

INVESTMENT PROCEDURES AND INTERNAL CONTROLS GUIDELINES

compiled and written by

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of the

GOVERNMENT FINANCE OFFICERS ASSOCIATION



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INTRODUCTION

The purpose of this document is to provide a sample manual on investment procedures and internal controls guidelines. The information and sample documents contained within can serve as a useful starting point in assembling investment procedures and internal control guidelines at any government organization. This document will be updated as needed.

Additional resources are available from the Government Finance Officers Association (GFOA), which has several publications that provide useful guidance on issues related to government investment procedures. In addition to helpful general information, the publications listed below contain standard templates for pertinent documents:

- *An Introduction to Collateralizing Public Deposits for State and Local Governments*
 - Sample Custodial Trust Agreement (page 37)
 - Sample Custodian's Certificate of Eligibility (page 44)
 - Sample Security Agreement (short form) (page 32)
- *An Introduction to Broker/Dealer Relations for State and Local Governments*
 - Sample Agreement for Securities Services (page 25)
 - Sample Statement of Work
- *An Introduction to Investment Advisors for State and Local Governments*
 - Sample Investment Advisory Agreement (page 26)

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WRITTEN INVESTMENT PROCEDURES: A HELPFUL TOOL

Developing, regularly reviewing, and revising an investment policy is only one step in the investment process. The next step is to develop and implement internal controls to safeguard the entity's cash and securities. Written securities procedures are a key part of internal controls and are one way to ensure internal controls are followed.*

Developing Written Investment Procedures

Written procedures outline the process for making investment decisions, detail the activities of the investment staff, and specify how investment decisions are to be carried out. Well written investment procedures will answer the following questions:

- Who is authorized to initiate investment transactions?
- Who is authorized to approve investment transactions?
- Who is authorized to initiate wire transactions?
- Who will make investment bookkeeping and accounting entries?
- Who are the approved broker/dealers and financial institutions for transacting business on a day-to-day basis?
- Who is the safekeeping agent and what are the delivery instructions?

When developing written investment procedures, it is helpful to think through the entire process from beginning to end, and then document the activities that take place. Investment procedures should begin with a review of the daily cash position and include a review of maturing investments and incoming coupon payments. Next, the procedures should detail how investment decisions will be made. How will cash flow needs be determined? What are current and expected interest rates? What other investments are in the entity's portfolio?

Written procedures should outline or detail how investment transactions will be handled. For example, the investment procedures should designate who may initiate an investment decision. The procedures also should list the authorized broker/dealers and financial institutions. Other items that would be addressed include:

- Who is the contact person at the bank's wire transfer desk? At the safekeeping bank? At the brokerage firm?
- What forms are used to document competitive bids? To initiate wire transfers? Where are the forms kept? Where do they go after the investment transaction and reporting process is complete?
- After a security is purchased, who reconciles the investment confirmation against the wire transfer confirmation against the safekeeping receipt?

To help ensure compliance with the investment policy and adherence to internal controls, the items listed below should be included in the procedure manual:

- Governing statutes, regulations, ordinances, resolutions, and policies
- Duties of personnel
- Limitations of employee authority
- Flowchart of transaction initiation and execution
- Lists of authorized broker/dealers and financial institutions that the investment officials may call on for competitive quotes on securities

- List of relevant bank account numbers, safekeeping and delivery instructions
- Descriptions of relevant cycles and functions, including review and approval processes
- Timelines for report preparation and report distribution lists
- Methodologies and formulas for allocations, distributions and other calculations
- Samples of all forms and reports
- Descriptions of back-up and disaster recovery procedures
- Forms indicating implementation date and dates of revisions

Some procedure manuals go beyond the daily routine and outline what activities should take place on a monthly, quarterly, periodic, and annual basis. For example, the procedure manual might include information on how broker/dealers and financial institutions are selected, how often those institutions are reviewed for creditworthiness, and who is responsible for this review. Samples of forms, such as requests for financial information, should be included in the manual for the user's reference.

Procedures should be clearly documented and communicated to all employees. All investment personnel should have a copy of the investment policy and procedure manual. Questions not included in the manual should be directed to one department or person to ensure consistency and control. When properly constructed, a procedure manual can be an invaluable tool for training investment staff and answering routine questions. For this reason, written procedures should be reviewed and updated annually.

* The information in this section originally appeared in: Corinne Larson, "Investment Procedures vs. Policy," *Public Investor* 19, no. 8 (August 3, 2001): pp. 1, 5.

