USF Board of Trustees
December 7, 2006

Issue: Financial Policies

Proposed action: Adopt Revised Financial Policies

Background information:

The Financial Policies: Investment, Debt Management and Derivatives were approved by the Finance & Audit Workgroup on August 17, 2006.

The Policies were on the Consent Agenda for the Board of Trustees meeting on September 7, 2006. At that time, the adoption of the Policies by the Board was deferred by Chair Law per discussion with the Board of Governors.

The Debt Management Policy now includes the modest changes suggested by the Board of Governors. The Board of Governors did not have suggestions for the Investment or Derivatives Policies.

During the period of time for consideration by the Board of Governors, all three Finance Policies were slightly modified to clarify text and the Investment Policy was slightly modified to reasonably accommodate several DSO/CUs' investment programs.

Changes to the Finance Policies, since the August 17, 2006 meeting of the Finance & Audit Workgroup, are indicated on the Policy documents.

Workgroup Review: November 2, 2006
Supporting documentation: Revised USF Financial Policies
Prepared by: Fell Stubbs, Associate Treasurer
813/974-3298
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<th>Effective Date</th>
<th>Policy Number</th>
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1.0 DEFINITIONS

Words and terms used herein shall have the same meanings, for the purpose of this Investment Policy, ascribed to them in Exhibit A attached hereto or elsewhere defined in this Investment Policy unless the context or use clearly indicates a different meaning.

2.0 INTRODUCTION (Purpose and Intent)

Mission of the University

The University of South Florida (the “University”) is a multi-campus national research university that supports the development of the metropolitan Tampa Bay Region, the United States and the world. Building upon unique strengths inherent in Florida’s population, location, and natural resources, the university is dedicated to excellence in:

- Teaching and lifelong learning in a student-centered environment
- Research to advance knowledge and promote social, cultural, economic, educational, health, and technological development
- Service based on academic excellence and the ethic of community responsibility
- Community engagement to build university-community partnerships and collaborations.

Purpose of the Policy

To fulfill its mission, the University will establish an investment program for the investment of funds of the University and of its direct support organizations (DSOs) and component units and units for which the University is legally and financially accountable (CUs) for maximum return with an acceptable degree of risk and at an acceptable cost.

The purpose of this document (the “Policy”) is to establish a framework for active, professional investment management that applies to all types of investment funds of the University and DSOs and CUs. This Policy states the responsibilities of the parties involved in carrying out the investment program to structure and manage investment portfolios, to evaluate returns and risk, and to report investment performance, all as appropriate to their funds.

3.0 STATEMENT OF POLICY

3.1 It is the policy of the University of South Florida that investment management conform to the authority granted by Florida and Federal laws, its Board of Trustees and applicable
regulations/policies of the Board of Governors and that the management of investment funds be conducted in such a manner as to promote the interests of the University.

3.2 The University and its DSOs and CUs may, subject to the Policy and specific authority from their respective Boards, develop supplemental investment policies for the Funds under their control.

3.3 The University and its DSOs and CUs shall, subject to the Policy and specific authority from their respective Boards, appoint Investment Committees and adopt Policy Statements and Investment Guidelines appropriate for the Funds under their control.

3.4 This Policy will be implemented, reviewed and monitored by the University CFO and the Office of the University Treasurer (“Treasurer”) and the designated CFO of the DSO and CU on behalf of their respective Boards, appropriate for the Funds under their control.

3.5 Under this Policy and pursuant to a delegation of investment authority by the Board of the University, the University CFO and the Treasurer are authorized to manage the financial assets of the University invested as Short-Term Funds or Long-Term Funds.

3.6 Under this Policy and pursuant to a delegation of investment authority by the Board of the DSO or CU, the CFO of the DSO or CU is authorized to manage the financial assets of the DSO or CU invested as Short-Term Funds or Long-Term Funds.

3.7 The University CFO, Treasurer and CFO of the DSO and CU is responsible for managing the Funds under their respective control consistent with the “Prudent Person Rule” and, where applicable to the Fund, the Florida Uniform Management of Institutional Funds Act (F.S. 1010.10).

3.8 At least annually, the University CFO and CFO of the DSO and CU shall review the Policy, the Policy Statement and the Investment Guidelines, as they relate to their respective organizations, with the respective Board of the Fund.

3.9 If a material change in the Fund occurs, the University CFO or Treasurer or CFO of the DSO or CU shall review the Policy, Policy Statement and Investment Guidelines within 90 days of becoming aware of the change.

3.10 If a review leads to a change in the Policy, Policy Statement or Investment Guidelines, the proposed revisions shall be submitted to and adopted by the Boards of the University or DSO or CU, as appropriate, and submitted by the University CFO or CFO of the DSO or CU to the appropriate auditors in a timely fashion, following its adoption by the Boards of the University or DSO or CU.

3.11 The University CFO or CFO of the DSO or CU shall furnish a copy of the Policy to the appropriate auditor of the University or DSO or CU.

3.12 The Policy requires the Boards of the University and each DSO or CU to adopt a Policy
3. Statement for the Fund which shall:

(a) Declare whether the University, DSO or CU’s investment portfolio is a Short-Term Fund and/or Long-Term Fund;
(b) Declare Primary and Secondary Performance Objectives for the Fund, stated both in terms of gross investment returns and net of fees/expenses, which are consistent with and appropriate for the economic environment and circumstances of the Fund;
(c) Declare the Asset Allocation and Investment Guidelines for the Fund, consistent with its risk tolerances and return expectations;
(d) Describe the membership and investment authority of the Investment Committee;
(e) Describe the risks and risk tolerances for the Fund;
(f) State the time horizon of the Fund’s assets; and
(g) Address the liquidity needs of the Fund and the University or DSO or CU and other legal, regulatory or special constraining circumstances affecting the investments of the Fund.

3.13 The preparation, review and revision of the Policy, and the Fund’s Policy Statement and Investment Guidelines, shall give due consideration to the

(a) Type of Fund;
(b) Management of interest, liquidity, credit and other financial risks to which the Fund is exposed;
(c) Funding requirements relevant to the type of Fund;
(d) Economic conditions;
(e) Expenses;
(f) Diversification of the investment portfolio by asset classes and within asset classes, and by investment manager and by investment manager style, as applicable and appropriate;
(g) Use of options, futures and other derivatives;
(h) Lending of cash or securities;
(i) Retention or delegation of the voting rights acquired through investments;
(j) Possible Related Party transactions within the limits established in the Policy for such transactions;
(k) Any other matter affecting the investment of the Fund that would be appropriate to be considered in the development and preparation of the Policy and the Fund’s Policy Statement and Investment Guidelines.

4.0 ENTITIES COVERED BY THIS POLICY

The Policy applies to the University, to DSOs and CUs. DSOs are separate not-for-profit corporations organized and operated exclusively to assist the University achieve its mission. CUs are organizations operated exclusively to assist the University achieve its mission as defined in Exhibit A to this Policy. In accordance with Florida Statutes and Rules, as applicable, and University Regulations and Policies, these organizations receive, hold, invest and administer property and make expenditures to or for the benefit of the University. All University, DSO and CU investment activities, to the extent such activity is allowed by applicable law, require
approval by the University, DSO and CU Boards, and such activities shall be managed by the designated chief financial officer (“CFO”) of the University, DSO and CU.

5.0 **FUND INVESTMENT REQUIREMENTS**

5.1 The University CFO or Treasurer or CFO of the DSO or CU and investment managers, to the extent that the responsibility for the investment and management of the Fund has been delegated, shall prudently invest and manage the assets under their responsibility in a manner consistent with the Policy, Policy Statement and Investment Guidelines and such that the Fund provides benefits to the University or DSO or CU at an acceptable risk and at a reasonable cost.

5.2 In the performance of their duties, the University CFO or Treasurer or CFO of the DSO or CU and investment managers shall:

(a) Determine whether an investment will be able to provide an adequate return at an acceptable risk so that the University can achieve its stated objectives;

(b) Recognize the effects of expenses on investment returns by only incurring such costs that are appropriate and reasonable in amount;

(c) Ensure that, prior to making an investment, appropriate due diligence has been conducted on the investment to ascertain whether credit worthiness, financial condition, earnings potential and ability to meet the obligations are satisfactory;

(d) Ensure that any collateral or security is of satisfactory quality and value;

(e) Avoid leaving monies of the Fund idle, except in rare and unavoidable circumstances when cash is required to meet Fund obligations and then not for a period exceeding one month;

5.3 Investments shall be in the sole name of the Trustees of the University or the DSO or CU, or their nominee. For any investment held by way of a nominee, the name of the investment must clearly indicate that the nominee is holding the asset for the Trustees for and on behalf of the University or on behalf of the DSO or CU.

5.4 An investment shall not be made unless approved by the University CFO or Treasurer or CFO of the DSO or CU or by the Fund’s investment manager, who has been given that investment discretion by the applicable Board in conformance with this Policy.

5.5 Investment transactions shall be undertaken at arm’s length and at rates or prices comparable to those available in the market for similar investment transactions.

5.6 The Fund shall not undertake borrowing without the explicit prior approval of the University CFO or CFO of the DSO or CU. The reasons for borrowing and the University CFO or CFO of the DSO or CU approval must be appropriately recorded in the Minutes of the Meeting of the next occurring appropriate Board of the University or DSO or CU.

6.0 **FUND PERFORMANCE OBJECTIVES AND INVESTMENT REPORT**
6.1 The Primary Performance Objective for the Fund is a total portfolio return which outperforms appropriate market and asset benchmark portfolio returns over a rolling 3 to 5-year time horizon, net of all investment expenses.
   (a) The benchmark portfolio return is calculated on a weighted asset class basis and is compared to the appropriate benchmark weighted index returns for each of the major asset classes.
   (b) Within the various asset classes, the performance objective is to outperform the relevant, appropriate index return.

