



MUNICIPAL OFFICE COMPLEX
8401 W. MONROE STREET
PEORIA, AZ 85345

**VISTANCIA COMMUNITY FACILITIES
DISTRICT BOARD
SPECIAL MEETING NOTICE & AGENDA
Tuesday, February 21, 2012
7:01 PM
(to follow Regular City Council Meeting)
CITY COUNCIL CHAMBER**

**CONVENE:
ROLL CALL:**

DISTRICT BOARD:

Chairperson
Bob Barrett

Vice Chairperson
Ron Ames

Board Members
Cathy Carlat
Joan Evans
Carlo Leone
Dave Pearson
Tony Rivero

District Manager
Carl Swenson

CONSENT AGENDA

CONSENT AGENDA: All items listed with "C" are considered to be routine or have been previously reviewed by the Board, and will be enacted by one motion. There will be no separate discussion of these items unless a Board Member so requests; in which event the item will be removed from the General Order of Business, and considered in its normal sequence on the Agenda.

CONSENT – New Business:

1C Minutes

Discussion and possible action to approve the Special Meeting minutes of December 6, 2011.

2C Investment Report for the Quarter Ended December 31, 2011

Discussion and possible action to review and accept the Investment Report for the Quarter Ended December 31, 2011

CALL TO THE PUBLIC: (NON-AGENDA ITEMS)

If you wish to address the District Board, please complete a Speaker Request Form and return it to the Clerk before the call to order for this meeting. The District Board is not authorized by state law to discuss or take action on any issue raised by public comment until a later meeting.

ADJOURNMENT

Vistancia Community Facilities District Board
Special Meeting Notice & Agenda
Tuesday, February 21, 2012
Page 2 of 2

NOTE: Documentation (if any) for items listed on the Agenda is available for public inspection, a minimum of 24 hours prior to the District Board Meeting, at any time during regular business hours in the Office of the City Clerk, 8401 W. Monroe Street, Room 150, Peoria, AZ 85345.

Accommodations for Individuals with Disabilities. *Alternative format materials, sign language interpretation, assistive listening devices or interpretation in languages other than English are available upon 72 hours advance notice through the Office of the City Clerk, 8401 West Monroe Street, Room 150, Peoria, Arizona 85345 (623)773-7340, TDD (623)773-7221, or FAX (623) 773-7304. To the extent possible, additional reasonable accommodations will be made available within the time constraints of the request.*

PUBLIC NOTICE:

In addition to the District Board members noted above, one or more members of the City of Peoria Boards and Commissions may be present to observe the District Board meeting as noticed on this agenda.

MINUTES OF THE VISTANCIA COMMUNITY FACILITIES DISTRICT BOARD
CITY OF PEORIA, ARIZONA
COUNCIL CHAMBER
December 6, 2011

A **Special Meeting** of the Vistancia Community Facilities District Board was convened at 8401 West Monroe Street in open and public session at 8:45 p.m.

Members Present: Board Chairperson Bob Barrett; Vice Chairperson Cathy Carlat; Board Members, Ron Aames, Joan Evans, Carlo Leone, Dave Pearson and Tony Rivero.

Members Absent: None

Other Municipal Officials Present: Carl Swenson, District Manager; Susan Daluddung, Deputy District Manager; Susan Thorpe, Deputy District Manager; Steve Kemp, District Counsel; Wanda Nelson, District Clerk; Andy Granger, Engineering Director; John Imig, Information Technology Director; Chris Jacques, Planning and Community Development Director; Bo Larsen, Public Information Manager; Bill Mattingly, Public Works and Utilities Director; Brent Mattingly, Finance Director; Roy Minter, Police Chief; Claudia Lujan, Interim Human Resources Director; Stacy Irvine, Interim Fire Chief; Jeff Tyne, Interim Community Services Director; Corina Russo, Assistant to the District Manager; Linda Blas; Deputy District Clerk.

Audience: Approximately 5 members of the public were present.

Note: The order in which items appear in the minutes is not necessarily the order in which they were discussed in the meeting.

