

**Florida Gulf Coast University Financing Board of Trustees
April 21, 2009**

**SUBJECT: Florida Gulf Coast University and Florida Gulf Coast
University Financing Corporation Swap and Derivative
Policy**

PROPOSED BOARD ACTION

Approve the Florida Gulf Coast University and Florida Gulf Coast Financing Corporation Swap and Derivative Policy.

BACKGROUND INFORMATION

The Florida Board of Governors Debt Management Policy and the Florida Gulf Coast University Debt Management Policy requires that a derivative policy be adopted by the Florida Gulf Coast University Financing Corporation Board of Directors, Florida Gulf Coast University Board of Trustees and Florida Board of Governors before any derivative transactions can be entered into by Florida Gulf Coast University or the Florida Gulf Coast University Financing Corporation. A copy of the proposed policy is attached for review, discussion and approval. The Policy was reviewed and approved by the Florida Gulf Coast University Financing Corporation Board of Directors at its March 11, 2009 meeting.

Supporting Documentation Included: Florida Gulf Coast University, Florida Gulf Coast Financing Corporation Swap and Derivative Policy.

Legal Review by: General Counsel Vee Leonard (March 24, 2009)

Prepared by: Florida Gulf Coast University Financing Corporation Executive Director Curtis Bullock

Submitted by: Vice President for Administrative Services and Finance Joe Shepard

FLORIDA GULF COAST UNIVERSITY
FLORIDA GULF COAST FINANCING CORPORATION

SWAP AND DERIVATIVE POLICY

Adopted: _____, 2009

FLORIDA GULF COAST UNIVERSITY
FLORIDA GULF COAST FINANCING CORPORATION

SWAP AND DERIVATIVE POLICY

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FLORIDA GULF COAST UNIVERSITY
FLORIDA GULF COAST UNIVERSITY FINANCING CORPORATION

DERIVATIVE POLICY

A. GENERAL

1) Scope and Purpose

The Florida Gulf Coast University (the “University”) and its Direct Support Organization, the Florida Gulf Coast Financing Corporation (the “Financing Corporation”) are adopting this Derivative Policy (the “Policy”) to define and describe guidelines for approaching, using, monitoring and managing various types of swaps and other Interest Rate Management Agreements (the “Swaps” or “Agreements”) entered into by the University or the Financing Corporation which together comprise the debt issuing entities of the University. This Policy is designed to supplement, and to be in conformity with, the various legal requirements applicable to the University’s Debt Management Policy.

The University and the Financing Corporation each recognize that changes in the capital markets and other unforeseen circumstances may produce situations that are not covered by this Policy or that make guidelines in this Policy inappropriate. In such event, each will act in concert, to the extent possible, with the intent of this Policy.

When the University or the Financing Corporation considers a potential financing, it shall consider available methods to manage interest rate risk of variable rate instruments, or for fixed rate instruments, to reduce the interest cost on debt. Examples include: locking-in a fixed rate on variable rate debt, creating synthetic variable rate exposure for the purpose of producing interest rate savings, limiting or hedging variable rate payments, altering the pattern of debt service payments, modifying its variable rate exposure within prudent guidelines, hedging risks in the context of a particular financing, or for asset/liability matching purposes. Examples of Agreements include: interest rate swaps, basis swaps, futures, options, swaptions, caps, collars and floors.

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 bonds and notes issued by the Financing Corporation are special, limited obligations of the University, in that they are payable not from the general funds of the University, but only from defined revenues receivable from certain activities and programs. The obligations to pay the Financing Corporation's debts are therefore ultimately those of the activities and programs, and all decisions regarding long-term obligations with respect to any particular issue of bonds are made in consideration of the activity or program for whose benefit the bonds are issued.

All financial obligations, all collateral obligations and all obligations dealing with the condition or affairs of an activity or program undertaken by the University through the Financing Corporation are expected to be self liquidating, that is payable from fees collected with respect to such activity or program and supported by an agreement which specifies that all payment obligations of the University or the Financing Corporation under any debt instrument must be special and limited, payable not from the general funds of the University, but only from revenues receivable from the activities or programs benefiting therefrom.