[GOVERNMENT]

INVESTMENT PROCEDURES
AND INTERNAL CONTROLS MANUAL

LAST UPDATED [DATE]

INVESTMENT PROCEDURES AND INTERNAL CONTROLS GUIDELINES

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INVESTMENT PROCEDURES AND INTERNAL CONTROLS GUIDELINES

A. Introduction

The government has established an investment officer/division/treasurer within the treasury or finance department with the responsibility of conducting cash and investment transactions for all funds held by or for the benefit of the government. The responsibility for the management of the investments here and after in this document will be referred to as the investment officer. The investment program has been delegated to the investment officer who shall implement the investment policy by following the investment procedures and internal controls herein delineated.

B. Objective

The *Investment Procedures and Internal Controls Manual* provides an outline for investment management. This manual shall be reviewed annually.

C. Prudence and Ethical Standards

The standard of prudence to be used by the investment staff shall be the "prudent person" and shall be applied in the context of managing the overall portfolio. The government's investment officer, or persons performing the investment functions, acting in accordance with written policies and procedures and exercising due diligence, shall not be responsible for an individual security's credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments. The standard of prudence and ethical standards should mirror what is in the investment policy for the entity.

The "prudent person" standard is herewith understood to mean the following: "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

D. Investment Decisions

The investment officer shall adhere to the guidelines of the government's investment policy regarding all investment purchases or any other cash and investment transactions.

E. Delegation of Authority

As established by the investment policy, certain specified individuals (i.e., the treasurer, finance director) have authority to transact investments. The elected officials shall establish the overall investment policies, the management and implementation of which is delegated to the investment officer, who shall establish procedures for the operation of the investment program. Such procedures shall include explicit written delegation of authority to other investment personnel responsible for investment transactions.

F. Duties and Responsibilities

The investment officer(s) has specific duties and responsibilities as stated in their respective position descriptions. They should at a minimum include a description outlining the duties of all the personnel involved in investing. In case of an absence of an officer, procedures and specific alternate personnel should be delineated.

G. Ethics and Conflicts of Interest

For the protection of the investment officer and staff, it is imperative that full written disclosure be made by investment personnel to the oversight entity of any material interests which they may hold in a financial institution (brokers/dealers, banks, etc.) which conducts business with the government. This should mirror and reference what is in the investment policy.

Any local, county, or state ethic laws shall also be enforced.

H. Segregation of Duties and Compensating Controls

The government shall establish written internal controls, which should include:

1. **Control of Collusion:** Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
2. **Segregation of duties:** By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a good separation of duties is achieved.
3. **Custodial safekeeping:** Securities purchased from any bank or dealer, including appropriate collateral, should be placed into an independent third-party institution for custodial safekeeping.
4. **Avoidance of physical deliver securities:** Book entry securities are much easier to transfer and account for since actual delivery is never taken. Physical delivery securities must be properly safeguarded as are any valuable documents. The potential of fraud and loss increases with physical delivery securities. Bearer-form securities are much easier to convert to personal use than securities that are registered in the name of the government.
5. **Clear delegation of authority to subordinate staff members:** Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid any improper actions. Clear delegation of authority also preserves the internal control structure that is built around the various staff positions and their respective responsibilities.
6. **Written confirmation of all transactions (transfer, fax, Internet) for investments and wire transfers:** Due to the potential for errors and improprieties arising from telephone/electronic transactions, they should be documented in writing and approved by the appropriate person.
7. **Development of a electronic funds transfer agreement with banks:** This agreement should outline the various controls and security provisions for making and receiving electronic funds transfers.
 - Dual authorization representing the government shall be in compliance with the policy for all transfers.
 - Financial institutions will have written instructions regarding government authorizations for wire transfers, restrictions on accounts where funds can be wired, and other procedures that will mitigate unauthorized movement of funds (e.g., call-back to independent person, written confirmations, etc.).
8. **Suggested minimum planned vacations for investment personnel.**
9. **Insurance shall be secured at appropriate levels to bond employees charged with investment and cash handling responsibilities.**

I. Reporting Requirements:

1. The investment officer shall prepare a quarterly report. The report shall contain but not be limited to the following information:
 - monthly average rate of return on the portfolio,
 - average days to maturity,
 - monthly portfolio composition, and
 - mark to market valuation.
2. At a minimum, a report shall be presented annually to the governing body to update administration on securities held, maturities, investment returns, unrealized gains (losses), comparisons to established benchmarks, market conditions, prevailing investment strategy, and adherence to the investment policy. Securities will be reported on a marked to market basis as defined by the Governmental Accounting Standards Board (GASB).