6.2 The Secondary Performance Objective for the Fund is a positive rolling 5-year real total return, net of inflation as defined by the Consumer Price Index (CPI), and net of all Fund investment and operating expenses.
   (a) For Long-Term Funds, the Secondary Performance Objective is a rolling 5-year total return of greater than the rate of inflation plus 5.0% (3.0% for fixed income), after fees and expenses.
   (b) For Long-Term Funds, to the extent that an actively managed strategy is used, an additional annual return objective of 0.5% is added for each actively-managed portfolio. The Secondary Performance Objective for Long-Term Funds is adjusted on a weighted basis for the added 0.50% objective on actively-managed asset classes.

6.3 The Treasurer or CFO of the DSO or CU will provide a detailed Investment Report to the University CFO and Board of the University and DSO or CU, at least quarterly of the Fund’s Investment Performance, compared to the respective Primary and Secondary Objectives.

6.4 If Fund investment and management responsibility has been delegated to investment managers, the Investment Report will also describe the investment manager’s Primary and Secondary Investment Performance gross and net of the investment manager’s compensation.

7.0 FUND ASSET ALLOCATION

7.1 Asset Allocation shall be specific enough to establish a desired investment management framework appropriate for the Fund. Asset Allocation shall be consistent with the objectives, risk tolerance and constraints of the Fund and the University or DSO or CU. Asset Allocation shall provide clear guidance for investment portfolio management, providing the highest probability of meeting or exceeding the Fund’s return objectives at the lowest risk, to the University CFO and Treasurer and CFO of the DSO or CU, or investment managers, as and if applicable.

7.2 Asset Allocation provides for basic diversification of the Fund’s investment portfolio in order to achieve the Performance Objectives with an acceptable exposure to risk. Asset Allocation recognizes that asset classes will, at different points in a market cycle, perform differently and that the combination of these classes will lower the overall volatility in investment returns.

7.3 Investment Guidelines, establishing more limited Asset Allocation, within the minimum and maximum percent of Fund assets for the Fund asset classes, shall be recommended to the
Investment Guidelines will be provided to the investment managers, to the extent that the responsibility for the investment and management of the Fund has been delegated. Investment Guidelines will be developed in consideration of the Fund’s economic environment, risk tolerances, return expectations and the Fund’s liquidity needs.

### 7.4 Investment Guidelines

Investment Guidelines, once adopted by the Board of the Fund, will be reported to the University CFO and reviewed at least annually.

### 7.5 Rebalancing

Appropriate action will be taken to rebalance the Fund, generally on a quarterly basis, by the University Treasurer or CFO of the DSO or CU in order to stay within the Asset Allocations and Investment Guidelines and to maintain proper diversification among individual investment managers. Rebalancing may be accomplished by reallocating funds among asset classes and by managing cash flows into or out of the asset classes by adding funds to underweight asset classes or by withdrawing funds from overweight asset classes.

### 7.6 Asset Allocation

The Asset Allocation of the Fund’s investment portfolio, allocated within a minimum and maximum percentage of the total portfolio for each asset class, shall be as follows:

#### SHORT-TERM FUNDS:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>ASSET ALLOCATION</th>
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<tbody>
<tr>
<td>Direct Fixed Income Securities and Fixed Income Pooled Funds</td>
<td>0% to 90% of Assets</td>
</tr>
<tr>
<td>Cash Equivalent and Money Market Funds</td>
<td>0% to 100% of Assets</td>
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#### LONG-TERM FUNDS:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>ASSET ALLOCATION</th>
</tr>
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<tbody>
<tr>
<td>Direct Fixed Income Securities and Fixed Income Pooled Funds</td>
<td>20% to 75% of Assets</td>
</tr>
<tr>
<td>Foreign Fixed Income Pooled Funds</td>
<td>0% to 20% of Assets</td>
</tr>
<tr>
<td>Direct Equity and Equity Pooled Funds</td>
<td>25% to 75% of Assets</td>
</tr>
<tr>
<td>Foreign Equity Pooled Funds</td>
<td>0% to 25% of Assets</td>
</tr>
<tr>
<td>Mortgage and Asset-Backed Securities and Receivables</td>
<td>0% to 25% of Assets</td>
</tr>
</tbody>
</table>
Real Estate and Real Asset Pooled Funds 0% to 20% of Assets

Alternative and All Other Investments 0% to 20% of Assets

7.7 Where short-term funds may be invested with a long-term horizon while maintaining the liquidity needs of the Fund, the University Board or Board of the DSO or CU may, to maximize investment returns, invest a portion of such short-term funds in asset classes described as long-term within this Policy.

8.0 FUND RISK MANAGEMENT

8.1 Investment risk is commonly described by relating it to the uncertainty or the volatility of potential returns from a portfolio or investment over time. The source, probability and impact of this uncertainty depend on the particular portfolio or investment. Sources of investment risk include financial exposure to changes in interest rates, equity and debt markets, inflation, foreign exchange rates, commodity prices, and other global economic and political conditions. Risk also resides in concentrations of securities by issuer and asset class and in concentrations of investments with investment managers. These risks will be diversified across major asset classes, within asset classes and across investment managers.

8.2 Effective risk management requires an understanding of the objectives of the Fund and the University and DSO and CU, the tolerance for risk, as well as the types and characteristics of portfolios and invested assets. The Treasurer or CFO of the DSO or CU shall develop and establish risk management processes that effectively assess, control and monitor the risks.

8.3 An effective risk management system is characterized by active supervision of risks. The Treasurer or CFO of the DSO or CU shall monitor the implementation of investment risk strategies, the adequacy and effectiveness of the risk management process, and the investment manager’s performance in achieving its strategic and financial objectives.

8.4 Effective risk management requires that the risks assumed in the investment portfolios be identified and understood. The Treasurer or CFO of the DSO or CU and investment managers for the Fund shall identify the risks and the related means to measure the risks and the necessary controls and monitoring systems. The Treasurer or CFO of the DSO or CU and investment managers shall have access to timely and competent economic analyses and forecasts for the capital markets in which the Fund is investing to enable the Treasurer or CFO of the DSO or CU and investment managers to continually monitor capital market expectations and developments, currency relationships, interest rate movements, commodity prices and expected returns for asset classes and individual investments. These forecasts and recommendations enable the Treasurer or CFO of the DSO or CU and investment managers to establish appropriate investment guidelines and strategies, select appropriate investments, and manage risk effectively.

8.5 Risks will vary over time due to changes in the objectives of the University or DSO or CU and the characteristics and objectives of the Fund, composition of the Fund assets, capital
markets, economies and political environments. Therefore, the evaluation of the risk assessment, measurement and monitoring systems by the Treasurer or CFO of the DSO or CU shall be ongoing.

8.6 An Investment Report, detailing Investment Performance for the Fund, shall be provided by the Treasurer to the Board of the University, and by the CFO of the DSO or CU to the Board of the DSO or CU, on a quarterly basis. An Investment Report of the Investment Performance for all Funds of the University and DSO and CU shall be provided to the Board of Trustees of the University, by the University CFO, on at least an annual basis.

8.7 Delegation of investment and management authority to third-party fiduciary managers, to the extent that the responsibility for the investment and management of the Fund has been delegated, is a critical element in the Fund’s risk management. Consideration of third-party fiduciary managers shall include, at a minimum, the Treasurer’s and the CFO’s for the DSO or CU, as applicable, annual review of the firm’s investment and business practices, professional resources, client reporting capabilities, financial strength, historic performance, regulatory history, personnel turnover, comparative fees, and other relevant factors. The Treasurer or CFO of the DSO or CU shall review the firm’s approved written policies and standards that support its risk management practices, operating procedures and control processes. The Treasurer or CFO of the DSO or CU shall review the investment manager’s risk management system to ensure that it is supportive of the Fund’s investment objectives. The Treasurer and the CFO for the DSO or CU, as applicable, shall review the investment manager’s performance quarterly, and meet with the investment manager to review performance and independently evaluate the performance of the investment manager at least annually for the respective Board of the Fund.

8.8 Selection of investment managers for Alternative Investments should be based on, but not limited to, the following criteria: tenure and track record of management team, expertise in targeted areas of investment, diversification strategy, policies for valuation and market value reporting, lockup requirements, liquidity of investments, level of general manager investment, fees, potential conflicts of interest, audited financial statements and performance relative to other similar investments.

8.9 Third-party investment managers, depositories, custodians, broker/dealers and investment consultants shall be appointed by the Board of the University or DSO or CU, as appropriate, in accordance with applicable law.

8.10 Investment managers will receive a letter of instruction outlining investment instructions and asset allocation parameters in writing. Investment managers will only invest in the securities class(es) for which they were retained to manage and will be responsible for making decisions on a fully discretionary basis, including buy, hold, sell and timing decisions.

8.11 All securities purchased by the University, DSO or CU, or its investment managers, shall be designated as an asset of the University, DSO or CU, or its nominee, and held in safekeeping by a third-party custodial bank or other third-party custodial institution. No withdrawal of securities, in whole or part, shall be made from safekeeping except by those designated in an Investment Management and Custodial Agreement.
8.12 Sales, purchases and exchanges should be effected through well-capitalized nationally-known financial institutions, which are recognized as being major participants in the equity and fixed income markets in accordance with normal investment practices.

8.13 The University, DSO, CU and investment managers, if applicable, shall maintain master repurchase agreements and require all approved institutions and dealers transacting repurchase agreements to adhere to the requirements of the master repurchase agreement.

