,884	\$14,919,682	AAA	2.10
FNR 12-117 DA	3136A8P20	22,014,647	18,417,822	(3,596,825)	27,263	\$18,445,085	AAA	1.34
FNR 13-18 JZ	3136ACXV8	210,072	205,212	(4,860)	437	\$205,650	AAA	0.06
FNR 04-8 GD	31393XDU8	9,134,970	8,978,495	(156,475)	32,644	\$9,011,139	AAA	1.12
FN AL4204	3138ELU68	14,032,658	13,867,911	(164,747)	34,206	\$13,902,117	AAA	7.67
FHR 4283 EC	3137B6GM7	20,112,500	20,056,000	(56,500)	20,833	\$20,076,833	AAA	1.39
GNR 08-38 PS	38375QGZ6	937,522	913,164	(24,358)	2,617	\$915,781	AAA	1.03
GNR 10-161 AB	38376GZA1	10,027,283	9,885,990	(141,293)	17,141	\$9,903,132	AAA	1.51

Security Description	CUSIP	Book Value	Market Value	Unrealized Gain/Loss	Prepaid & Accrued Interest	Total Investment Value	Rtg	Mod. Dur.
GNR 09-99 A	38376GBS8	1,132,680	1,105,036	(27,644)	3,120	\$1,108,156	AAA	0.61
GNR 09-115 AD	38376GCR9	854,824	831,591	(23,233)	2,089	\$833,679	AAA	0.28
GNR 09-71 A	38376GAG5	177,806	172,326	(5,480)	474	\$172,800	AAA	0.16
GNR 10-52 AE	38376GGU8	348,793	337,274	(11,519)	1,136	\$338,410	AAA	0.63
GNR 13-26 GA	38378JBV3	1,682,301	1,665,047	(17,254)	2,428	\$1,667,475	AAA	2.40
GNR 04-10 D	38373MKT6	3,476,486	3,442,210	(34,276)	14,580	\$3,456,790	AAA	1.18
GNR 10-118 b	38376GUR9	4,591,160	4,569,765	(21,395)	10,592	\$4,580,357	AAA	0.85
GNR 10-167 KW	38377NUW2	1,352,284	1,351,759	(525)	5,402	\$1,357,161	AAA	0.98
subtotal		\$143,422,496	\$136,349,377	(\$7,073,119)	\$235,609	\$136,584,986	AAA	2.57
MBS Agency ARMs/FR - 9.66%								
FNR 07-114 A6	31396X3Q5	1,995,000	1,984,640	(10,360)	65	\$1,984,705	AAA	3.23
G2 82577	36225E2K7	3,449,964	3,424,594	(25,371)	4,097	\$3,428,691	AAA	4.92
G2 82518	36225EYQ9	18,354,724	19,332,113	977,389	53,535	\$19,385,648	AAA	2.60
G2 82579	36225E2M3	6,329,915	6,314,115	(15,800)	17,489	\$6,331,604	AAA	2.94
G2 82462	36225EWY4	2,871,129	2,875,586	4,457	7,975	\$2,883,561	AAA	3.50
G2 82539	36225EZD7	3,832,648	3,801,806	(30,842)	11,292	\$3,813,099	AAA	1.47
G2 82558	36225EZY1	4,237,342	4,202,245	(35,097)	12,485	\$4,214,729	AAA	1.15
subtotal		\$41,070,723	\$41,935,099	\$864,376	\$106,939	\$42,042,038	AAA	2.68
Other MBS Bonds - 11.44%								
BSCMS 04-PWR3 A	07383FYH5	517,299	504,102	(13,197)	697	\$504,799	AAA	0.03
CSMC 07-C5 A3	22546BAD2	8,492,681	8,057,553	(435,128)	37,794	\$8,095,347	AAA	0.43
GCCFC 04-GG1	396789FT1	4,075,343	4,047,411	(27,932)	17,840	\$4,065,251	AAA	0.23
GCCFC 05-GG5A41	396789LJ6	8,186,997	8,047,637	(139,360)	35,155	\$8,082,792	AAA	0.26
GSMS 04-GG2 A6	36228CTH6	542,285	539,957	(2,328)	2,404	\$542,361	AAA	0.39
JPMCC 04-LN2	46625YCV3	21,208,868	21,002,399	(206,468)	88,576	\$21,090,975	AAA	0.49
MLMT 04-BPC1 A5	59022HEX6	6,408,582	6,355,057	(53,525)	0	\$6,355,057	AAA	0.57
WBCMT 06-C24 AP	92976BFQ0	1,086,651	1,037,315	(49,336)	4,802	\$1,042,117	AAA	0.20
subtotal		\$50,518,706	\$49,591,431	(\$927,275)	\$187,267	\$49,778,698	AAA	0.42
Other MBS Bonds FR - 5.62%								
LBUBS 05-C7 A4	52108MAF0	15,956,999	15,816,900	(140,099)	43,308	\$15,860,208	AAA	1.37
LBUBS 05-C3 A5	52108H5X8	8,659,542	8,572,499	(87,043)	21,718	\$8,594,217	AAA	1.17