CONSENT AGENDA: All items listed with a "C" are considered to be routine or have been previously reviewed by the District Board and will be enacted by one motion. There will be no separate discussion of these items unless a Board Member so requests; in which event the item will be removed from the General Order of Business and considered in its normal sequence on the Agenda.

CONSENT – New Business:

Chairperson Barrett asked if any Board Member wished to have an item removed from the Consent Agenda. Having no requests from the Board, motion was made by Vice Chairperson Carlat, seconded by Board Member Leone, to approve the Consent Agenda.

Upon vote, the motion carried unanimously 7 to 0.

1C Minutes

Approved the Special Meeting minutes of November 15, 2011.

2C District Annual Financial Report for the Fiscal Year Ended June 30, 2011

Received and filed the District Annual Financial Report for the Fiscal Year Ended June 30, 2011.

CALL TO THE PUBLIC: (NON-AGENDA ITEMS)

None.

ADJOURNMENT:

Being no further business to come before the District Board, the meeting was duly adjourned at 8:46 p.m.

Bob Barrett, District Chairperson

ATTEST:

Wanda Nelson, District Clerk

CERTIFICATION

I hereby certify that the foregoing minutes are a true and correct summary of the proceedings of the Special Meeting of the Vistancia Community Facilities District held on the 6th day of December, 2011. I further certify that the meeting was duly called and held and that a quorum was present.

Dated this 21st day of February, 2012.

(Seal)

Wanda Nelson, District Clerk

**CITY OF PEORIA, ARIZONA
VISTANCIA COMMUNITY FACILITIES DISTRICT
DISTRICT COMMUNICATION**

VCFD Agenda Item: 2C

Date Prepared: February 2, 2012

District Meeting Date: February 21, 2012

TO: Carl Swenson, District Manager
FROM: Brent D. Mattingly, Chief Financial Officer 
THROUGH: Susan Thorpe, Deputy District Manager
SUBJECT: Investment Report for the Quarter Ended December 31, 2011

Purpose:

This is a request for the District Board to review and accept the Investment Report for the Quarter Ended December 31, 2011.

Background/Summary:

The Finance Department has prepared an annual report in compliance with Peoria's adopted Investment Policy. The report summarizes the District's investment activity for the period from October 1, 2011 to December 31, 2011. The District's total investment portfolio earned an average yield of 0.36% for the 2nd Quarter of FY 2012. This represents investment income of \$16,388 for the quarter. The average cash balance of the District's portfolio during the quarter was \$18,161,770 and the ending balance for the total investment portfolio was \$18,176,192 which represents all securities and money market funds.

Previous Actions:

There are no previous actions for this item.

Options:

The District Board may select the following options:

- A:** Accept the Quarterly Investment Report as presented
- B:** Not accept the Quarterly Investment Report and request additional information from staff

Staff's Recommendation:

Staff recommends that the District Board review and accept the Annual Investment Report for the Quarter December 31, 2011 as presented.

Fiscal Analysis:

This item has no financial implications.

Narrative:

The annual report provides comparative investment yields, portfolio composition, average maturity lengths, comparisons of market value and book value, and a brief summary of the economy. An Inventory Holdings Report, which itemizes each security in the District's investment portfolio by fund, security type, and cusip number has been included as Exhibit 2. A brief glossary of security definitions has also been included as Exhibit 3.

Exhibit(s):

Exhibit 1: Investment Report for the Quarter Ended December 31, 2011

Exhibit 2: Inventory Holdings Report for the Quarter Ended December 31, 2011

Exhibit 3: Glossary of Security Definitions

Contact:

Deborah Card, Treasury Manager, X7148

**VISTANCIA COMMUNITY FACILITIES
DISTRICT
PEORIA, ARIZONA**



INVESTMENT PERFORMANCE REPORT

Annual Report

Period Ended

December 31, 2011

Brent D. Mattingly

District Chief Financial Officer

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I. INTRODUCTION

This report reflects investment activity for the period of October 1, 2011 to December 31, 2011 for the District's investment management program. The District's funds are invested in accordance with the City's Investment and Portfolio Policies, approved and adopted in January 1992 by the City Council, with revisions approved in June 2005. The policy requires that the investment program meet the following criteria, listed in order of importance:

- Safety - *Investments shall be undertaken in a manner that seeks to insure the preservation of capital in the overall portfolio.*
- Liquidity - *The investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements.*
- Yield - *The investment portfolio shall be designed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, while taking into account the City's strict risk constraints.*

In keeping with these principles, staff continued to invest the District's funds only in allowable, safe securities and to structure the maturity of the investment portfolio to assure liquidity. Short-term needs (6 months or less) are being met by investments in overnight repurchase agreements, commercial paper, and money market funds. Funds not required to meet specific short-term needs are invested primarily in Treasury Notes and U.S. Government Agency Securities.

Only after the safety and liquidity requirements are met does staff attempt to maximize earnings. For the Quarter Ended December 31, 2011, the weighted average annualized yield on investments was as follows:

Table 1

AVERAGE ANNUALIZED INVESTMENT YIELD					
	FY11 Q2	FY11 Q3	FY11 Q4	FY12 Q1	FY12 Q2
CFD Bonds, Series 2002 (Reserve)	0.87	0.47	0.70	0.97	0.68
CFD Bonds, Series 2005	0.82	0.54	0.56	0.76	0.49
CFD Bonds, Series 2006	0.45	0.44	0.43	0.38	0.30
Total Portfolio	0.54	0.46	0.47	0.49	0.36

The quarter's average yield of 0.36% for the total portfolio represents a decrease of 0.13% from the total portfolio annualized yield of 0.49% experienced for the Quarter Ended September 30, 2011.

II. INVESTMENT POLICY COMPLIANCE

The City's Investment Policy, as approved by City Council, applies to all the financial assets and funds held by the City of Peoria, including Vistancia Community Facilities District funds. All investments follow the provisions established in that Policy.

III. INVESTMENT PERFORMANCE

A. Portfolio Composition. All investment proceeds are diversified by security type and institution to minimize market volatility risk and credit risk. The Policy stipulates maximum investment levels by market sector to insure diversification. Diversification is further accomplished through the laddering of maturities, which mirror anticipated cash flows for the various funds. If not matched to specific cash flows, the funds are invested with a priority of liquidity and safety until specific cash flow needs are identified.

The table below illustrates the diversification structured into the portfolio composition with dollar amounts and percentages by investment type (market sector). The table shows the overall conservative nature of the portfolio and its diversified structure. The fluctuation in percentages between fiscal quarters represents a shifting of value between market sectors from the varying economic conditions throughout the year. The concentration on Treasury Notes and Agency Securities illustrates the portfolio's safety priority.

Table 2

TOTAL PORTFOLIO COMPOSITION (In Millions of Dollars)								
Security Type	FY 11 – Q3		FY 11 – Q4		FY 12 – Q1		FY 12 – Q2	
	Amt	%	Amt	%	Amt	%	Amt	%
Money Market	5.9	28.9	5.5	27.0	2.7	15.1	3.8	20.8
Agency Securities	9.0	44.1	9.4	46.0	9.9	54.5	8.9	49.0
Treasury Bills	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Treasury Notes	3.0	14.8	3.0	14.8	3.0	16.6	3.0	16.5
Commercial Paper	2.5	12.2	2.5	12.2	2.5	13.8	2.5	13.7
Repurchase Agreements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTALS:	20.4	100.0	20.4	100.0	18.1	100.0	18.2	100.0

B. Average Invested Cash Balances. The average investment cash balance for the portfolio for the Quarter Ending December 31, 2011 was \$18,161,779 as compared to \$19,683,164 for the Quarter Ended September 30, 2011.

Fluctuations in the quarterly balances shown in the chart below represent normal cash flows throughout the fiscal year, the addition of new bond proceeds, investment of earned interest, and the spend down of existing bond proceeds for capital projects.

C. Investment Income. Total investment income for the 2nd Quarter of FY12 was \$16,388 which represents a decrease of 16.8% from the \$19,696 earned in the 1st Quarter of FY12.