9.0 ELIGIBILITY CRITERIA FOR FUND INVESTMENTS

9.1 Eligibility of an investment is to be determined at the date of its acquisition.

9.2 An investment shall be regarded as eligible for purchase or acquisition by the Fund if it
   (a) Meets the applicable requirements of the Policy and applicable Statutes;
   (b) Is not then in default in any respect;

9.3 The percentage of assets that the Fund has invested in an investment or security shall be determined by the following:
   (a) Adding the value of the Fund's proportionate holding of the investment or security by each type of asset in which the Fund is invested, to the value of the asset held in the Fund’s remaining investment holdings, then
   (b) Dividing the sum calculated under paragraph (a) by the total value of the Fund’s assets.

9.4 The calculated amount of assets that the Fund has invested in an asset class shall not exceed the maximum and minimum Asset Allocation for the specific asset class, which has been described by the Policy and Policy Statement and more specifically described by the Investment Guidelines for the Fund. Calculations of all percentage limitations shall be done on a market value basis.

10.0 ELIGIBLE TYPES OF FUND INVESTMENTS

10.1 The University CFO and Treasurer or CFO of the DSO or CU and investment managers, to the extent that the responsibility for the investment and management of the Fund has been delegated, may invest the Fund’s assets in any type of investment permitted by applicable Statutes and the Policy. If a conflict concerning eligible investments arises between the Statutes and the Investment Policy, the eligible investments described in the Statutes shall apply.

10.2 Eligible Investments – SHORT-TERM FUNDS
   (a) Cash (insured at all times by the Federal Deposit Insurance Corporation).
   (b) United States Treasury Obligations: Direct obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of
principal and interest by the United States of America with a remaining maturity at the
time of purchase of 5 years or less.

(c) United States Agency Obligations: Direct obligations of the federal agencies which
are fully guaranteed by the full faith and credit of the United States of America with a
remaining maturity at the time of purchase of 5 years or less.

(d) Direct obligations of any of the following Federal Agencies, which obligations are not
fully guaranteed by the full faith and credit of the United States of America, with a
remaining maturity at the time of purchase of 5 years or less:

- Federal National Mortgage Association (FNMA) – senior debt obligations
  rated Aaa by Moody’s and AAA by S&P,
- Federal Home Loan Mortgage Corporation (FHLMC) – participation
certificates and senior debt obligations rated Aaa by Moody’s and AAA by
  S&P,
- Resolution Funding Corporation (REFCORP) – debt obligations
- Federal Home Loan Bank – senior debt obligations, and
- Student Loan Marketing Association – senior debt obligations.

(e) Certificates of deposit, savings accounts, deposit accounts or money market deposits
in amounts that are continuously and fully insured by the Federal Deposit Insurance
Corporation (“FDIC”), including the Bank Insurance Fund and the Savings Association
Insurance Fund.

(f) U.S. dollar denominated certificates of deposit, deposit accounts and bankers’
acceptances (in each case having maturities of not more than 365 days following the date
of purchase) of any domestic commercial bank provided that such bank’s short-term
certificates of deposit are rated "P-1" by Moody's and "A-1" or better by S&P (not
considering holding company ratings).

(g) Commercial paper (having original maturities of not more than 270 days) rated, at the
time of purchase in the highest classification, "P-1" by Moody's and "A-1" or better by
S&P.

(h) Investments in a Securities and Exchange Commission registered money market fund
rated "AAAm" or "AAAm-G" or better by S&P and being no-load funds,

(i) Investments in a U.S. registered and professionally managed fixed income fund with
an effective duration of 5 years or less comprised of securities with an average weighted
rating of “AA” by S&P.

(j) Municipal Obligations rated “Aaa/AAA” or direct, general obligations of any state of
the United States of America or any subdivision or agency thereof whose uninsured and
unguaranteed general obligation debt is rated, at the time of purchase, A2 or better by
Moody’s and A or better by S&P, or any obligation fully and unconditionally guaranteed
by any state, subdivision or agency whose uninsured and unguaranteed general obligation
debt is rated, at the time of purchase, A2 or better by Moody’s and A or better by S&P
with an original or remaining maturity at the time of purchase of 5 years or less.

(k) Corporate notes or other direct obligations issued, assumed or guaranteed by an
institution with a minimum credit rating when purchased of “AA” or equivalent with an
original or remaining maturity not to exceed five years.

(l) Mortgage-backed pass throughs guaranteed by the U.S. Government or a Federal
Agency, including securities collateralized by the same (CMO). Investments in CMOs
shall be limited to PACs (planned amortization class), NAC (non-accelerated class) or
VADM (very accurately defined maturity) securities. The effective duration of these securities shall not exceed 5 years.

(m) Asset-backed securities with credit ratings of “AA” or better. The remaining maturity at the time of purchase of these securities shall not exceed 5 years.

(n) The State of Florida’s Treasury and State Board of Administration Investment Pool(s).

(o) Repurchase agreements, fully secured and collateralized at 102%, which collateral must be held by a third party, whose underlying instruments are securities or obligations of governments with a credit rating of “A” or equivalent, and securities and obligations of the U.S. Government. All agreements will be in compliance with Federal Reserve Bank guidelines.

(p) Securities lending must be fully secured and collateralized by obligations authorized under this Policy. Such collateral must be held by a third party. All agreements will be in compliance with Federal Reserve Bank guidelines.

(q) Where short-term funds may be invested in investments with a long-term horizon while maintaining the liquidity needs of the Fund, the University Board or Board of the DSO or CU may, to maximize investment returns, invest a portion of such short-term funds in asset classes described as long-term within this Policy.

10.3 Eligible Investments – LONG-TERM FUNDS

(a) Corporate notes or other direct debt obligations issued, assumed or guaranteed by an institution with a minimum credit rating when purchased of “A” or equivalent,

(b) Direct commercial paper or promissory notes which have been guaranteed by a domestic commercial bank or life insurance company and the term of which note or paper is not greater than the term of the guarantee, with a minimum credit rating when purchased of “A” or equivalent.

(c) Direct stocks and equity shares of institutions whose securities are listed on a recognized stock exchange of the United States.
   - The Fund may invest in the shares of a company offering shares in an initial public offer where the company intends to list on a recognized U.S. stock exchange of a recognized jurisdiction and where the initial public offer meets the requirements of the Securities Acts,
   - The Fund may invest in preferred or guaranteed shares, other than ordinary shares, of any institution to which this provision applies.

(d) Pooled Funds which are professionally managed and registered with the Securities and Exchange Commission and invested in the following securities authorized by this Policy:
   - U.S. Equity – Indexed and Actively Managed Pooled Funds,
   - U.S. Fixed Income – Indexed and Actively Managed Pooled Funds,
   - Foreign Equity and Foreign Fixed Income – Indexed and Actively Managed Pooled Funds (traded as U.S. dollar denominated ADR’s on U.S. exchanges),
   - Real Estate Pooled Funds and real estate investment trusts and Real Asset Pooled Funds (timber and natural resources) used to diversify and enhance
the return of the Fund.

(e) Loans and mortgages subject to the following provisions:
- Invested in loans, mortgages or deeds of trust collateralized by real property located in Florida for the sole benefit of the University, provided that adequate collateral is pledged,
- Loans secured by a pledge of securities or evidences of debt Eligible for Investment,
- Loans granted under these provisions must not exceed 80 percent of the remaining value of the collateral at the date of grant and specify a repayment date and schedule for repayment. For the purposes of these provisions, the remaining value of the collateral is determined by subtracting the total outstanding balance of loans, charges, pledges or liens which rank pari passu (equal to) or higher than the loan being considered from the fair market value of the collateral,
- The total value of loans or mortgages to any single related party must not exceed 1 per cent of the fair market value of the Fund's total assets.

(f) Real Property subject to the following provisions:
- Buildings and other improvements located on mortgaged premises shall be kept insured against loss or damage from fire in an amount not less than the unpaid balance of the obligation or the insurable value of the property, whichever is greater, and
- Developed real property must be kept insured for its insurable value against loss or damage from fire.

(g) Mortgage-backed pass throughs guaranteed by the U.S. Government or a Federal Agency, including securities collateralized by the same (CMO). Investments in CMOs shall be limited to PACs (planned amortization class), NAC (non-accelerated class) or VADM (very accurately defined maturity) securities. The effective duration of these securities shall not exceed 5 years.

(h) Asset-backed securities with credit ratings of “AA” or better. The effective duration of these securities shall not exceed 5 years.

(i) Alternative and All Other Investments. The All Other Investments asset class includes all other Eligible investments, loans and securities, plus all other investments, loans and securities that have not been specifically identified as Eligible in the Policy but have been individually or as a class approved by the Board of the University, DSO, or CU, as applicable, which collectively shall not exceed 20 percent of the fair market value of the Fund’s assets. The Alternative Investments asset class, used to diversify and enhance the return of the Fund, includes, but is not limited to, the following: venture capital, private equity partnerships, real estate partnerships, mezzanine, distressed or high-yield debt, pooled funds not registered with the SEC, and hedge funds. Each Alternative investment will be approved by the appropriate governing body of the Fund. Hedge fund investments will only be made that would comprise less than 10% of any individual partnership’s assets, unless specifically approved by the Board of the University, DSO, or CU, as applicable.

(j) Hedging Transactions subject to the following provisions:
- The Fund may use bona fide hedging transactions and derivative instruments for the sole specific objective of altering the risk profile of its
investment portfolio,
- In all cases, the Fund may not use derivatives for the primary purpose of generating income or to speculate on securities or commodity prices, and
- For the purposes of this provision, _bona fide_ hedging transactions are those which pertain to securities otherwise eligible for investment including but not limited to financial futures contracts, warrants, options, calls and other rights of purchase; and puts and other rights which require another person to purchase the securities.