J. Operations

Procedures and duties recommended include:

1. **Investment Procedures:** The following is a basic outline of routine daily procedures necessary to maintain proper documentation on cash and investment transactions.

EXAMPLE:

Each morning, the daily bank balance report shall be obtained from the depository bank(s).

Overnight (sweep) repurchase agreements and/or money market account interest shall be verified and recorded. All incoming and maturing investments shall be verified with the custodial bank. All earned interest, maturing investments, and incoming funds should be verified and recorded.

The accounting division shall be responsible for providing the investment division with daily information regarding the cash requirements and required maturity dates. All security purchases or sells must be recorded on a confirmation form.

On a daily basis, it is necessary to conduct cash and investment activity within specific bank accounts, and all transactions within each account shall be recorded on a daily investment worksheet. All worksheets shall be maintained by the investment officer, and the worksheets shall be available for review upon request.

Proper documentation and authorization shall be required before any cash or investment transaction is executed.

2. **Authorized Wires:** Only the authorized representatives shall wire funds according to the approved wire transfer agreement for investment. Wire instructions and personal identification numbers (PIN's) shall be safeguarded. All bank transfer requests shall be in writing and require a second confirmation by another government employee. The purpose of the bank transfer must be stated as part of the transfer information. ACH procedures shall also be delineated.
3. **Securities Confirmations:** The processing of securities' confirmations, including filing and reconciling, shall be conducted by an individual not permitted to purchase and sell investments.

4. Safekeeping Procedures:

- All securities purchased shall be received by “delivery vs. payment” (per the investment policy) to the custodian for safekeeping.
- Certificates of deposit are permitted to be held at the issuing bank.
- Collateral for certificates of deposit and purchased securities in connection with repurchase agreements shall be delivered to the government’s designated custodian. Additional requirements and procedures should be outlined in a third-party custodial safekeeping agreement regarding safekeeping procedures. (Please see the GFOA Recommended Practices on these topics in Exhibit II-4 and II-5.)

K. Accounting for Investment Transactions

1. The investment division must ensure proper accounting entries.
2. Investments shall be recorded in the financial records at original cost.
3. Interest income will be recognized at maturity or amortized as of the last day of the fiscal year according to the effective interest method of amortization.

L. Investment Information

1. **Internal Investment Reports:** Investment reports should be generated on a monthly basis and shall be checked against the original documentation to ensure the accuracy of the reports.
2. **Market Values:**
 - All investment income should be recorded monthly and allocated to the appropriate fund that earned the investment income.
 - Investment portfolios will be reported at the fair market value according to the GFOA recommended practice (and as defined by GASB 31) on a monthly/quarterly/year-end basis.
 - Year-end financial statements will contain all required disclosures and comply with GASB 31.

M. Selection of Dealers and Bankers

All securities shall be purchased according to the investment policy. The selection of dealers and bankers should be governed by the GFOA’s recommended practice on the selection of dealers/brokers. For more information on selecting dealers and brokers, please refer to the GFOA Publication *An Introduction to Broker/Dealer Relations for State/Local Governments*. As stated in the investment policy, the investment officer shall only purchase securities from financial institutions that are qualified as public depositories by state, or from primary securities dealers as designated by the Federal Reserve Bank of New York. Furthermore, only institutional brokers from institutional departments shall be selected.

The investment division shall provide each authorized dealer a copy of the investment policy which they shall sign, acknowledging that they will comply with its requirements.

N. Security Selection Process

When purchasing or selling securities, the investment division shall select the security that satisfies the current objectives and needs of the government portfolio and that provides both the highest rate of return within established parameters of the investment policy. These selections shall be made based on a competitive basis. All security transactions should be documented for items such as:

- bids and offers
- security and confirmation

O. Exhibits

There are a series of documents that are used by investment staff to provide for the proper documentation for cash and investment transactions, as described in this manual. The following exhibits are samples or related recommended practices that the GFOA Committee on Cash Management believes will be useful to finance officers. These are meant to supplement the GFOA publications listed earlier. Samples or related recommended practices have been included for many of these documents.