D. Comparative Investment Yields. Since the Investment Policy restricts investment primarily to the U.S. fixed income and money markets, the portfolio performance is measured directly against these markets for comparison purposes. The maximum maturity of securities purchased for the portfolio is restricted to five (5) years. The weighted average maturity cannot exceed 365 days. The actual weighted average maturity for the 2nd Quarter of FY 12 was 247 days, in keeping with the investment policy requirement for liquidity and safety. The average rates of comparable benchmarks are shown in the table below.

Table 3

COMPARATIVE ANNUALIZED INVESTMENT YIELDS				
	FY 11 Q3	FY 11 Q4	FY 12 Q1	FY 12 Q2
Total Portfolio	0.46	0.47	0.49	0.36
3 Month T-Bill	0.12	0.04	0.02	0.01
Money Market Fds	0.01	0.01	0.01	0.01
6 Month T- Bill	0.16	0.10	0.06	0.04
1 Year T-Bill	0.26	0.19	0.12	0.10
2 Year Treasury	0.68	0.55	0.27	0.26

E. Average Maturity of the Portfolio. For the Quarter ended December 31, 2011, the average maturity of the portfolio was 247 days as compared to 266 days on September 30, 2011. Matching maturities to known cash flows requires the maintenance of a somewhat short portfolio. Cash not needed to match immediate cash flow needs (within a nine month rolling horizon of liabilities) is normally extended somewhat to take advantage of higher yields. Longer maturities are used to capture yields at purchase and to capture capital gains during the period.

F. Comparison of Market Value and Book Value. The book value of the portfolio is captured on an amortized cost basis recognizing the position in the securities on a straight-line amortization of premiums and discounts. Book and market values do not include accrued interest on the securities. The market value reflects the *then current* market price at which these securities could be sold in the open market. A comparison of book and market reflects the changes in market rates as well as the performance of the portfolio against the market. Since the shortest portion of the portfolio is matched against anticipated cash flows, rate changes will more directly affect their relative gain/loss positions. A summary of market and book values for the total portfolio for the Quarter are shown below.

Beginning Book Value	\$18,148,689
Beginning Market Value	\$18,149,083
Ending Book Value	\$18,176,192
Ending Market Value	\$18,175,639

At quarter's end, the book value of the portfolio exceeded the market value of securities resulting in an overall unrealized loss in value of \$553.

ECONOMIC REVIEW AS OF 12-31-11:

Gross Domestic Product (GDP): Historically, the U.S. economy has grown at around a 3% rate as measured by its annual Gross Domestic Product (GDP). First quarter (annualized) 2011 GDP growth was revised downward several times from an initial 1.8% reading to a final 0.4%. Final second quarter GDP growth was 1.3%. Third quarter GDP, originally reported at 2.5%, was revised downward to 1.8%, although lower inventory buildup had subtracted 1.35 percentage points. Fourth quarter growth continued the upward trend with a 2.8% increase. However, this time inventories added more than 1.9 percentage points, meaning that the economy only grew at a 0.9% pace in the past. For all of 2011, GDP increased 1.7%, a decline from 3.0% in 2010 when stimulus dollars fueled the economy. Going forward, experts are predicting 2012 will experience continued subpar growth in the 2% range.

Nonfarm Payrolls: By the end of the summer, hiring by companies had come to a virtual standstill with zero gain in nonfarm payrolls being reported in the initial August employment reading. But things improved considerably after that point. Company payrolls grew by 200k in December and a total of 621k in the final four months of the year. Even the August job count was subsequently revised from zero to up 104k. For all of 2011, employers added more than 1.64 million new workers. Although this pace doesn't suggest a return to full employment anytime soon, it appears relatively healthy when compared to 5 million jobs lost in 2009. As businesses began hiring, the December unemployment rate fell to 8.5%, more than a point and a half below the 10.1% cycle high from October 2009 and the lowest level in more than 2½ years.