(k) Securities lending must be fully secured and collateralized by obligations authorized under this Policy. Such collateral must be held by a third party. All agreements will be in compliance with Federal Reserve Bank guidelines.

### 11.0 FUND CONCENTRATION LIMITS

11.1 Subject to the provisions of the Policy, the Fund shall not hold, acquire or purchase, any combination of investments in or loans upon the security of the obligations, property, and securities of any one issuer exceeding 5 per cent of the market value of the assets of the Fund. Direct investments in securities of the U.S. Government, Government Agencies and State of Florida Investment Pools, or Pooled Funds comprised solely of U.S. Government Securities are not subject to these restrictions.

11.2 The Fund may not, either by itself or in conjunction with any related party, acquire, hold or control, without the prior approval of its appropriate governing body, in excess of 5 percent of the voting shares in a corporation or interest in any company.

11.3 Limitations based upon the fair market value of the assets of the Fund shall relate to the Fund’s assets as declared in the financial statements of the University or DSO or CU filed with the Auditor General of the State of Florida at the end of the previous fiscal year.

11.4 The limits imposed by the paragraph 11.1 do not apply:
(a) If it can be shown to the satisfaction of the Boards of the University or DSO or CU that the sole cause for the limit being exceeded is as a result of the market appreciation of the investment;
(b) To the acquisition by the Fund of other or additional securities or property by way of dividend or as a lawful distribution of assets, or pursuant to a lawful and _bona fide_ agreement of merger, or consolidation.

### 12.0 PROHIBITED FUND INVESTMENTS AND TRANSACTIONS

12.1 The Fund shall not engage in short selling.

12.2 The Fund shall not invest in or loan its funds upon the security of, or hold
(a) Ineligible investments or loans under the Statutes or provisions made thereunder;
(b) Derivative obligations which are not Hedging Transactions, including without limitation inverse floaters, residuals, interest-only, principal-only and range notes;

(c) Fixed income obligations that do not have a fixed par value or those whose terms do not promise a fixed dollar amount at maturity or call date. These prohibited securities are not intended to exclude otherwise permitted inflation protected securities.

(d) Securities whose coupon floats inversely to an index or whose coupon is determined based upon more than one index, or securities whose future coupon may be suspended because of the movement of interest rates or an index.

(e) Tranches of collateralized mortgage obligations (CMO) which receive only the interest or principal from the underlying mortgage securities, commonly referred to as IOs or POs.

(f) Reverse repurchase agreements.

(g) Securities issued by an insolvent institution;

(h) Unsecured loans or leases;

(i) Speculative investments such as investments which expose the Fund to extraordinary risk;

(j) Loans and investments in entities related to the auditors or accountants of the Fund, University, DSO or CU;

(k) Mortgages for properties located outside of Florida, except when approved by the University CFO, or Board of the DSO or CU;

(l) Any investment or security which is designed to evade any prohibitions under the Statutes or provisions made thereunder.

12.3 The Fund shall not participate in the underwriting or the marketing of securities in advance of their issuance or enter into any transaction for such underwriting for the account of the Fund jointly with any other person. The Fund may subscribe to the securities when issued or enter into any agreement to withhold from sale any of its property or to repurchase any property sold by it, except repurchase agreements held pursuant to the provisions contained herein for eligible repurchase agreements.

12.4 The Fund shall not increase its holdings in securities or assets, as prescribed in this Policy, to an amount more than the prescribed Asset Allocation limits or other Investment Guidelines except with the approval permitted in paragraph 17.0.

12.5 The assets of the Fund shall not be directly or indirectly invested in securities or investments which are not traded on a recognized United States stock exchange, except when specifically approved by the University CFO or Board of the DSO or CU, as applicable. This restriction shall not apply to Alternative Investments and securities received as a gift, which securities should be liquidated within 1 year of receipt.

12.6 These restrictions do not apply to assets acquired by means of an intellectual property agreement.
13.0 DISPOSAL OF INELIGIBLE AND PROHIBITED FUND INVESTMENTS

13.1 In instances where the prescribed investment limits in the Policy have been exceeded, the Fund shall dispose of such assets or make such investments as are necessary to bring the Fund’s investments within the prescribed limits or shall obtain the approval permitted in paragraph 17.0.

13.2 Any investments acquired by the Fund pursuant to defaults on loans, mortgages, liens, judgments, or other debts shall be disposed of within 1 year after the date of acquisition. The University CFO or CFO of the DSO or CU may extend the time for any such disposal for a definite additional period or periods upon application and reasonable showing that a forced sale of the investments would be inimical to the Fund. Any such investment held by the Fund without the consent of the Board of the University or DSO or CU beyond the time permitted for its disposal shall not be carried or allowed as an asset of the Fund.

14.0 VALUATION OF FUND INVESTMENT ASSETS AND LIABILITIES

14.1 Assets and liabilities of the Fund shall be valued at fair market value.

14.2 An independent external appraiser approved by the University CFO or CFO of the DSO or CU shall:
   (a) Determine the valuation of real property, excluding Real Estate Pooled Funds, upon the
       (i) Making of a mortgage loan;
       (ii) Purchase or acquisition of real property, and then no less frequently than each
            3 years thereafter;
       (iii) End of the Fund year coinciding with the effective date of the valuation
            required by the Investment Policy;
   (b) Where the University CFO or CFO of the DSO or CU deems appropriate, verify
       valuations for assets which are not real estate;
   (c) Obtain new appraisals when the University CFO or CFO of the DSO or CU at the
       expense of the Fund deems it advisable.

15.0 RELATED PARTY INVESTMENTS

15.1 The assets of the Fund shall not be directly or indirectly invested in real property associated with the occupancy or expansion of the business of the investment manager, investment consultant, auditor, University CFO, University President, University Trustees, Board members of the DSO or CU, Treasurer, CFO of the DSO or CU or the associated companies of the foregoing.

15.2 The total of Related Party securities or investments must not exceed 1 percent of the fair market value of the assets of the Fund, unless otherwise restricted pursuant to the requirements of law, including Chapter 112, Florida Statutes, as applicable.
15.3 In any transaction that is entered into by, or on behalf of, the Fund with a person who the University CFO or CFO of the DSO or CU, or any person acting on behalf of the University or DSO or CU Board, knows will become a Related Party to the Fund, that person shall be considered to be a Related Party in respect of the transaction and the fulfillment of an obligation under the terms of any transaction is part of the transaction and not a separate transaction.

15.4 All transactions with Related Parties shall have the prior written approval of the University CFO or CFO of the DSO or CU and be disclosed to the Board of the University or DSO or CU, and regardless of whether an investment manager may have been given discretionary investment powers, and conform to applicable law, including Chapter 112, Florida Statutes.

15.5 The Treasurer or CFO of the DSO or CU shall maintain a register of all Related Party transactions.

15.6 The register must show in relation to each transaction
   (a) The name of the Related Party;
   (b) Description of the connection with the Fund;
   (c) Type and amount of the investment;
   (d) Date of the transaction and of the approval.

16.0 CONFLICTS OF INTEREST

16.1 The provisions of the Policy apply to individuals defined as a Related Party or a third party retained by a Related Party to provide services to the Fund.

16.2 No Related Party or other person described above may exercise his powers in his own interest or in the interest of a third person, nor may he place himself in a situation of conflict or potential conflict between his personal interest and his duties with regard to the investments of the Fund.

16.3 Any Related Party of other person described above shall disclose any direct or indirect association or material interest or involvement that would result in any actual, potential or perceived conflict of interest with regard to the investments of the Fund. Without limiting the generality of the foregoing, this would include material benefit from any asset held in the Fund, or any significant holding, or membership on the board, or any actual or proposed contracts with the issuer of any securities or investment which are or will be included in the Fund.

16.4 A Related Party or other individual described above shall disclose in writing the nature and extent of his interest to the University CFO or Board of the DSO or CU immediately upon first becoming aware of the conflict. The disclosure must also be made orally if the knowledge of the conflict arises in the course of discussion at a meeting.

16.5 If a Related Party or other individual described above disclosing the conflict has the
capacity to participate in or to make decisions affecting the investments of the Fund, the party
can only continue to participate in conformance with applicable law and, if allowable, with the
approval of the University CFO or the Board of the DSO or CU. The party may elect not to
participate with respect to the issue in conflict unless prohibited from doing so by applicable law.
His notification shall be considered a continuing disclosure on that issue for purposes of the
obligations outlined by these provisions.

17.0 EXCEPTIONS TO POLICY

Exceptions to some of the requirements specified in this Investment Policy may occasionally
occur due to events subsequent to the purchase of investment instruments (e.g. the rating of a
corporate note held in the portfolio is downgraded below an "A" rating, or an investment or asset
class in the portfolio may appreciably decline or appreciate causing the percentage of the total portfolio to
rise above or fall below the minimum or maximum percent of Fund assets) or due to other needs
in the best interests of the University.

The University CFO and the designated CFO of the DSO or CU and their respective Boards shall
be informed immediately of any exception. Exceptions shall be reviewed for possible corrective
action. Exceptions may be temporary or more lasting; they may be self-correcting or require
specific action. If specific action is required, the University CFO and CFO of the DSO or CU, as
appropriate, will determine the course of action that will correct exceptions. Any subsequent
investments will not extend existing exceptions. Exceptions, and the course of action to correct
the exceptions, will be reviewed with the University Board and DSO or CU Board, as
appropriate. The Board of the University reserves to itself the exclusive right to revise or grant
exceptions to the Investment Policy. As long as an exception to the Policy continues, it will be
re-evaluated by the Board of the University and the respective governing Board at least on an
annual basis.