I. Policy Documents

1. GFOA Sample Investment Policy
2. Governing Statutes
3. Local Ethics Rules and Regulations

II. Agreements

4. Master Repurchase Agreements (GFOA Recommended Practice)
5. Safekeeping Agreements (GFOA Recommended Practice)
6. Security Agreement (Long Form)
7. Broker/Dealer Questionnaire
8. Bond Indentures

III. Operating Documents

9. Investment Flowchart
10. Order/Confirmation Document
11. List of Authorized Financial Institutions and Brokers
12. List of Authorized Personnel
13. Disaster Recovery/Business Continuity Plan
14. Sample Investment Summary Report

I. POLICY DOCUMENTS

GFOA SAMPLE INVESTMENT POLICY

The purpose of this sample investment policy is to aid the general membership of the Government Finance Officers Association (GFOA) in the preparation of an investment policy. This sample policy is not intended to supplant an existing policy; rather, it is presented as a model to help investing entities customize a policy to fit their particular needs, constraints and capabilities. In order to accommodate the varying needs of government entities and in order to stimulate conversation at the local level, certain sections of the attached policy include examples of alternative language. These alternative examples may be used in place of or in addition to the first paragraph presented for that section, depending on the goals and objectives of the particular investing entity.

For additional information, please read Chapter 3 of *Investing Public Funds*, second edition, a text authored by Girard Miller, with M. Corinne Larson and W. Paul Zorn, and published by the GFOA. You are also invited to contact current staff of the GFOA Standing Committee on Cash Management for assistance in modifying and/or writing your government's investment policy. Governments should obtain counsel to ensure compliance with state and local laws, regulations, and other policies concerning the investment of public funds.

I. Governing Authority

1. **Legality:** The investment program shall be operated in conformance with federal, state, and other legal requirements, including *[insert applicable citations governing the investment of public funds]*.

II. Scope

This policy applies to the investment of all funds, excluding the investment of employees' retirement funds. Proceeds from certain bond issues, as well as separate foundation or endowment assets, are covered by a separate policy. *[This section should be modified to specify which assets are excluded from this policy.]*

1. **Pooling of Funds:** Except for cash in certain restricted and special funds, the [entity] will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles. *[This paragraph refers to the pooling of funds within a single governmental entity and implies no reference to local government investment pools. This GFOA Sample Investment Policy is not specifically designed for use by local government investment pools, although certain portions of this sample policy may apply.]*

III. General Objectives

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

1. **Safety:** Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.
 - a) *Credit Risk.* The [entity] will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:
 - Limiting investments to the types of securities listed in Section VII of this Investment Policy
 - Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the [entity] will do business in accordance with Section V
 - Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.
 - b) *Interest Rate Risk.* The [entity] will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:
 - Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity
 - Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy (see section VIII).
2. **Liquidity:** The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.
3. **Yield:** The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:
 - A security with declining credit may be sold early to minimize loss of principal.
 - A security swap would improve the quality, yield, or target duration in the portfolio.
 - Liquidity needs of the portfolio require that the security be sold.

Alternative sample language — The [entity's] cash management portfolio shall be designed with the objective of regularly meeting or exceeding a performance benchmark, which could be the average return on three-month U.S. Treasury bills, the state investment pool, a money market mutual fund (specify) or the average rate on Fed funds, whichever is higher. These indices are considered benchmarks for lower risk investment transactions and therefore comprise a minimum standard for the portfolio's rate of return. The investment program shall seek to augment returns above this threshold, consistent with risk limitations identified herein and prudent investment principles. (See Section IX on performance standards and selecting a benchmark.)

4. **Local Considerations:** Where possible, funds may be invested for the betterment of the local economy or that of local entities within the State. The [entity] may accept a proposal from an eligible institution which provides for a reduced rate of interest provided that such institution documents the use of deposited funds for community development projects.

Alternative sample language — The [entity] seeks to promote local economic development through various programs and activities. Included is a program of rewarding local financial institutions that increase their commitments to private economic growth and local housing investment. The government's governing board recognizes that our Linked Deposit Program might diminish short-term investment yields by xx basis points (.xx percent) in exchange for potential expansion of the tax base.

IV. Standards of Care

1. **Prudence:** The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

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

2. **Ethics and Conflicts of Interest:** Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the [entity].
3. **Delegation of Authority:** Authority to manage the investment program is granted to [designated official, hereinafter referred to as investment officer] and derived from the following: [insert code citation, ordinances, charters or statutes]. Responsibility for the operation of the investment program is hereby delegated to the investment officer, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. *[Please refer to GFOA's Investment Procedures Manual, 2003.]* No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the investment officer. The investment officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

V. Authorized Financial Institutions, Depositories, and Broker/Dealers

1. **Authorized Financial Institutions, Depositories, and Broker/Dealers:** A list will be maintained of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by creditworthiness (e.g., a minimum capital requirement of \$10,000,000 and at least five years of operation). These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
- Proof of National Association of Securities Dealers (NASD) certification (not applicable to Certificate of Deposit counterparties)
- Proof of state registration
- Completed broker/dealer questionnaire (not applicable to Certificate of Deposit counterparties)
- Certification of having read and understood and agreeing to comply with the [entity's] investment policy
- Evidence of adequate insurance coverage

An annual review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the investment officer. (See Appendix for the GFOA Recommended Practice on "Governmental Relationships with Securities Dealers.")