Pinellas County Schools
 Quarterly Investment Report

December 31, 2013
 Total Investment Value

Security Description	CUSIP	Book Value	Market Value	Unrealized Gain/Loss	Prepaid & Accrued Interest	Total Investment Value	Rtg	Mod. Dur.
subtotal		\$24,616,541	\$24,389,399	(\$227,142)	\$65,026	\$24,454,425	AAA	1.30
Cash, MMFs, & Investment Pools - 22.56%								
Bank Accts (DDA & MMA)	N/A	7,301,039	7,301,039	0	0	\$7,301,039	N/A	0.00
Money Market Funds	N/A	54,236,682	54,236,682	0	3,417	\$54,240,099	AAAm	0.00
Core Fund	1149200011	36,476,665	36,178,213	(298,452)	0	\$36,178,213	Aaa-bf	(0.17)
SBA Fund B	251361B	440,283	457,403	17,120	0	\$457,403	N/A	4.04
subtotal		\$98,454,668	\$98,173,336	(\$281,332)	\$3,417	\$98,176,753	AAA-	(0.04)
Managed Investment Program		\$442,523,556	\$434,553,972	(\$7,969,583)	\$709,031	\$435,263,003	AAA	1.35

Unrealized Gain/Loss as a percent of total market value: -1.83%

	Quarter End 12/31/13	Y-T-D 12/31/13	Prior Year 6/30/13
Average Invested Value of Managed Investment Portfolio	\$268,931,223	\$261,348,839	\$315,979,285
Managed Investment Portfolio Yield			
Total Managed Investment Portfolio Earnings	(\$2,479,994)	(\$3,410,007)	(\$1,123,071)
<i>Managed Investment Portfolio Annualized Rate Of Return</i>	-3.66%	-2.59%	-0.36%
Benchmark 1 - Weighted Average of Comparable Indices			
Pro Forma Interest Earnings:			
Quarter Ended 9/30/13		722,151	(169,324)
Quarter Ended 12/31/13	234,471	234,471	
Quarter Ended 3/31/14			
Quarter Ended 6/30/14			
Total Pro Forma Benchmark 1 Earnings	\$234,471	\$956,622	(\$169,324)
<i>Benchmark 1 Annualized Rate Of Return</i>	0.35%	0.73%	-0.05%
Benchmark 2 - Florida Prime (SBA LGIP)			
Pro Forma Interest Earnings:			
Quarter Ended 9/30/13		115,133	756,840
Quarter Ended 12/31/13	112,150	114,882	
Quarter Ended 3/31/14			
Quarter Ended 6/30/14			
Total Pro Forma Benchmark 2 Earnings	\$112,150	\$230,015	\$756,840
<i>Benchmark 2 Annualized Rate Of Return</i>	0.17%	0.17%	0.24%
Earnings Comparison			
<i>Annualized Rate of Return</i>			
Managed Investment Portfolio vs. Benchmark 1	-4.01%	-3.32%	-0.31%
Managed Investment Portfolio vs. Benchmark 2	-3.83%	-2.76%	-0.60%
<i>Dollar Earnings</i>			
Managed Investment Portfolio vs. Benchmark 1	(\$2,714,465)	(\$4,366,629)	(\$953,747)
Managed Investment Portfolio vs. Benchmark 2	(\$2,592,144)	(\$3,640,022)	(\$1,879,911)