18.0 TRANSITION PLANNING

18.1 Within 60 days of the Policy being approved by the University President or Board of the
DSO or CU, the Treasurer or CFO of the DSO or CU shall file with the University CFO or Board of the
DSO or CU:
   (a) A statement noting that the Fund is in compliance with the requirements of the Policy
       and the Statutes; or
   (b) A plan approved by the Treasurer or CFO of the DSO or CU:
       (i) Specifying in detail how compliance is to be achieved within a reasonable
           period not exceeding 5 years; and
       (ii) Delineating specific goals to be achieved within a specified reporting period
           not exceeding 1 year.

18.2 The Treasurer or CFO of the DSO or CU shall review each plan filed pursuant to these
transition provisions and shall determine if the plan is reasonable to achieve compliance and
specific goals.
18.3 If the Treasurer or CFO of the DSO or CU determines that the plan is not reasonable or does not establish specific goals that may be objectively reviewed, the Treasurer or CFO of the DSO or CU shall not approve the plan and shall notify the investment manager of the Fund and give the investment manager a period of time not greater than 30 days to submit a plan which is sufficient to comply with the mandate.

18.4 If the Treasurer or CFO of the DSO or CU determines that the plan is reasonable and establishes goals that may be objectively reviewed, the Treasurer or CFO of the DSO or CU shall approve the plan and so notify the investment manager.

18.5 Upon successful completion of the plan, the Treasurer or CFO of the DSO or CU shall provide to the University Chief Financial Officer or Board of the DSO or CU a statement that the Fund is in compliance with the requirements of the Policy.
EXHIBIT A

DEFINITIONS

“Asset Allocation” means an investment framework of the Fund’s investment portfolio allocated within a minimum and maximum percentage of the total portfolio for each asset class. Asset Allocation is specific enough to establish a desired investment management framework, yet allow latitude for reasonable flexibility on the part of investment managers. Asset Allocation shall be consistent with the objectives, risk tolerance and constraints of the Fund and provide clear investment portfolio management guidance to the investment managers;

“Board” of the University means the governing body for the Fund, as declared in a Policy Statement adopted by the University, University Board of Trustees or President of the University. “Board” of the DSO or CU means the governing body for the Fund, as declared in a Policy Statement adopted by the DSO or CU Board of Directors / Trustees. “Board” of the University or DSO or CU shall include the Investment Committee, provided that the Board has delegated investment authority for the Fund to an Investment Committee, as declared in the Policy Statement;

“CFO” of the University or DSO or CU means the designated CFO or senior finance officer of the University or DSO or CU or authorized officers or Investment Committees of the Boards of Directors / Trustees of the University or DSOs or CUs;

“CU” means Component Unit of the University, pursuant to Department of Education Rule 6C-9.017 Florida Administrative Code, as certified by the University, or a unit for which the university is financially accountable. It does not include programs, such as those established pursuant to Florida Statute 1004.24 and Florida Administrative Code 6C-10.001, which are housed at the University but whose assets are the legal and financial responsibility of an entity other than the University. Certain programs housed at the University are separately created by Florida Statute and Florida regulations as programs whose assets are the property of an entity other than the University. While those programs are not included in the definition of “component units”, their assets may be recorded in the University’s financial statements. Therefore, those programs, consistent with applicable statutes/regulations by which they are governed and their own prudent, effective investment practices and guidelines, will use this Policy’s terms as guidance to help ensure their practices comply with the University’s financial responsibilities;

“DSO” means Direct Support Organization, pursuant to Section 1004.28 Florida Statutes, as certified by the University;

"Employee" means a full time, part-time or contract worker;

"Fair market value" shall be determined on a consistent basis in compliance with the Financial Accounting Standards Board Statements, the Government Accounting Standards Board Statements, industry guidelines, or State Statutes, whichever is applicable;
"Fund" means a Short-Term Fund, typically invested in short-term interest bearing investments, or a Long-Term Fund, typically invested in longer-term interest bearing, equity and other types of investments. Funds shall be designated as Short-Term Funds or Long-Term Funds by a Policy Statement adopted by the Boards of the University or DSO or CU. The term “Fund” shall mean Short-Term Fund or Long-Term Fund, as the case may be;

"Hedging Transaction" means a purchase or sale of a contract, warrant, option, call, put, or right entered into for the purpose of minimizing risks or offsetting changes in the market values or yield rates of securities held or sold by the Fund;

“Investment Committee” means the Investment Committee of the University, DSO or CU Board, provided that the Board has delegated investment authority for the Fund to an Investment Committee;

“Investment Guidelines” means specific Investment Guidelines approved by the appropriate governing body of the Fund for a more limited asset allocation mix within the Investment Policy’s minimum and maximum Asset Allocation limits for asset classes and/or guidelines for diversifying asset mix among types of eligible investments within the asset classes;

“Investment Performance” is the use of performance measurement systems to calculate a standardized performance return on a portfolio, the various asset classes and the investments over a specified time period. The methods of calculating the returns on a time-weighted, risk-adjusted, total return basis and in a fair, understandable and consistent manner should be consistent with the standards of the investment industry. The use of benchmarks, the standard of comparison for investment performance, will facilitate the evaluation of relative portfolio returns and investment manager performance;

“Investment Report” means a detailed Investment Report provided to the Investment Committee or Board of the Fund on a quarterly basis and the University Trustees and DSO or CU Board at least annually of the Investment Performance of the Fund’s Primary and Secondary Investment Performance Objectives. If Fund investment and management responsibility has been delegated to investment managers, the Investment Report will also describe the Investment Performance of the Fund’s Primary and Secondary Investment Performance Objectives attained by the investment manager before and after the investment manager’s compensation;

“Long-Term Funds” means funds with a long-term investment horizon, in theory perpetual, which may generate a stream of earnings to support current operations that will remain stable or grow in real or inflation-adjusted terms, and which may include true endowment funds (funds received from a donor with a restriction that the principal is not expendable), term endowment funds (funds for which the donor stipulates that the principal may be expended after a stated period of time or upon the occurrence of a certain event) and funds functioning as endowments (funds that have been established by the governing board to function like an endowment fund but that may be expensed at any time at the discretion of the board);

"Material change" includes a
(a) Change of status of the Fund including termination or winding up of the Fund - partially or in its entirety;
(b) Merger of the Fund with another fund;
(c) Change in the declared Short-Term or Long-Term status of the Fund;
(d) Substantial change in investments or delegation of investments to an investment manager; or
(e) Other material change in circumstances that the Board or other appropriate governing body of the Fund may declare from time to time;

"Miscellaneous Investments" includes investments, loans and securities that have not been specifically identified in this Policy;

"Obligation" includes bonds, debentures, promissory notes, commercial paper or other evidences of indebtedness;

“Performance Objective(s)” includes two performance objectives for each Fund: (a) the Primary Investment Performance Objective, and (b) the Secondary Performance Objective;

“Policy Statement” means a declaration of the Fund’s status made by the appropriate governing body of the Fund, whether the Board of the University or DSO or CU or Investment Committee of the University or DSO or CU with delegated investment authority for the Fund or other appropriate governing body of the Fund;

“Pooled Funds” means professionally managed indexed or actively managed funds registered with the Securities and Exchange Commission and listed on stock exchanges in the United States;

“Primary Investment Performance Objective” for the Fund is a total portfolio return which outperforms appropriate market and asset benchmark portfolio returns over a rolling 3 to 5-year time horizon, net of all investment expenses. The benchmark portfolio return is calculated on a weighted asset class basis and is compared to the appropriate benchmark weighted index returns for each of the major asset classes. Within the various asset classes, the performance objective is to exceed the relevant, appropriate index return;

“Prudent Person Rule” means that in making or retaining each and all investments and in acquiring, investing, reinvesting, exchanging, retaining, selling, supervising and managing funds, there shall be exercised the judgment and care, under circumstances then prevailing, that persons of ordinary prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived from the investment;

"Recognized stock exchange" means any stock exchange that is qualified to operate as a stock exchange in the United States of America;

“Related Party” The following persons shall be treated as a Related Party to the University:
(a) The administrator, investment manager, investment consultant, University CFO,
Director / Trustee of a DSO or CU, Treasurer, CFO of a DSO or CU or Trustees of the University;
(b) A director, officer or employee of any institution mentioned in paragraph (a);
(c) An individual who, directly or indirectly, holds, or together with his spouse or child, holds more than 10 percent of the voting shares carrying more than 10 percent of the voting rights attached to all voting securities of any person mentioned in paragraph (a);
(d) An individual who is an affiliate of the administrator, investment manager or the University or an employee, officer or a director of such individual;
(e) A company which is directly or indirectly controlled by an individual referred to in paragraphs (a) to (d);
and shall be deemed to be a Related Party for a period of up to 12 months after that person has ceased to satisfy the description under paragraphs (a) to (e);
(f) Any person covered by the definition of Relative under Chapter 112, Florida Statutes or any person that would be otherwise covered in the manner described therein by Chapter 112;

“Secondary Performance Objective” for the Fund is a positive rolling 5-year real total return, net of inflation as defined by the CPI, and net of all Fund investment and operating expenses. For Long-Term Funds, the Secondary Performance Objective is a rolling 5-year total return of greater than the rate of inflation plus 5.0% (3.0% for fixed income), after fees and expenses. To the extent that an actively managed strategy is used, a risk-adjusted, excess annual return of 1.0% is added to the Long-Term Secondary Performance Objective;

“Short-Term Funds” means funds not needed immediately for operating purposes as well as funds reserved for facilities construction or other capital purposes or other purposes. Short-Term Funds are generally invested in high-quality fixed-income investments that generate high levels of current income, the maturities of such investments are either short term or staggered so that maturities coincide with expenditures;

“Statutes” mean the Federal and State of Florida laws and regulations, including Sections 1011.42, 1004.24 and 218.415, Florida Statutes, and the State of Florida Administrative Code Rules of the Department of Education applicable to the University, the Board of Governors’ regulations/policies, including Florida Administrative Code 10.001 and any Statutes and Rules applicable to DSOs and CUs, including Section 1004.28 and 1010.10 and any applicable University regulations;

"Stocks and shares" means common shares, preferred shares and equity-type shares of a company;

“Treasurer” means the University Treasurer or authorized officers in the Office of the Treasurer;

“Trustees” means the Board or other governing body for the Fund, as declared in a Policy Statement adopted by the President of the University or Board or other appropriate governing body for the Fund;

“University” means The University of South Florida Board of Trustees, a public body corporate.
## DEBT MANAGEMENT POLICY

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UNIVERSITY OF SOUTH FLORIDA

DEBT MANAGEMENT POLICY

I. INTRODUCTION (Purpose and Intent)

Mission of the University

The University of South Florida (the “University”) is a multi-campus national research university that supports the development of the metropolitan Tampa Bay Region, the United States and the world. Building upon unique strengths inherent in Florida’s population, location, and natural resources, the university is dedicated to excellence in:

• Teaching and lifelong learning in a student-centered environment
• Research to advance knowledge and promote social, cultural, economic, educational, health, and technological development
• Service based on academic excellence and the ethic of community responsibility
• Community engagement to build university-community partnerships and collaborations.