The University and the Financing Corporation may engage one or more advisors to help carry out the purposes of this Policy. One such advisor may be a SWAP Advisor whose role shall be to help negotiate the terms of and procure Swaps and perform such other duties as desirable. Another advisor may be a Swap Monitor whose role shall be to monitor Swaps entered into for the benefit of the University or the Financing Corporation... The University or the Financing Corporation may also engage additional advisors, as appropriate, to assist in implementing this Policy.

2) Conditions for the Use of Agreements

All transactions involving this policy shall be submitted to the Florida Gulf Coast University Board of Trustees and/or the Financing Corporation's Board of Directors for their respective approvals. The University and the Financing Corporation Boards may designate one or more officers ("Authorized Officers") to select the counterparties and make other necessary business and structuring decisions associated with the issuance of debt or the undertaking of qualified hedges entered into in connection therewith.

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 and the Executive Director of the Financing Corporation.

3) Qualified Hedges

The University or the Financing Corporation, in consultation with the appropriate legal counsel, will determine whether it is advisable to treat any hedging transaction as a Qualified Hedge within the meaning of Section 1.148-4 of the Internal Revenue Code of 1986, as amended (the “Code”). If the University or Financing Corporation determines to do so, the transaction will be structured to satisfy the requirements of the Code and the regulations thereunder. The current federal tax requirements include:

- (i) The transaction must be entered into to reduce the risk of interest changes and must have no significant investment element;
- (ii) The transaction must be entered into between the University or the Financing Corporation, as applicable, and an unrelated party;
- (iii) The transaction must cover all of one or more groups of substantially identical bonds in the issue (*i.e.*, all of the bonds having the same interest rate, maturity and terms) or the same specific identifiable interest payments on each of the substantially identical bonds of the issue;
- (iv) Changes in the value of the transaction must be primarily interest rate based;
- (v) The transaction must not hedge an amount larger than the risk with respect to interest rate changes on the hedged bonds;
- (vi) Payments to the University or Financing Corporation under the transaction must closely correspond, in both time and amount, to the specific interest payments being hedged on the bonds;
- (vii) Payments on the transaction must not accrue earlier than the sale date of the hedged bonds and must not accrue longer than the hedged interest payments on the hedged bonds;
- (viii) Payments (if any) to the hedge provider must be reasonably expected to be made from the same source of funds that, absent the hedge, would be reasonably expected to be used to pay principal of and interest on the hedged bonds; and
- (ix) The Qualified Hedge must be identified by the University or Financing Corporation on its books and records maintained for the hedged bonds on or before three (3) days from execution of the Agreement and be noted on all forms filed with the Internal Revenue Service for the bond issue after the date the transaction is entered into.

4) Legality

Prior to entering into a hedging transaction, the University or Financing Corporation must receive an opinion acceptable to the market from a nationally recognized law firm that the transaction is a legal, valid and binding obligation of the counterparty and that entering into the transaction complies with applicable law.

5) Fairness

Prior to entering into a hedging transaction, the University or Financing Corporation must evaluate such transaction for “fairness” to determine that the terms and conditions of such Agreement represent fair market value for such transaction as of its date.

B. FEATURES OF HEDGING AGREEMENTS

1) Form of Hedging Agreements

Generally, Hedging Agreements will be based on the terms and conditions set forth in the International Swaps and Derivatives Association, Inc. (ISDA) Master Agreement. Hedging Agreements shall contain such modifications as an Authorized Officer, with the advice of the SWAP Advisor, if retained, shall determine to be appropriate. Each Hedging Agreement shall include terms specifying the amount and timing of payments, maturity, security, collateral, defaults, remedies, termination and such other terms, conditions, provisions and safeguards as the University or Financing Corporation deem necessary or desirable to protect its interests.

2) Terms of Hedging Agreements

The terms of any Hedging Agreement should refer to the following guidelines:

Downgrade provisions triggering terminations shall in no event be worse for the University or Financing Corporation than those affecting the counterparty.