Note 1 – Securities Valuation

Starting June 30, 1997, Investments are valued at current market value. Prior to August 12, 1992 all cash was invested with the SBA. The Managed Investment Program (MIP) refers to assets actively managed for higher earnings than what would be achieved if all surplus district cash were held in a deposit account. Cash needed for current expenditures is held in interest bearing deposit accounts, money market funds, and pooled investment accounts. Bonds are priced by comparing the current coupon to the yield an investor would get if they purchased a similar bond in the open market as of the pricing date. An inverse relationship exists between yield and price. When yields rise, market prices fall, conversely when yields fall, market prices rise. The district uses the custodian’s market prices to value its securities at month-end. The custodian purchases its pricing from IDC, Interactive Data Corporation. IDC is a provider of global investment market data to the financial industry.

Note 2 – Calculation of Net increase/(decrease) in fair value of investments

The Governmental Accounting Standards Board (GASB) Statement 31 requires that all Governmental entities must adjust the book value of most investment securities to current market value. Securities with a fixed coupon and a final maturity of less than one year are exempt. Since most securities held by money market funds meet the above criteria, investments in money market funds are also exempt. The amount of the adjustment will be netted against interest earned for the reporting period. Securities exempt from GASB 31 will be recorded on the books at amortized cost.

At month end, the market prices from the district’ custodian, will be used to calculate the change in fair value from the prior month. The changes in value and interest earnings are booked to the general ledger in separate revenue functions. Since the district’s strategy is to buy and hold, over time, the net of the change in value and interest earnings should closely approximate the purchase yield of the portfolio. The following table summarizes the relationship between realized gains and losses and the adjustment to fair value per GASB 31.

December 31, 2013	<u>Quarter End</u>	<u>Fiscal Y-T-D</u>	<u>Prior Fiscal Year</u>
Realized Gains/Losses	(25,411)	(1,757,108)	(2,107,717)
MV Adjustment for Period	(3,649,992)	(4,506,034)	(6,997,568)
Net Incr/(Decr) in fair value of investments	(3,675,403)	(6,263,142)	(9,105,286)

Note 3 – Cumulative Return Over the SBA

For the fiscal year-to-date, the Managed Investment Portfolio’s (MIP) earnings were under the State Board of Administration’s (SBA) local government investment pool by -\$3,640,022. Since August 1992, the MIP’s cumulative earnings were over the SBA by \$29,131,458.

Note 4 – Effect of Unrealized Gains and Losses on Income

The district’s MIP currently has an unrealized loss of \$7,969,583. This figure has been netted against interest income. If the district’s bonds were priced at par (100) as of December 31, 2013, the district’s cumulative earnings over the SBA would be \$37,101,041.

Note 5 – Implied Ratings on US Agency Mortgage-Backed Securities

Mortgage-backed securities (MBS), including pools and Collateralized Mortgage Obligations (CMO), issued by US government agencies (GNMA, FNMA, and FHLMC) are not rated by the any rating agency. This is due to the implicit, in the case of FNMA and FHLMC, and explicit, in the case of GNMA, backing of the United States government. An implied rating based on the sovereign rating of US government issued debt is used. Currently this rating is AAA.