U.S. Home Sales: Like most of the economic data during the quarter, the housing numbers improved, albeit from very low levels. Existing home sales rose for the third straight month, increasing by 5% to a 4.61 million pace, the highest since January 2011. At the high point in 2005, this number was 7.25 million. December's gain dropped the number of available existing homes to a six-year low. By contrast, new home sales for December were a disappointment as sales fell by 2.2%, the first decline in four months. And when all was said and done, 2011 turned out to be the worst year for new home sales since 1963 with just 302k sold, a 6.2% drop from 2010. On a bright note, the supply of new homes available last month was only 157k, the lowest on record, while the month's supply rose only slightly from 6 months to 6.1 months. In theory, lower inventory levels suggest future construction increases.

Retail Sales: Consumer spending drives the U.S. economy. For this reason, monthly retail sales are considered an important indicator of sustainable economic growth. The previous quarter had ended on a particularly high note, as September's 1.3% gain matched the highest month-over-month increase in more than two years. But the sales pace dwindled throughout the fourth quarter as October and November sales rose by just 0.7% and 0.4%. Despite a swell of holiday optimism, December sales checked in at 0.1%, the worse December gain since 2008. A bright point during the holiday season was that internet sales surged by 15% over the same period in 2010. Unfortunately, this was at the expense of the traditional brick and mortar stores. Kmart and Sears are expected to close as many as 120 stores in 2012 after holiday sales plunged 4.4% and 6% respectively.

SUMMARY DATA

Table 4

PORTFOLIO COMPOSITION Vistancia CFD Bonds, Series 2002				
Security Type	FY 11 – Q3 Ending 03/31/11	FY 11 – Q4 Ending 06/30/11	FY 12 – Q1 Ending 09/30/11	FY 12 – Q2 Ending 12/31/11
Money Market	\$1,065,365	\$13,832	\$7,160	\$8,155
Agency Securities	\$1,000,000	\$2,050,409	\$2,049,979	\$2,049,953
Treasury Notes	\$0	\$0	\$0	\$0
Treasury Bills	\$0	\$0	\$0	\$0
Commercial Paper	\$0	\$0	\$0	\$0
Repurchase Agreements	\$0	\$0	\$0	\$0
Totals:	\$2,065,365	\$2,064,241	\$2,057,139	\$2,058,108
Avg Yield	0.47	0.70	0.97	0.68
Avg Maturity (Years)	0.72	1.35	2.13	2.16

Table 5

PORTFOLIO COMPOSITION Vistancia CFD Bonds, Series 2005				
Security Type	FY 11 – Q3 Ending 03/31/11	FY 11 – Q4 Ending 06/30/11	FY 12 – Q1 Ending 09/30/11	FY 12 – Q2 Ending 12/31/11
Money Market	\$354,190	\$1,006,431	\$5,385	\$6,377
Agency Securities	\$1,999,858	\$1,350,136	\$2,349,959	\$2,349,939
Treasury Notes	\$0	\$0	\$0	\$0
Treasury Bills	\$0	\$0	\$0	\$0
Commercial Paper	\$0	\$0	\$0	\$0
Repurchase Agreements	\$0	\$0	\$0	\$0
Totals:	\$2,354,048	\$2,356,567	\$2,355,344	\$2,356,316
Avg Yield	0.54	0.56	0.76	0.49
Avg Maturity (Years)	0.74	0.76	1.70	1.34

Table 6

PORTFOLIO COMPOSITION				
Vistancia CFD Bonds, Series 2006				
Security Type	FY 11 – Q3 Ending 03/31/11	FY 11 – Q4 Ending 06/30/11	FY 12 – Q1 Ending 09/30/11	FY 12 – Q2 Ending 12/31/11
Money Market	\$4,491,812	\$4,505,239	\$2,721,465	\$3,760,665
Agency Securities	\$6,014,985	\$6,009,942	\$5,504,626	\$4,499,963
Treasury Notes	\$3,004,500	\$3,017,316	\$3,012,115	\$3,006,869
Treasury Bills	\$0	\$0	\$0	\$0
Commercial Paper	\$2,490,375	\$2,494,167	\$2,498,000	\$2,494,271
Repurchase Agreements	\$0	\$0	\$0	\$0
Totals:	\$16,001,672	\$16,026,664	\$13,736,206	\$13,761,769
Avg Yield	0.44	0.43	0.38	0.29
Avg Maturity (Years)	0.39	0.41	0.38	0.34