Governing law will be the laws of the State of Florida.

The specified indebtedness related to credit events in any Agreement should be narrowly defined and should refer only to indebtedness of the University or Financing Corporation that could have a materially adverse effect on its ability to perform under the swap.

Collateral thresholds for the swap provider should be set on a sliding scale reflective of credit ratings, size and directional market risk of the transaction. Collateral requirements should be established and based upon the credit ratings of the counterparty or guarantor.

Eligible collateral should generally be limited to U.S. Treasury securities and obligations of Federal Agencies unless otherwise specifically authorized by an Authorized Officer for a particular Agreement.

The University or Financing Corporation should generally have the right to *optional termination* of a Hedging Agreement at “market”, at any time over the term of such agreement.

Termination value should be set by utilizing Market Quotation, Second Method, unless an Authorized Officer deems an alternate method is appropriate.

3) Qualified Counterparties

The University or Financing Corporation shall not enter into an Agreement with a counterparty that does not have

- (i) (a) a general credit rating of at least “A1” or “A+” from one of the nationally recognized statistical rating organizations, as recognized by the Securities and Exchange Commission, or (b) a subsidiary rated “AAA” by at least one nationally recognized statistical rating organization,

(ii) a minimum capitalization of at least \$100 million and

(iii) a demonstrated record of successfully executing municipal swap transactions. For each University Agreement or Financing Corporation Agreement, an Authorized Officer shall determine whether to require a higher credit standing from qualified counterparties. In addition to the rating criteria specified herein, the University or Financing Corporation, where appropriate, will seek additional credit enhancement and safeguards in the form of:

- (a) Contingent credit support or enhancement;
- (b) Collateral consistent with the policies enumerated above;
- (c) Ratings downgrade triggers; or
- (d) Guaranty of parent, if any.

4) Methods of Soliciting and Procuring Swaps

Agreements can be procured via competitive bids or on a negotiated basis. The competitive bid should include a minimum of three firms with counterparty ratings determined as set forth herein. The University or Financing Corporation, in special circumstances, may allow a firm or firms not submitting the winning bid to match such bid and be awarded no greater than 50% of the notional amount of a Hedging Agreement.

Hedging Agreements may be procured on a negotiated basis when the University or Financing Corporation makes a determination that:

- (i) Due to the size, complexity or credit features of a particular financing, a negotiated bid would result in the most favorable pricing; or
- (ii) In light of the facts and circumstances, doing so will promote the University or Financing Corporation's interest by encouraging and rewarding innovation.

5) Counterparty Exposure

The University or Financing Corporation shall endeavor to diversify its exposure to counterparties. To that end, before entering into an Agreement, it will determine its exposure to the relevant counterparty or counterparties and determine how the proposed transaction would affect the exposure. The exposure should be measured in terms of notional amount, mark to market valuation and volatility. The University or Financing Corporation shall also take into account its exposure to any related entities of a particular counterparty as well as other credit facilities outstanding with the counterparty.

6) Term and Notional Amount

In most cases, the appropriate term for an Hedging Agreement shall be the same as for the bonds it is being used to hedge. Similarly, the notional amount should amortize at least as quickly as do the bonds it is being used to hedge.

7) Pledging of Collateral

As part of any Hedging Agreement, the University or Financing Corporation may,

based on credit ratings of the counterparty, require collateralization or other forms of credit enhancements to secure any or all payment obligations under the Agreement. As appropriate, the University or Financing Corporation, in consultation with its legal counsel and SWAP Advisor, if any, may require collateral or other credit enhancement to be posted by the counterparty subject to the collateral threshold amounts specified for such agreement. Additional collateral for decreases in credit ratings of each counterparty and/or increases in threshold mark to market exposure shall be posted by each counterparty in accordance with the provisions contained in the agreement. Collateral shall be deposited with a third party trustee, or as mutually agreed upon between the University or Financing Corporation and the counterparty. The market value of the collateral shall be determined on not less than a weekly basis, or more frequently if the University or Financing Corporation determines it is in its best interest given the specific collateral.