Purpose of the Policy

To fulfill its mission, the University will need to make strategic capital investments in its facilities that could affect the University’s credit. Funding sources, including State funds (appropriations and debt), University debt, internal reserves and philanthropy will be continuously utilized by management to achieve the University’s strategic objectives. Debt, particularly tax-exempt debt, provides a low cost source of capital to fund investments and is viewed as a long-term component of liabilities.

The purpose of this document is to establish a policy for the University of South Florida to be used to evaluate the appropriate mix of funding sources, the capital funding structure and the appropriate use of leverage (the “Policy”).

II. STATEMENT OF POLICY

It is the policy of the University of South Florida that debt financing conform to the authority granted by Florida and Federal laws, its Board of Trustees and the Board of Governors’ Debt Management Guidelines for Capital Outlay Projects approved on April 27, 2006 and that the management of debt be conducted in such a manner as to promote the interests of the University.
This Policy will be implemented, reviewed and monitored by the University Chief Financial Officer, the Office of the University Treasurer (“Treasurer”) and the CFO of the DSO or CU.

III. ENTITIES COVERED BY THIS POLICY

The Policy applies to all units within the University, to direct support organizations (“DSO”), to component units (“CU”) and to units for which the University is financially and legally accountable. DSOs are separate not-for-profit corporations organized and operated exclusively to assist the University achieve its mission. CUs are organizations operated exclusively to assist the University achieve its mission. In accordance with Florida Statutes and Rules and University Regulations and Policies, these organizations receive, hold, invest and administer property and make expenditures to or for the benefit of the University.

All DSO and CU debt financings, to the extent such debt financings are allowed by applicable law, require approval by the DSO and CU Boards and such projects shall be managed by the designated chief financial officer (“CFO”) of the DSO and CU.

IV. FINANCING OBJECTIVES

The financing objectives below, combined with the judgment of the University, and DSO and CU as appropriate, provide a framework for decisions regarding the use and management of debt. The objectives are subject to review and change over time.

A. Identify eligible projects for debt financing. Restricting debt to projects that are critical to the mission of the University will ensure that debt capacity is optimally utilized. Projects that relate to the strategic objectives of the University and projects which are self-funding with associated revenues will receive priority consideration.

B. Maintain favorable access to capital. Management will manage the timing and overall level of debt to ensure low-cost and timely access to the capital markets.

C. Limit risk within the debt portfolio. Management will balance the goal of achieving the lowest cost of capital with the goal of limiting exposure to interest rate risk and other financing and credit risks.

D. Manage credit to maintain the highest possible credit rating. Maintaining the highest possible credit rating will facilitate the issuance of debt at favorable cost. Outstanding debt will be limited to a level that will maintain acceptable credit ratings from the credit rating agencies. While maintaining or attaining a specific credit rating is not an objective of this Policy, the University System Finance
Council (the “Finance Council”) will monitor the University’s credit ratings and assess factors that might affect those ratings.

V. RESPONSIBILITIES

Pursuant to the authority of the University President, the responsibility for implementing the Policy and its procedures lies with the University Chief Financial Officer. The University Chief Financial Officer may delegate debt management duties to other officers. The Treasurer will provide direction for managing outstanding University debt and the respective CFO of the DSO or CU will be responsible for managing the outstanding debt of the relevant organization. Debt management guidance, review and recommendations will be provided by the Finance Council.

VI. DEBT MANAGEMENT STRATEGIES

To achieve its financing objectives above, the University will adopt the following debt management strategies and procedures. These strategies will be reviewed and modified by the University over time.

A. Funding Strategies

1. Only projects that relate to the mission of the University will be considered for debt financing.
2. Projects which are self-funding or can create budgetary savings will receive priority consideration. The Finance Council will prioritize all projects put forward for funding.
3. State funding, cash reserves, philanthropy and all other sources of legally available funds are expected to finance a portion of the cost for the University’s or, as appropriate, the DSO’s and CU’s investment in facilities.
4. Debt is to be used sparingly and strategically.
5. The University, in the context of this Policy, will consider other funding arrangements when appropriate and advantageous to the University.

B. Debt Capacity Assessment

1. This Policy requires the assessment of University debt capacity using key financial ratios. These ratios should be consistent with those used in the capital markets and will constitute benchmarks for debt capacity. The ratios will be evaluated over the past several years and will be compared to appropriate industry medians at specific rating levels.

The following ratios will be calculated on a University-wide basis and reported annually and on a pro forma basis when new
debt is issued, and will be revised to reflect any changes in the capital markets and accounting standards:

- **Actual Debt Service Coverage (x)**
  Measures the actual margin of protection for annual debt service payments from annual operations.

  \[
  \text{The Sum of:} \\
  \text{operating surplus (deficit)} \\
  \text{plus depreciation expense} \\
  \text{plus interest expense} \\
  \text{Divided by total principal and interest expense.}
  \]

- **Actual Debt Service to Operations (%)**
  Measures the ability to pay debt service associated with all outstanding debt and the impact on the overall budget.

  \[
  \text{Actual annual debt service} \\
  \text{Divided by total operating expenses.}
  \]

- **Operating Margin (%)**
  Measures the operating surplus on each dollar of operating revenue.

  \[
  \text{Operating surplus (deficit)} \\
  \text{Divided by total operating revenue.}
  \]

- **Expendable Financial Resources to Direct Debt (x)**
  Measures coverage of direct debt by financial resources that are ultimately expendable.

  \[
  \text{The Sum of:} \\
  \text{unrestricted net assets} \\
  \text{plus restricted expendable net assets} \\
  \text{plus foundation unrestricted / temporarily restricted net assets} \\
  \text{less foundation net investment in plant} \\
  \text{Divided by outstanding direct debt.}
  \]

- **Expendable Financial Resources to Operations (x)**
  Measures coverage of operating expense by financial resources that are ultimately expendable.

  \[
  \text{The Sum of:} \\
  \text{unrestricted net assets} \\
  \text{plus restricted expendable net assets}
  \]
plus foundation unrestricted / temporarily restricted net assets
less foundation net investment in plant
Divided by total operating expense.

2. Target ratios or Policy limits may be established as part of this Policy. These targets or limits will vary depending on risk tolerance and strategic objectives.

C. Debt Instruments
   1. Tax-Exempt Debt. Tax-exempt debt is beneficial and efforts will be made to maximize the amount of tax-exempt debt outstanding under the Policy.
   2. Taxable Debt. The University debt portfolio will be managed to minimize the amount of taxable debt outstanding. Taxable debt will be used to fund projects ineligible for tax-exempt financing.

D. Interest Rate Swaps
   1. Interest rate swaps will be used by the University in a manner consistent with the Derivatives Policy to reduce interest rate risk and to manage variable rate exposure.
   2. Interest rate swaps will be evaluated in a framework incorporating a cost/benefit analysis of any derivative instrument, market and interest rate conditions, and counterparty exposure.
   3. Under no circumstances will a derivative transaction be utilized that is not fully understood or that imposes inappropriate risk on the University.
   4. Only counterparties with ratings of “AA-” or better at the time of the transaction will be used.
   5. If, following the transaction, the counterparty is downgraded, the relationship will be subject to immediate review.
   6. All swap contracts will include provisions for collateralization upon certain events to secure the interests of the University and particularly that the contract will terminate at the University’s option if the counterparty’s rating falls below a “BBB-“.
   7. Exposure to counterparties will be diversified.

E. Variable Interest Rate Exposure
   1. Due to the typically low interest rate cost of variable rate debt relative to fixed rate debt, it is beneficial for the University to maintain a portion of outstanding debt in a variable rate mode.
   2. Variable rate debt, however, introduces a number of significant risks: the potential volatility of debt service requirements, a risk that associated credit arrangements that expire prior to the maturity of the underlying debt may be difficult or costly to
renew, financing arrangements that may include rating triggers or covenants that could accelerate debt repayment and collateral pledge requirements. Thus, the amount of variable rate debt not swapped to fixed rates will be limited as a portion of the total amount of outstanding University debt. Fixed rate debt will be the primary source of capital infrastructure financing.

3. The amount of variable rate debt will vary depending on capital market conditions and the level of interest rates.

F. Off-Balance Sheet Financing

1. Off-balance sheet financing will be considered by the University when it is desirable to work with a third party for risk sharing and for leasing.

2. The effect of such financing will be considered on the cost of capital, credit ratings and debt capacity, making the assumption that the financing is included on the balance sheet.