City of Peoria Detail of Security Holdings As of 12/31/2011

CUSIP	Settle Date	Sec. Type	Sec. Description	CPN	Mty Date	Next Call	Call Type	Par Value	Purch Price	Orig Cost	Book Value	Mkt Price	Market Value
Vistancia Project 2002 - Debt Service Re													
WF-ADVGCV		MMF	Wells Fargo Adv Govt MMF										
3134G2TR3	07/29/11	AGCY STEP	FHLMC	0.450	07/26/13	07/26/12	ONE TIME	8,154.52	100.000	8,154.52	8,154.52	100.000	8,154.52
3135G0FP3	11/15/11	AGCY CALL	FNMA	0.550	11/15/13	11/15/12	ONE TIME	500,000.00	100.000	500,000.00	500,000.00	99.930	499,650.00
3134G2H39	09/29/11	AGCY CALL	FHLMC	0.800	09/29/14	03/29/12	QRTLY	500,000.00	99.990	499,950.00	499,953.18	99.930	499,650.00
Total for Vistancia Project 2002 - Debt Service Re								2,058,154.52	100.000	1,050,000.00	1,050,000.00	99.850	1,048,425.00
Total								2,058,154.52		2,058,104.52	2,058,107.70		2,055,879.52
Vistancia Project 2005 - Reserve Fund													
WF-ADVGCV		MMF	Wells Fargo Adv Govt MMF										
313374U24	07/26/11	AGCY CALL	FHLB	0.330	08/10/12	01/26/12	ONE TIME	6,376.57	100.000	6,376.57	6,376.57	100.000	6,376.57
3134G2TR3	07/29/11	AGCY STEP	FHLMC	0.450	07/26/13	07/26/12	ONE TIME	1,000,000.00	99.998	999,975.00	999,985.39	100.000	1,000,000.00
3135G0FP3	11/15/11	AGCY CALL	FNMA	0.550	11/15/13	11/15/12	ONE TIME	500,000.00	100.000	500,000.00	500,000.00	99.930	499,650.00
3134G2H39	09/29/11	AGCY CALL	FHLMC	0.800	09/29/14	03/29/12	QRTLY	500,000.00	99.990	499,950.00	499,953.18	99.930	499,650.00
Total for Vistancia Project 2005 - Reserve Fund								2,356,376.57	100.000	2,356,301.57	2,356,315.14	99.850	2,355,151.57
Vistancia Project 2006 - Construction													
WF-ADVGCV		MMF	Wells Fargo Adv Govt MMF										
912828NB2	04/13/11	TREAS NOTE	U.S. Treasury	1.000	04/30/12			3,760,665.23	100.000	3,760,665.23	3,760,665.23	100.000	3,760,665.23
302A40FEO	11/18/11	CP - DISC	FCAR Owner Trust		06/14/12			3,000,000.00	100.727	3,021,796.88	3,006,869.49	100.310	3,009,300.00
313374U24	07/26/11	AGCY CALL	FHLB	0.330	08/10/12	01/26/12	ONE TIME	2,500,000.00	99.710	2,492,743.06	2,484,270.83	99.802	2,485,042.50
313376ML6	12/28/11	AGCY CALL	FHLB	0.250	12/28/12	08/28/12	QRTLY	2,500,000.00	99.998	2,499,937.50	2,499,963.48	100.000	2,500,000.00
Total for Vistancia Project 2006 - Construction								13,760,665.23	100.000	13,775,142.67	13,761,769.03	99.980	13,764,607.73
Total for City of Peoria								18,175,196.32		18,189,548.76	18,176,191.87		18,175,638.82



Security Acronyms:

AGCY – DISCO	Agency Discount Note
AGCY – BULET	Agency Bullet
AGCY – CALL	Agency Callable Note
AGCY – STEP	Agency Step-Up Note
CP – DISC	Commercial Paper Discounted
FFCB	Federal Farm Credit Bank
FHLB	Federal Home Loan Bank
FNMA	Federal National Mortgage Association or “Fannie Mae”
FHLMC	Federal Home Loan Mortgage Corporation or “Freddie Mac”
FCAR Owner Trust	Ford Credit Asset Receivable
GE Capital Corp	General Electric Capital Corp
MMF	Money Market Fund