When the bonds relating to a Hedging Agreement are insured, the University or Financing Corporation will generally require that regularly scheduled payments in respect of an Agreement are also insured.

8) Prohibited Hedging Agreements

The University or Financing Corporation will not enter into a Hedging Agreement that:

- (i) Is purely speculative in nature or creates extraordinary leverage or risk;
- (ii) Lacks adequate liquidity to terminate without incurring a significant bid/asked spread; or
- (iii) Provides insufficient price transparency to allow reasonable valuation.

C. EVALUATION AND MANAGEMENT OF HEDGING AGREEMENTS

1) Evaluation

The University or Financing Corporation will review the following areas of potential risk. The University or Financing Corporation will work to have in place procedures to evaluate and understand the risks and to overcome or mitigate them, in the event that unfavorable situations occur:

Interest Rate Risk:

Interest rate risk is the risk that interest costs on a bond or a Hedging Agreement will increase and cost more than the rates associated with a fixed-rate obligation.

The University or Financing Corporation will monitor rates on all variable rate bonds and fixed-to-floating Swaps. The University or Financing Corporation will work to minimize interest rate risk. Examples include using variable rate debt or Swaps to hedge floating rate assets, budgeting variable rate costs conservatively and providing the ability to convert to fixed rate payments at the University or Financing Corporation's option.

Basis Risk:

Basis risk is the risk of a mismatch between the actual variable interest rate on the University or Financing Corporation's debt and the variable interest rate on the Index from which any payments under an Agreement are received.

Prior to entering into any Hedging Agreement, the University or Financing Corporation will review the historical relationships and trading differentials between the variable rates on similar bonds and the Index. After entering into any Agreement with basis risk, the University or Financing Corporation will monitor any such mismatch and evaluate opportunities to reduce or eliminate basis risk at attractive prices.

Termination Risk:

Termination risk occurs when there is a need to terminate a Hedging Agreement in an interest rate environment that dictates a termination payment by the University or Financing Corporation to the counterparty.

The Hedging Agreement will be structured such that the counterparty's right to early termination is limited and such that the counterparty has no optional termination rights. Further, the University or Financing Corporation will require that a termination payment will be based on an Agreement's market value, giving the University or Financing Corporation the best chance to recover such market value from replacement counterparty.

Counterparty Risk:

Counterparty risk occurs when there is the failure of a counterparty to make required payments under a Hedging Agreement.

The University or Financing Corporation will monitor exposure levels, ratings thresholds and collateralization requirements and will take action to enforce remedies when appropriate. The University or Financing Corporation will also consider termination of any counterparty the ratings on which fall below the minimum required for entering into a Hedging Agreement with the University or Financing Corporation.

Credit Risk:

Credit risk occurs when an event modifies the credit rating of counterparty.

The University or Financing Corporation will monitor the ratings of its counterparties and their credit enhancers, and in the event of a downgrade will immediately review available remedies, such as collateralization and additional credit enhancement, and take appropriate enforcement action.

Liquidity Risk:

Liquidity risk occurs when there is an inability to renew a liquidity facility on a floating rate bond issue.

The University or Financing Corporation will evaluate the expected availability of liquidity support for variable rate debt. The University or Financing Corporation encourages frequent discussions with all potential liquidity facility providers.

Tax Risk:

Tax risk is created by potential changes in the tax laws that could affect payment under an Agreement.

The University or Financing Corporation and legal counsel will review the tax events in proposed Agreements. The University or Financing Corporation will discuss the impact of potential changes in tax law on payments under each Hedging Agreement based on taxable indices.

2) Monitoring

The University or Financing Corporation will monitor the terms, market value, accruals, collateralization, ratings and other critical terms of each such Swap.

3) Managing Hedging Agreement Risks

Reports to the University or Financing Corporation:

The University or Financing Corporation staff will analyze the risks associated with outstanding Hedging Agreements at least annually. This evaluation will include the following information:

- (1) A description of all outstanding Hedging Agreements, including related bond series, type of agreement, rates paid and received under each agreement, notional amounts, average life and remaining term, and the current termination value of all such agreements.
- (2) The credit rating of each University or Financing Corporation counterparty, parent, guarantor, and credit enhancer insuring payments, if any.