Credit Risk

The district's Investment Policy (6144) permits investments in US government and US government guaranteed bonds, Federal agency (Government Sponsored Enterprise, GSE) bonds, collateralized bonds, and short-term, money market investments. The district has \$61,608,520 in corporate asset-backed securities. The credit enhancements, short duration, and high ratings of these bonds demonstrate the safety and liquidity of these bonds. Securities in the Exempt category include U.S. Government obligations and obligations with an explicit U.S. Government guarantee. The non-compliant category consists of the district's investment in SBA Fund B accounts. This investment is frozen by the SBA. Money is distributed as the investments in the fund return principal or mature.

Credit Risk

<u>Investment Category</u>	<u>Market Value</u>	<u>Average Rating</u>
Corporate ABS	\$43,903,088	AAA
Corporate FR ABS	17,705,432	AAA
Miscellaneous Coupon	6,508,141	AAA
MBS Agency CMOs	112,075,214	AAA
MBS Agency ARMs/FR	1,984,640	AAA
Other MBS Bonds	49,591,431	AAA
Other MBS Bonds FR	24,389,399	AAA
Investment Pools & MMFs	90,414,894	AAA
Exempt Investments	71,525,660	N/A
Non-compliant Investment	457,403	NR
Commercial Paper Discounts	15,998,670	A1/P1
Total	\$434,553,972	AAA

Concentration of Credit Risk

The district's Investment Policy (6144) permits investments in US government and US government guaranteed bonds, Federal agency (Government Sponsored Enterprise, GSE) bonds, collateralized bonds, and short-term, money market investments. For this reason, the Policy does not separately address concentration of credit risk. The Manager, Cash & Investments is allowed to invest up to 5% of the total portfolio value in bonds that are not otherwise permitted under the Funds Management Policy. The concentration risk of these investments is 5%.

Securities exempt from Concentration of Credit Risk disclosure include U.S. Government obligations and obligations with an explicit U.S. Government guarantee. In addition, investment pools and money market fund investments are also exempt.

Concentration of Credit Risk

Issuer	Percent of Total	Issuer Full Name
Exempt	22.56%	
FNMA	17.17%	Federal National Mortgage Association
GNMA	14.79%	Government National Mortgage Association
FHLMC	9.08%	Federal Home Loan Mortgage Corporation
LBUBS	7.12%	Lehman Brothers-UBS Comm Mtge Trust
SDART	5.48%	Santander Drive Auto Receivables

Securities Where Issuer Represents More Than 5% of Portfolio

Description	CUSIP	Market Value	Issuer
SDART 10-A A4	80282FAG2	23,835,487.65	SDART
FHR 4283 EC	3137B6GM7	20,056,000.00	FHLMC
G2 82518	36225EYQ9	19,332,113.46	GNMA
FNR 12-117 DA	3136A8P20	18,417,822.04	FNMA
FNR 12-90 DA	3136A7RE4	16,227,092.91	FNMA
LBUBS 05-C7 A4	52108MAF0	15,816,900.00	LBUBS
FNR 12-138 MA	3136AAFH3	14,906,798.00	FNMA
FN AL4204	3138ELU68	13,867,910.63	FNMA
GNR 10-161 AB	38376GZA1	9,885,990.42	GNMA
FNR 04-8 GD	31393XDU8	8,978,495.06	FNMA
LBUBS 05-C3 A5	52108H5X8	8,572,498.67	LBUBS
FHR 4165-CA	3137AYQY0	8,496,688.13	FHLMC
FHR 3986 TC	3137AKBY6	6,510,051.51	FHLMC
LBUBS 08-C1 AAB	50180LAB6	6,508,141.45	LBUBS
G2 82579	36225E2M3	6,314,114.61	GNMA
GNR 10-118 b	38376GUR9	4,569,765.23	GNMA
FHR 4039 JA	3137AQNA2	4,357,461.46	FHLMC
G2 82558	36225EZY1	4,202,244.59	GNMA
G2 82539	36225EZD7	3,801,806.24	GNMA
GNR 04-10 D	38373MKT6	3,442,210.10	GNMA
G2 82577	36225E2K7	3,424,593.65	GNMA
G2 82462	36225EWY4	2,875,586.01	GNMA
FNR 07-114 A6	31396X3Q5	1,984,640.00	FNMA
GNR 13-26 GA	38378JBV3	1,665,046.96	GNMA
GNR 10-167 KW	38377NUW2	1,351,759.14	GNMA
GNR 09-99 A	38376GBS8	1,105,035.67	GNMA
GNR 08-38 PS	38375QGZ6	913,164.27	GNMA
GNR 09-115 AD	38376GCR9	831,590.61	GNMA
GNR 10-52 AE	38376GGU8	337,274.05	GNMA
FNR 13-18 JZ	3136ACXV8	205,212.29	FNMA
GNR 09-71 A	38376GAG5	172,325.96	GNMA
FHR 2948 YD	31395PQP0	51,682.44	FHLMC