Security Definitions:

Agency Notes - A debt security issued by a federal or federally sponsored agency. These are widely considered to be among the safest types of fixed income securities, although they are not explicitly guaranteed by the Federal government, there is a market peerception that there is an implicit government guarantee. The following are Government-Related Enterprises, originally created by an act of Congress: Federal Farm Credit Bank, Federal Home Loan Bank, Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac).

Federal Farm Credit Bank (FFCB) - The Federal Farm Credit Bank System is the oldest of the government sponsored enterprises, created by an act of congress in 1916. Its mission is to provide a reliable and low cost source of funds to support agriculture in the United States. FFCB debt obligations are highly liquid and its senior debt is AAA-rated. Yields on FFCB obligations are often slightly lower than yields on FHLB, FNMA or FHLMC obligations because they issue fewer bonds and are in demand as portfolio diversifiers.

Federal Home Loan Bank (FHLB) - The Federal Home Loan Bank system was created by an act of Congress in 1932 as a system of 12 regional banks that provide funds to its member banks. FHLB's primary mission is to support residential and community lending. Its membership of more than 8,000 financial institutions includes savings banks, commercial banks, credit unions and insurance companies active in housing finance. FHLB debt obligations are highly liquid and its senior debt is AAA-rated.

Federal National Mortgage Association (FNMA or "Fannie Mae") - Fannie Mae was chartered in 1938 under the Federal National Mortgage Association Act to provide a secondary market for mortgage loans in the United States, by purchasing existing home loans and pooling them together to create mortgage-backed securities that can then be sold to investors, along with a guaranty of the timely payment of principal and interest on the underlying loans. Fannie Mae was privatized in 1968, and operated as a private stockholder-owned company for 40 years before the housing market collapse forced them into federal government conservatorship in September 2008. Fannie Mae currently continues operation under government control and has been instrumental in the government's attempts to revive the housing sector. Fannie Mae debt obligations are highly liquid and its senior debt is AAA-rated.

Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac") - Freddie Mac was created by an act of Congress in 1970 as a shareholder-owned company to further expand the secondary market for mortgage loans in the United States. Freddie Mac buys existing mortgages and pools them together to create mortgage-backed securities that can then be sold to investors, thereby providing liquidity to lenders who can then make additional loans. Along with Fannie Mae, Freddie Mac was placed into government conservatorship in September 2008, but continues full operations under government control and has been instrumental in the government's attempt to revive the housing sector. Freddie Mac securities are highly liquid and its senior debt is AAA-rated.

Agency Bullet- An agency security that matures at a single point in time and does not feature a call option. This security will earn a fixed rate of interest and the entire face value will be returned to the investor at maturity. The security does not amortize or make periodic payments of principal.

Agency Callable - An agency security where the issuer has the option to call the security away, or redeem it, prior to maturity. This allows the issuer to return principal to the investor prior to the stated maturity date.

Agency Discount Note - Similar to a Treasury Bill, an agency discount note is a zero coupon bond sold at a discount to face value. At maturity the investor will receive face value. The income earned is the difference between the cost paid for the security and its face value.

Agency Step-Up Note - An agency security that provides for the fixed rate of interest to adjust, or “step-up” at predetermined intervals based on a specific schedule. The schedule may include one or several rate adjustments over the life of the security. In most cases, the security is also callable at the step-up dates.

Commercial Paper – An unsecured short –term promissory note issued by corporations, with maturities ranging from 2 to 270 days. Examples of commercial paper include Ford Credit Asset Receivable, General Electric Capital Corporation, Johns Hopkins Health System and Toyota Motor Credit.

Treasury Bill – Short-term U.S. government non-interest bearing debt securities with maturities of no longer than one year and issued in minimum denominations of \$10,000.

Treasury Note - U.S. government debt securities with maturities of ten years or longer, and issued in minimum denominations of \$1,000.