2. **Minority and Community Financial Institutions:** From time to time, the investment officer may choose to invest in instruments offered by minority and community financial institutions. In such situations, a waiver to certain parts of the criteria under Paragraph 1 may be granted. All terms and relationships will be fully disclosed prior to purchase and will be reported to the appropriate entity on a consistent basis and should be consistent with state or local law. These types of investment purchases should be approved by the appropriate legislative or governing body in advance.

VI. Safekeeping and Custody

1. **Delivery vs. Payment:** All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.
2. **Safekeeping:** Securities will be held by a [centralized] independent third-party custodian selected by the entity as evidenced by safekeeping receipts in the [entity's] name. The safekeeping institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).
3. **Internal Controls:** The investment officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the [entity] are protected from loss, theft or misuse. Details of the internal controls system shall be documented in an investment procedures manual and shall be reviewed and updated annually. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

The internal controls structure shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers
- Dual authorizations of wire transfers
- Development of a wire transfer agreement with the lead bank and third-party custodian

Accordingly, the investment officer shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures or alternatively, compliance should be assured through the [entity] annual independent audit.

Alternative sample language — The investment officer shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed by the investment committee, where present, and with the independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the [entity].

VII. Suitable and Authorized Investments

1. **Investment Types:** Consistent with the GFOA Policy Statement on State and Local Laws Concerning Investment Practices, the following investments will be permitted by this policy and are those defined by state and local law where applicable:

- U.S. Treasury obligations which carry the full faith and credit guarantee of the United States government and are considered to be the most secure instruments available;
- U.S. government agency and instrumentality obligations that have a liquid market with a readily determinable market value;
- Canadian government obligations (payable in local currency);
- Certificates of deposit and other evidences of deposit at financial institutions;
- Bankers' acceptances;
- Commercial paper, rated in the highest tier (e.g., A-1, P-1, F-1, or D-1 or higher) by a nationally recognized rating agency;
- Investment-grade obligations of state, provincial and local governments and public authorities;
- Repurchase agreements whose underlying purchased securities consist of the aforementioned instruments;
- Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities; and
- Local government investment pools either state-administered or developed through joint powers statutes and other intergovernmental agreement legislation.

Investment in derivatives of the above instruments shall require authorization by the appropriate governing authority. (See the GFOA Recommended Practice on "Use of Derivatives by State and Local Governments," 2002.)

2. **Collateralization:** Where allowed by state law and in accordance with the GFOA Recommended Practices on the Collateralization of Public Deposits, full collateralization will be required on all demand deposit accounts, including checking accounts and non-negotiable certificates of deposit. (All GFOA Recommended Practices can be found at www.gfoa.org.)
3. **Repurchase Agreements:** Repurchase agreements shall be consistent with GFOA Recommended Practices on Repurchase Agreements. (See Exhibit II-4 on page 30.)

VIII. Investment Parameters

1. **Diversification:** The investments shall be diversified by:
 - limiting investments to avoid overconcentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities),
 - limiting investment in securities that have higher credit risks,
 - investing in securities with varying maturities, and
 - continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations. (All GFOA Recommended Practices can be found at www.gfoa.org.)

Alternative samples — It is the policy of the [entity] to diversify its investment portfolios. To eliminate risk of loss resulting from the over-concentration of assets in a specific maturity, issuer, or class of securities, all cash and cash equivalent assets in all [entity] funds shall be diversified by maturity, issuer, and class of security. Diversification strategies shall be determined and revised periodically by the investment committee/investment officer for all funds except for the employee retirement fund.

In establishing specific diversification strategies, the following general policies and constraints shall apply: Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity sector. Maturities selected shall provide for stability of income and reasonable liquidity.

For cash management funds:

- Liquidity shall be assured through practices ensuring that the next disbursement date and payroll date are covered through maturing investments or marketable U.S. Treasury bills.
- Positions in securities having potential default risk (e.g., commercial paper) shall be limited in size so that in case of default, the portfolio's annual investment income will exceed a loss on a single issuer's securities.
- Risks of market price volatility shall be controlled through maturity diversification such that aggregate price losses on instruments with maturities exceeding one year shall not be greater than coupon interest and investment income received from the balance of the portfolio.
- The investment committee/investment officer shall establish strategies and guidelines for the percentage of the total portfolio that may be invested in securities other than repurchase agreements, Treasury bills or collateralized certificates of deposit. The committee shall conduct a quarterly review of these guidelines and evaluate the probability of market and default risk in various investment sectors as part of its considerations.