VII. DEBT MANAGEMENT PRACTICES

A. Debt Administration

1. The University Chief Financial Officer, who may delegate duties to other officers, will be responsible for structuring new University transactions, managing project funds and developing repayment schedules from units. The CFO of the DSO or CU will have similar responsibilities for the DSO or CU.

2. The University’s outstanding debt will be managed by the Treasurer. The DSO’s and CU’s outstanding debt will be managed by the CFO of the DSO and CU.

3. The University System Finance Council will review debt management practices and new transactions reported by the University and the DSOs and CUs at least on a quarterly basis and provide guidance and recommendations to the University Chief Financial Officer.

4. In circumstances where the University issues debt for projects benefiting multiple units, the Treasurer will pool the debt and allocate funds and financing costs for the various projects to the units on a consistent basis.

5. The Finance Council, as needed, will review proposals for new projects and rank them according to the foregoing University objectives and strategy.

6. The Finance Council will review, at least annually, the University’s debt capacity, repayment sources and other capital market, budget and financing considerations.

7. The University Board of Trustees and the DSO and CU Boards, if applicable, must approve projects before funding.
B. Structure

1. To obtain the lowest possible financing costs, debt should be structured with the strongest possible authorized security.
2. Debt maturity structures will not exceed the useful life of the facilities financed.
3. Debt service should not exceed the expected revenues used to repay the debt at any time.
4. Call features should be structured to provide maximum flexibility relative to cost.

C. Methods of Sale

1. Negotiated or competitive debt transactions will be considered on a case-by-case basis.
2. Private placements will be considered for debt transactions where the size is too small or the structure is too complicated for public debt issuance.

D. Purchase of Insurance or Other Credit Enhancement

1. Insurance and other credit enhancement opportunities will be evaluated and utilized if they are considered cost effective and when they do not require material debt and operating restrictions.

E. Selection of Underwriters and Advisors

1. A request-for-proposal process will be utilized from time to time to select senior and co-managing underwriters. This request process will serve to select a group of lead underwriters for debt issuance for a specified period. The process will also be utilized to pre-qualify a roster of other firms for participation on the underwriting team. A competitive or negotiated process will be utilized for any single issue.
2. Financial and legal advisors to the University for debt issuance and management requirements will be selected from a request-for-proposal process from time to time to serve for a specified period. Advisors may be selected for any single issue utilizing a competitive or negotiated process.

F. Refunding Targets

1. Outstanding debt will be monitored for refunding opportunities.
2. As a guideline, refunding debt that produces a 5% or greater net present value will be considered.
3. Refunding outstanding debt will also be considered if the University benefits from eliminated restrictive covenants, payment obligations, reserve and/or security requirements or other obligations, or from consolidation into larger, more cost-effective transactions.
G. Reporting to the Board of Trustees
   1. The Treasurer will present an annual report to the Board of Trustees on debt issued and outstanding, the estimated University debt capacity and the credit ratings. The CFO of the DSO or CU will submit information as requested by the Treasurer for this annual report.

VIII. ARBITRAGE AND INVESTMENT OF BOND PROCEEDS

Compliance with arbitrage requirements on invested tax-exempt bond funds will be maintained. Proceeds that are to be used to finance construction expenditures are excepted from the filing requirements, provided that proceeds are spent in accordance with requirements established by the IRS.

IX. DISCLOSURE

Initial and ongoing disclosure requirements will be met in accordance with SEC Rules, or Florida Statutes or Rules, as applicable. Financial reports, statistical data and descriptions of any material events will be submitted as required under outstanding bond indentures.

Deleted: To comply with arbitrage rules, investments will be selected that earn an interest rate equal to or less than that of the debt interest rate.

Deleted: An election is made to pay a penalty equal to 1 ½ percent of the difference between the unexpended proceeds and the required expenditure amount. This election must be made before the bonds are issued and applies when it is anticipated that construction will be completed within two years.
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UNIVERSITY OF SOUTH FLORIDA

DERIVATIVES POLICY

I. INTRODUCTION (Purpose and Intent)

Mission of the University

The University of South Florida (the “University”) is a multi-campus national research university that supports the development of the metropolitan Tampa Bay Region, the United States and the world. Building upon unique strengths inherent in Florida’s population, location, and natural resources, the university is dedicated to excellence in:
- Teaching and lifelong learning in a student-centered environment
- Research to advance knowledge and promote social, cultural, economic, educational, health, and technological development
- Service based on academic excellence and the ethic of community responsibility
- Community engagement to build university-community partnerships and collaborations.

Purpose of the Policy

The purpose of this document is to establish a policy for the University for the management of corporate risk associated with derivative instruments and hedging activities by limiting exposures and positions that can be taken in derivative instruments, controlling balance sheet risks by managing the asset-liability structure of the University, identifying responsible parties and defining the scope of their authority, defining exposures that should be avoided, measuring them and defining appropriate actions to control this risk (the “Policy”).

The Policy establishes accounting and reporting standards for derivative instruments, a financial instrument which derives its value from the value of some other financial instrument, variable or index, including certain derivative instruments embedded in other contracts (collectively referred to as “derivatives”), and for hedging activities.

The Policy requires the recognition of all derivatives as either assets or liabilities in the statement of financial position and measurement of those instruments at fair value. The accounting for changes in the fair value of a derivative (gains and losses) depends on the intended use of the derivative and the resulting designation. Furthermore, this Policy is established to minimize the income statement impact of fluctuating derivative values, cash flows and rates.
In June 1998, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. 133, “Accounting for Derivative Instruments and Hedging Activities” (“FAS 133”). FAS 133 establishes accounting and reporting standards for derivative instruments. Pursuant to FAS 133, hedging relationships are designated and documented. The University and its direct support organizations and component units will complete implementation plans, which include identifying all derivatives, evaluating risk management hedging strategies and determining appropriate valuation methodologies to assess the impact that this statement will have on its financial position and results of operations.

Positions in derivative instruments such as interest rate swaps are maintained to reduce exposure to particular markets and financial instruments. Involvement with derivative instruments and transactions is intended to reduce or eliminate risk. Derivative instruments and contracts may not be used for speculative purposes.

II. STATEMENT OF POLICY

It is the policy of the University of South Florida that derivative instruments, contracts and hedging activities conform to the authority granted by Florida and Federal laws, its Board of Trustees and applicable policies of the Board of Governors including, but not limited to, the Board of Governors’ Debt Management Guidelines for Capital Outlay Projects approved on April 27, 2006, and that the derivative instruments and hedging activities be conducted in such a manner as to promote the interests of the University.

The Policy is established to define allowable derivative transactions or positions. A secondary consideration would be to minimize the risk of fluctuating derivative values, cash flows and rates.

It is the University’s Policy for all entities covered hereunder that:

A. Derivative transactions are to be used to hedge, mitigate or reduce risk exposures.

B. Derivative transactions may not be used for speculative purposes or to assume risks that are not prudent considering the purposes for which the transaction is intended.

C. Open, unhedged derivative transactions should be avoided.

D. Derivative instrument contracts should only be entered into with an associated underlying exposure.

E. Preferred hedge transactions are those determined to be effective hedges.

F. Derivative instruments and contracts should be constructed to minimize liquidity and cash flow risks associated with hedging activities. The following risks should
be considered for each derivative transaction: Counterparty Risk – the risk that the counterparty will not fulfill its obligations under the contract, Termination Risk – the risk that the contract could be terminated as a result of various events, Basis Risk – the mismatch between the interest received under the contract and the interest paid on the related bonds, Tax Risk – the risk due to changes in income tax rates and other changes in tax policies, Amortization Risk – the mismatch between the principal payments on the related bonds and the payments due under the contract, Rollover Risk – the risk that the term of the contract does not match the term of the related bonds and that a new contract cannot be secured, and Liquidity Risk – the risk that the University cannot secure a cost-effective renewal of a letter or line of credit or suffers a failed auction or remarketing of the variable-rate bonds. The following strategies at a minimum should be considered to mitigate these risks: analyzing collateral exposure under various rate shocks; establishing minimum counterparty credit ratings; diversifying counterparties; defining acceptable termination events; providing for an optional termination provision for the University; providing limits on counterparty termination options; use of insurance policies, collateral requirements or third-party guarantees; and describing termination payment terms.

G. All derivative instruments and hedging activities will be employed in a manner consistent with this Policy and the provisions of the University’s Debt Management Policy.

H. Legal and financial experts will be utilized to ensure that the University’s derivative instruments and contracts accomplish their intended purpose and protect the interests of the University.

Not all financial exposure or transaction exposure should be hedged. Measuring financial exposure depends upon forecasted future events; attempts to limit all exposures may introduce other risks to the University.

Only certain, known transactions will be hedged, such as the interest rate risk associated with the variable rate component of a University debt hedged via an interest rate swap. Procedures for measuring financial exposure on a periodic basis will be established. The results will be reported to management on a periodic basis such that management is aware of the potential exposure.

This Policy will be implemented, reviewed and monitored by the University Chief Financial Officer, the Office of the Treasurer (“Treasurer”) and the CFO of the DSO or CU.

III. ENTITIES COVERED BY THIS POLICY

The Policy applies to all units within the University, to direct support organizations (“DSO”), to component units (“CU”) and units for which the University is legally and
financially accountable. DSOs are separate not-for-profit corporations organized and operated exclusively to assist the University achieve its mission. CUs are organizations operated exclusively to assist the University achieve its mission. In accordance with Florida Statutes and Rules and University Regulations and Policies, these organizations receive, hold, invest and administer property and make expenditures to or for the benefit of the University.

All DSO and CU derivative instruments and hedging activities, to the extent such instruments and activities are allowed by applicable law, require approval by the DSO and CU Boards and such instruments and activities shall be managed by the designated chief financial officer (“CFO”) of the DSO and CU.