- (3) Actual collateral postings by counterparty, if any.
- (4) Information concerning any material event involving outstanding Hedging Agreements, including a default by a counterparty, a downgrade, or termination.
- (5) The status of any liquidity support used in connection with Hedging Agreements, including the remaining term and current fee.

Updates to the Policy:

The University or Financing Corporation's staff shall review this Policy at least annually.

3) Terminating Hedging Agreements

Optional Termination:

The University or Financing Corporation, in consultation with legal counsel, may terminate a Hedging Agreement if it is determined that it is financially advantageous or otherwise appropriate under the circumstances to do so.

Mandatory Termination:

In the event that a Hedging Agreement is terminated as a result of a termination event, such as a default or a decrease in credit rating of the counterparty, the University or Financing Corporation will evaluate whether it is financially advantageous or otherwise appropriate to obtain a replacement agreement, or, depending on market value, make or receive a termination payment. In the event that a Hedging Agreement is terminated as a result of a termination event, the University or Financing Corporation will make the foregoing evaluation.

D. DISCLOSURE AND FINANCIAL REPORTING

The University or Financing Corporation will take steps to ensure that there is full and complete disclosure of all Hedging Agreements, to rating agencies, and in disclosure documents. With respect to its financial statements, the University or Financing Corporation will adhere to the guidelines for the financial reporting of Hedging Agreements, as set forth by the Government Accounting Standards Board.

The University Chief Financial Officer and the Executive Director of the Financing Corporation”, will prepare a periodic Derivative Exposure Report (“Report”), on at least an annual basis, on hedging accounting exposures. The Report will contain information with respect to all derivative agreements occurring during the period, whether or not they have been fully settled as of the end of the period. The report shall contain the following:

- Highlights of all material changes to hedging agreements or new derivative hedging agreements entered into since the last report.
- Market value of each of the hedging agreements.
- For each counterparty, the total notional amount, and the remaining term of each hedging agreement.
- The credit rating of each hedging counterparty and credit enhancer insuring payments, if any.
- Actual collateral posting by counterparties, if any, per hedging agreement and in total by hedging counterparty.
- A summary of each hedging agreement, including the type of hedging agreement, rates paid, rates received, and other terms.
- Information concerning any default by a hedging counterparty and the results of the default, including the financial impact, if any.
- A summary of any planned hedging agreements and the impact of such agreements.
- A summary of any hedging agreements that were terminated.

E. INTERNAL CONTROLS

The University Chief Financial Officer and/or the Executive Director of the Financing Corporation is responsible for recommending and approving all University hedging transactions and overseeing all University or Financing Corporation hedging transactions reported in accordance with this Policy. Only the University Chief Financial Officer and the Executive Director of the Financing Corporation, as appropriate, shall have the authority to enter into derivative instrument contracts that provide hedging coverage subject to the approval of the FGCU Board of Trustees and/or the FGCU Financing Corporation Board of Directors.

Once a hedging transaction has been approved by the FGCU Board of Trustees and/or the Financing Corporation Board of Directors, as appropriate, each is authorized to execute the contracts with an approved bank or other financial institution.

At the end of the period, the University Chief Financial Officer and/or the Executive Director of the Financing Corporation shall review all incoming and outgoing transfers pertaining to derivatives. The University Chief Financial Officer and/or the Executive Director of the Financing Corporation shall ensure that the appropriate amounts were received/paid on the appropriate dates.

The University Controller and the University Chief Financial Officer and/or the Executive Director of the Financing Corporation and their auditors will audit the hedging activity and ensure compliance with this Policy and consistency with FAS 133. 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 University Chief Financial Officer and/or the Executive Director of the Financing Corporation, and shall be reviewed and ratified by the FGCU Financing Corporation Board of Directors and the FGCU Board of Trustees.