And/or

The following diversification limitations shall be imposed on the portfolio:

- *Maturity*: No more than xx percent of the portfolio may be invested beyond 12 months, and the weighted average maturity of the portfolio shall never exceed one year.
 - *Default risk*: No more than xx percent of the overall portfolio may be invested in the securities of a single issuer, except for securities of the U.S. Treasury. No more than xx percent of the portfolio may be invested in each of the following categories of securities:
 - Commercial paper,
 - Negotiable certificates of deposit,
 - Bankers' acceptances,
 - Any other obligation that does not bear the full faith and credit of the United States government or which is not fully collateralized or insured and
 - No more than xx percent of the total portfolio may be invested in the foregoing instruments at any time.
 - *Liquidity risk*: At least xx percent of the portfolio shall be invested in overnight instruments or in marketable securities which can be sold to raise cash in one day's notice.
2. **Maximum Maturities**: To the extent possible, the [entity] shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the [entity] will not directly invest in securities maturing more than five (5) years from the date of purchase or in accordance with state and local statutes and ordinances. The [entity] shall adopt weighted average maturity limitations (which often range from 90 days to 3 years), consistent with the investment objectives.
- Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of funds. The intent to invest in securities with longer maturities shall be disclosed in writing to the legislative body. (All GFOA Recommended Practices can be found at www.gfoa.org.)
- Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as local government investment pools, money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.
3. **Competitive Bids**: The investment officer shall obtain competitive bids from at least two brokers or financial institutions on all purchases of investment instruments purchased on the secondary market.

IX. Reporting

1. **Methods**: The investment officer shall prepare an investment report at least quarterly [or monthly], including a management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the last quarter [or month]. This management summary will be prepared in a manner which will allow the [entity] to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the entity's chief administrative officer, the legislative body, the investment committee and any pool participants. The report will include the following:
- Listing of individual securities held at the end of the reporting period.
 - Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity (in accordance with Governmental Accounting Standards Board (GASB) requirements).

- Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.
- Listing of investment by maturity date.
- Percentage of the total portfolio which each type of investment represents.

Alternative sample — The investment officer shall submit quarterly an investment report that summarizes recent market conditions, economic developments and anticipated investment conditions. The report shall summarize the investment strategies employed in the most recent quarter, and describe the portfolio in terms of investment securities, maturities, risk characteristics and other features. The report shall explain the quarter's total investment return and compare the return with budgetary expectations. The report shall include an appendix that discloses all transactions during the past quarter: The report shall be in compliance with state law and shall be distributed to the investment committee and others as required by law.

Each quarterly report shall indicate any areas of policy concern and suggested or planned revision of investment strategies. Copies shall be transmitted to the independent auditor.

Within 40 days of the end of the fiscal year, the investment officer shall present a comprehensive annual report on the investment program and investment activity. The annual report shall include 12-month and separate quarterly comparisons of return and shall suggest policies and improvements that might be made in the investment program. Alternatively, this report may be included within the [entity] annual Comprehensive Annual Financial Report.

2. **Performance Standards:** The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis. The benchmarks shall be reflective of the actual securities being purchased and risks undertaken, and the benchmarks shall have a similar weighted average maturity as the portfolio.

Alternative sample—The [entity's] cash management portfolio shall be designed with the objective of regularly meeting or exceeding a selected performance benchmark, which could be the average return on three-month U.S. Treasury bills, the state investment pool, a money market mutual fund [specify] or the average rate of Fed funds. These indices are considered benchmarks for lower risk investment transactions and therefore comprise a minimum standard for the portfolio's rate of return.

3. **Marking to Market:** The market value of the portfolio shall be calculated at least quarterly [or monthly] and a statement of the market value of the portfolio shall be issued at least quarterly [or monthly]. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with the GFOA Recommended Practice on "Mark-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools." (See GFOA Recommended Practices in Appendix.) In defining market value, considerations should be given to the GASB Statement 31 pronouncement.

X. Policy Considerations

1. **Exemption:** Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

Alternative sample—Any investment currently held that does not meet the guidelines of this policy shall be temporarily exempted from the requirements of this policy. Investments must come in conformance with the policy within six months of the policy's adoption or the governing body must be presented with a plan through which investments will come into conformance.