Interest Rate Risk

The district's Investment Policy (6144) requires the average duration of the portfolio to be less than five years.

Modified Duration Risk

Modified duration expresses the amount of time in years until half of the principal is returned. This calculation takes into account the coupon rate, interest and principal payment frequency, call options, and sensitivity of price to changes in interest rates. Factors that extend the return of principal, or make it more time uncertain, increase the duration. Factors that quicken the return of principal, or make it more time certain, decrease the duration. Duration will also change as the level of interest rates in the economy rise and fall. With the current level of interest rates, the above table indicates that the district will receive 50% of invested principal in 1.45 years, or 17.44 months.

Floating/Adjustable Interest Rate Risk

The district currently has \$24,030,040 invested in securities with floating or adjustable interest rate risk. \$24,030,040 is invested in floating rate bonds. The coupon on these bonds resets monthly, or quarterly, based on an index rate. The coupons on these bonds range from 0.39% to 6.35%.

Call Option Risk

There are three types of call options, "one-time" calls, "discrete" calls and "continuous" calls. These are listed in order of increasing risk. A one-time call means that at one specified time before maturity, the issuer of a bond has the option to call the bond, or buy it back from investors. A discrete call means that at specific times, usually either quarterly or semi-annually, before maturity, the issuer can call the bond. A continuous call means that starting at a specified point in time, usually an interest payment date, and at any time thereafter, up to the maturity date, the issuer can call the bond. The district currently has no callable bonds.

MBS/ABS Prepayment Risk

There are two types of Mortgage-Backed Securities (MBSs) in which the district invests. Agency pools are collections, or pools, of mortgages in which the investor receives the principal and interest payments in the same proportion as the borrowers pay them. CMO bonds are backed by mortgage pools, however, the principal payment of the bond has been altered to be either more or less time certain than the underlying mortgages. ABS bonds are securities that are collateralized by financial products other than residential mortgages. For example car loans/leases, commercial mortgages, or credit card loans.

MBSs have a unique type of "call" risk, in that homeowners may opt to prepay their mortgage at any time. While there are many factors which determine whether a homeowner will prepay their mortgage, one of the most significant is the level of interest rates. When rates fall it is more advantageous to the homeowner to refinance their mortgage to a lower rate. When rates rise, this type of prepayment will decrease.

The duration on the District's portfolio ranges from -0.17 years to 7.67 years. The duration on the District's ABS/MBS bonds ranges from 0.03 years to 7.67 years.

Interest Rate Risk

Investment Category	Market Value	Mod. Dur.
MBS Agency CMOs	136,349,377	2.57
Exempt	61,537,721	0.01
Other MBS Bonds	49,591,431	0.42
Corporate ABS	43,903,088	1.01
MBS Agency ARMs/FR	41,935,099	3.76
Investment Pool	36,635,616	3.87
Other MBS Bonds FR	24,389,399	1.30
Corporate FR ABS	17,705,432	1.29
Money Market Portfolio	15,998,670	0.03
Miscellaneous Coupon	6,508,141	1.21
Portfolio	\$434,553,972	1.45