IV. STRUCTURE, RESPONSIBILITIES AND AUTHORITY

A. Responsibilities of the University Chief Financial Officer

The University Chief Financial Officer has the following responsibilities with respect to the management of the University’s derivatives exposure:

1. Recommend the University’s Derivatives Policy to the President.

2. Ensure implementation of the Policy by all applicable units.

3. Approve each University derivative position and review periodic derivative exposure reports.

4. Review each DSO and CU derivative transaction reported to the University Chief Financial Officer and periodic derivative exposure reports submitted by the DSO and CU.

5. Approve in advance, University derivative transactions that are inconsistent with the guidelines prescribed in this Policy.

6. Review DSO and CU derivative transactions reported to the University Chief Financial Officer that are inconsistent with the guidelines prescribed in this Policy.

C. Responsibilities of the Treasurer

The Treasurer has the following responsibilities with respect to the management of the University’s derivatives exposure:

1. Recommend the University’s Derivatives Policy to the University Chief Financial Officer.
2. Implement and monitor implementation of the Policy.

3. Approve all University relationships with banks and other financial institutions (counterparties) established for the purpose of conducting derivative business.

4. Review each University derivative transaction for Policy compliance.

5. Provide periodic derivative exposure reports to the University Chief Financial Officer.

6. Review each DSO and CU derivative transaction reported to the University Chief Financial Officer and periodic derivative exposure reports submitted by each DSO and CU.

D. Responsibilities of the CFO of the DSO or CU

The CFO of the DSO or CU has the following responsibilities with respect to the management of the derivatives exposure of the DSO or CU.

1. Approve each DSO or CU derivative transaction and review periodic derivative exposure reports with the DSO or CU Boards.

2. Report each DSO or CU derivative transaction and provide periodic derivative exposure reports to University Chief Financial Officer and Treasurer.

3. Review each DSO or CU derivative transaction for Policy compliance.

4. Approve in advance, DSO or CU derivative transactions that are inconsistent with the guidelines prescribed in this Policy and report such transactions to the DSO or CU Board and the University Chief Financial Officer.

5. Approve DSO or CU relationships with banks and other financial institutions (counterparties) established for the purpose of conducting derivative business with the DSO or CU and report such relationships to the Treasurer.

The Treasurer, in accordance with the University Controller’s responsibilities for compliance, and the CFO of the DSO or CU will implement control systems and procedures that provide for an appropriate level of segregation of duties related to the conduct of, accounting for, and reporting of derivative activity.
V. REPORTING

The Treasurer and the CFO of the DSO or CU, as appropriate, will prepare a periodic Derivative Exposure Report (“Report”), on at least a quarterly basis, and provide the Report to the University Chief Financial Officer on derivative accounting exposures that contains the following information:

A. A summary of the net derivative transaction exposure by type and description of appropriate hedging actions.

B. The number of transactions (contract purchases and sales) made during the period.

C. A summary of the current open derivative instrument contracts and explanation of the strategy behind the open positions.

D. The net results of derivative positions that have been closed during the period.

E. The status of any derivative position that might require management attention.

F. The financial exposure to derivative risk. The measurement of financial exposure will consist of the derivative components of forecasted revenue, allocated operating expenses and acquisitions, as appropriate.

The Report will contain information with respect to all derivative transactions occurring during the period, whether or not they have been fully settled as of the end of the period.

The Report will contain a management summary that will describe the status of the hedged positions and derivative transactions made during the previous period. The summary should be presented in a manner that will allow the University Chief Financial Officer to determine whether derivative activity during the period has adhered to the University’s Policy.

VI. INTERNAL CONTROLS:

The University Chief Financial Officer is responsible for recommending and approving all University hedging strategies and overseeing all DSO and CU hedging strategies reported in accordance with this Policy. The CFO of the DSO or CU is responsible for recommending and approving all DSO and CU hedging strategies. Only the University Chief Financial Officer and Treasurer, or the CFO of the DSO or CU, as appropriate, shall have the authority to enter into derivative instrument contracts that provide hedging coverage. The Treasurer, in accordance with the University Controller, is responsible for implementing internal control procedures.

Once a hedging strategy has been approved by the University Chief Financial Officer, or applicable CFO of the DSO or CU, the University Chief Financial Officer, Treasurer, or,
as appropriate, CFO of the DSO or CU is authorized to execute the contracts with an approved bank or other financial institution. The following procedures shall be followed:

A. All derivative transactions will be recorded by the Treasurer or CFO of the DSO or CU on the Derivative Contract Log (“Contract Log”) immediately upon execution. The Treasurer or DSO or CU CFO will approve and initial all contracts recorded on the Contract Log within 2 days of execution. The aggregate amounts of hedge contracts should not deviate from the approved level. The Contract Log will contain, at a minimum, the objective and strategy for the derivative, the designation of the type of hedge transaction, effective and maturity dates, initial amount, payment/reset dates, interest rate, index rate and a description of the underlying corresponding asset or liability critical terms and cash flows, and how the University or DSO or CU will assess whether the hedge is and remains effective throughout its term.

B. Bank confirmations of derivative transactions will be sent directly to the Treasurer or CFO of the DSO or CU. The Treasurer or DSO or CU CFO will cross-check the confirmations against the Contract Log. If the confirmation has not been received within 48 hours after the execution date of the contract, the Treasurer or DSO or CU CFO will personally contact the derivatives desk at the appropriate bank to verify that the trade is indeed reflected on the bank’s records, and to request a confirmation in writing. If there is a discrepancy, the Treasurer or DSO or CU CFO will personally contact both the derivative trader at the bank and determine whose records are in error. The University Chief Financial Officer and DSO or CU Board, as appropriate, shall be notified when any problems occur.

C. At the end of the period, the Treasurer or CFO of the DSO or CU shall review all incoming and outgoing cash transfers pertaining to derivatives. The Treasurer or DSO or CU CFO shall ensure that the appropriate amounts were received/paid on the appropriate dates. Specifically, cash transfers related to derivative contracts should be reconciled with the Contract Log and supported by copies of the confirmations. The same procedure should be performed at the end of each period for the entry supporting the unrealized gains/losses on open derivative contracts.

D. The University Controller and the CFO of the DSO or CU and their auditors will audit the hedging activity and ensure compliance with this Policy and consistency with FAS 133.

E. Each bank or other financial institution will be specifically approved to conduct derivative business with the University or DSO or CU and will be a counterparty that meets the requirements described in the Debt Management Policy. The approved counterparty will be advised of the employees of the University or DSO or CU who are authorized to transact derivative business on behalf of the University or DSO or CU. The approved counterparty will be notified immediately, both verbally and in writing, with respect to the change in status of any employee authorized to conduct business with that institution.
VII. DERIVATIVE POLICY EXCEPTIONS

A. Policy Exceptions:

This Policy provides guidelines for the management of derivative hedging. Any exception to this Policy requires the written approval, in advance, of the University Chief Financial Officer. If the Policy is breached inadvertently, the University Chief Financial Officer will be notified immediately.

B. Policy Review:

This Policy will be reviewed annually and may be reviewed and updated more frequently if conditions dictate.

Proposed amendments to the Policy shall be prepared and recommended by the Treasurer, and shall be reviewed and ratified by the University Chief Financial Officer.

VIII. DEFINITIONS OF DERIVATIVE EXPOSURES AND HEDGES

For purposes of this Policy, the following words shall have the following meanings:

A. “Economic Exposure”

The unexpected change between anticipated net cash flows and actual results, fluctuating asset values and/or liquidity events that are entered on the University’s consolidated financial statements. The economic risk concerns the impact that fluctuating values can have on future operations. The most visible example of this type of exposure to the University or DSO or CU is in the reporting of actual results against budget. The budget is based on historical values or future assumptions that will not be the same as the actual results. For example, higher borrowing rates than budget will increase expenses and reduce net operating results, while lower borrowing rates will have the opposite effect.

B. “Transaction Exposure”

The net cash flow change between the time the transaction is entered on the University’s or DSO’s or CU’s financial statements and the time the actual cash payment is made. This exposure also occurs when both revaluation and settlement of financial instrument accounts will result in a gain or loss, which will be recorded to the income statement, between the delivery of a proposal and the signing of a contract, and between the signing of a contract and revenue recognition.

C. “Fair Value Hedge”
A derivative designated as hedging the exposure of the University or DSO or CU to the changes in the fair value of a recognized asset or liability or a firm commitment. The gain or loss is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributable to the risk being hedged. The effect of that accounting is to reflect in earnings the extent to which the hedge is not effective in achieving offsetting changes in fair value.

D. “Cash Flow Hedge”
A derivative designated as hedging the exposure of the University or DSO or CU to variable cash flows of a forecasted transaction. The effective portion of the derivative’s gain or loss is initially reported as a component of other comprehensive income (outside earnings) and subsequently reclassified into earnings when the forecasted transaction affects earnings. The ineffective portion of the gain or loss is reported in earnings immediately.

E. “Non-Designated Hedging Instrument”
A derivative not designated as a hedging instrument. The gain or loss is recognized in earnings in the period of change.

F. “Highly Effective Hedge”
The critical terms of the hedging instrument and the related asset, liability, cash flows or forecasted transactions are the same: same quantity, same commodity, same time, same location and that the fair value of the derivative contract at inception is zero, and either the change in the discount or premium on the derivative contract is excluded from the assessment of effectiveness and included directly in earnings (pursuant to paragraph 63 of FAS 133) or the change in expected cash flows on the derivative transaction is based on the forward price of the commodity. Thus, the changes in fair value or cash flows attributable to the risk being hedged are expected to be completely offset at inception and on an ongoing basis.