2. **Amendments:** This policy shall be reviewed on an annual basis. Any changes must be approved by the investment officer and any other appropriate authority, as well as the individuals charged with maintaining internal controls.

XI. Approval of Investment Policy

The investment policy shall be formally approved and adopted by the governing body of the [entity] and reviewed annually.

XII. List of Attachments

The following documents, as applicable, are attached to this policy:

- Listing of authorized personnel,
- Relevant investment statutes and ordinances,
- Listing of authorized broker/dealers and financial institutions,
- Internal controls
- Glossary

XIII. Other Documentation

- Master Repurchase Agreement, other repurchase agreements and tri-party agreements,
- Broker/Dealer Questionnaire,
- Credit studies for securities purchased and financial institutions used,
- Safekeeping agreements,
- Wire transfer agreements,
- Sample investment reports,
- Methodology for calculating rate of return,
- GFOA Recommended Practices.

30 ILCS 235/ PUBLIC FUNDS INVESTMENT ACT ILLINOIS COMPILED STATUTES

(30 ILCS 235/1)

Sec. 1. The words "public funds", as used in this Act, mean current operating funds, special funds, interest and sinking funds, and funds of any kind or character belonging to or in the custody of any public agency.

The words "public agency", as used in this Act, mean the State of Illinois, the various counties, townships, cities, towns, villages, school districts, educational service regions, special road districts, public water supply districts, fire protection districts, drainage districts, levee districts, sewer districts, housing authorities, the Illinois Bank Examiners' Education Foundation, the Chicago Park District, and all other political corporations or subdivisions of the State of Illinois, now or hereafter created, whether herein specifically mentioned or not. This Act does not apply to the Illinois Prepaid Tuition Trust Fund, private funds collected by the Illinois Conservation Foundation, or pension funds or retirement systems established under the Illinois Pension Code, except as otherwise provided in that Code. (Source: P.A. 91-669, eff. 1-1-00; 92-797, eff. 8-15-02.)

(30 ILCS 235/2)

Sec. 2. Authorized investments.

- (a) Any public agency may invest any public funds as follows:
- 1) in bonds, notes, certificates of indebtedness, treasury bills or other securities now or hereafter issued, which are guaranteed by the full faith and credit of the United States of America as to principal and interest;
 - 2) in bonds, notes, debentures, or other similar obligations of the United States of America or its agencies;
 - 3) in interest-bearing savings accounts, interest-bearing certificates of deposit or interest-bearing time deposits or any other investments constituting direct obligations of any bank as defined by the Illinois Banking Act;
 - 4) in short term obligations of corporations organized in the United States with assets exceeding \$500,000,000 if (i) such obligations are rated at the time of purchase at one of the 3 highest classifications established by at least 2 standard rating services and which mature not later than 180 days from the date of purchase, (ii) such purchases do not exceed 10% of the corporation's outstanding obligations and (iii) no more than one-third of the public agency's funds may be invested in short term obligations of corporations; or
 - 5) in money market mutual funds registered under the Investment Company Act of 1940, provided that the portfolio of any such money market mutual fund is limited to obligations described in paragraph (1) or (2) of this subsection and to agreements to repurchase such obligations.

- (a-1) In addition to any other investments authorized under this Act, a municipality may invest its public funds in interest bearing bonds of any county, township, city, village, incorporated town, municipal corporation, or school district. The bonds shall be registered in the name of the municipality or held under a custodial agreement at a bank. The bonds shall be rated at the time of purchase within the 4 highest general classifications established by a rating service of nationally recognized expertise in rating bonds of states and their political subdivisions.
- (b) Investments may be made only in banks which are insured by the Federal Deposit Insurance Corporation. Any public agency may invest any public funds in short term discount obligations of the Federal National Mortgage Association or in shares or other forms of securities legally issuable by savings banks or savings and loan associations incorporated under the laws of this State or any other state or under the laws of the United States. Investments may be made only in those savings banks or savings and loan associations the shares, or investment certificates of which are insured by the Federal Deposit Insurance Corporation. Any such securities may be purchased at the offering or market price thereof at the time of such purchase. All such securities so purchased shall mature or be redeemable on a date or dates prior to the time when, in the judgment of such governing authority, the public funds so invested will be required for expenditure by such public agency or its governing authority. The expressed judgment of any such governing authority as to the time when any public funds will be required for expenditure or be redeemable is final and conclusive. Any public agency may invest any public funds in dividend-bearing share accounts, share certificate accounts or class of share accounts of a credit union chartered under the laws of this State or the laws of the United States; provided, however, the principal office of any such credit union must be located within the State of Illinois. Investments may be made only in those credit unions the accounts of which are insured by applicable law.
- (c) For purposes of this Section, the term "agencies of the United States of America" includes: (i) the federal land banks, federal intermediate credit banks, banks for cooperative, federal farm credit banks, or any other entity authorized to issue debt obligations under the Farm Credit Act of 1971 (12 U.S.C. 2001 et seq.) and Acts amendatory thereto; (ii) the federal home loan banks and the federal home loan mortgage corporation; and (iii) any other agency created by Act of Congress.
- (d) Except for pecuniary interests permitted under subsection (f) of Section 3-14-4 of the Illinois Municipal Code or under Section 3.2 of the Public Officer Prohibited Practices Act, no person acting as treasurer or financial officer or who is employed in any similar capacity by or for a public agency may do any of the following:
- (1) have any interest, directly or indirectly, in any investments in which the agency is authorized to invest.
 - (2) have any interest, directly or indirectly, in the sellers, sponsors, or managers of those investments.
 - (3) receive, in any manner, compensation of any kind from any investments in which the agency is authorized to invest.
- (e) Any public agency may also invest any public funds in a Public Treasurers' Investment Pool created under Section 17 of the State Treasurer Act. Any public agency may also invest any public funds in a fund managed, operated, and administered by a bank, subsidiary of a bank, or subsidiary of a bank holding company or use the services of such an entity to hold and invest or advise regarding the investment of any public funds.

- (f) To the extent a public agency has custody of funds not owned by it or another public agency and does not otherwise have authority to invest such funds, the public agency may invest such funds as if they were its own. Such funds must be released to the appropriate person at the earliest reasonable time, but in no case exceeding 31 days, after the private person becomes entitled to the receipt of them. All earnings accruing on any investments or deposits made pursuant to the provisions of this Act shall be credited to the public agency by or for which such investments or deposits were made, except as provided otherwise in Section 4.1 of the State Finance Act or the Local Governmental Tax Collection Act, and except where by specific statutory provisions such earnings are directed to be credited to and paid to a particular fund.
- (g) A public agency may purchase or invest in repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986 subject to the provisions of said Act and the regulations issued thereunder. The government securities, unless registered or inscribed in the name of the public agency, shall be purchased through banks or trust companies authorized to do business in the State of Illinois.
- (h) Except for repurchase agreements of government securities which are subject to the Government Securities Act of 1986, no public agency may purchase or invest in instruments which constitute repurchase agreements, and no financial institution may enter into such an agreement with or on behalf of any public agency unless the instrument and the transaction meet the following requirements:
 - 1) The securities, unless registered or inscribed in the name of the public agency, are purchased through banks or trust companies authorized to do business in the State of Illinois.
 - 2) An authorized public officer after ascertaining which firm will give the most favorable rate of interest, directs the custodial bank to "purchase" specified securities from a designated institution. The "custodial bank" is the bank or trust company, or agency of government, which acts for the public agency in connection with repurchase agreements involving the investment of funds by the public agency. The State Treasurer may act as custodial bank for public agencies executing repurchase agreements. To the extent the Treasurer acts in this capacity, he is hereby authorized to pass through to such public agencies any charges assessed by the Federal Reserve Bank.
 - 3) A custodial bank must be a member bank of the Federal Reserve System or maintain accounts with member banks. All transfers of book-entry securities must be accomplished on a Reserve Bank's computer records through a member bank of the Federal Reserve System. These securities must be credited to the public agency on the records of the custodial bank and the transaction must be confirmed in writing to the public agency by the custodial bank.
 - 4) Trading partners shall be limited to banks or trust companies authorized to do business in the State of Illinois or to registered primary reporting dealers.
 - 5) The security interest must be perfected.
 - 6) The public agency enters into a written master repurchase agreement which outlines the basic responsibilities and liabilities of both buyer and seller.
 - 7) Agreements shall be for periods of 330 days or less.
 - 8) The authorized public officer of the public agency informs the custodial bank in writing of the maturity details of the repurchase agreement.

- 9) The custodial bank must take delivery of and maintain the securities in its custody for the account of the public agency and confirm the transaction in writing to the public agency. The Custodial Undertaking shall provide that the custodian takes possession of the securities exclusively for the public agency; that the securities are free of any claims against the trading partner; and any claims by the custodian are subordinate to the public agency's claims to rights to those securities.
- 10) The obligations purchased by a public agency may only be sold or presented for redemption or payment by the fiscal agent bank or trust company holding the obligations upon the written instruction of the public agency or officer authorized to make such investments.
- 11) The custodial bank shall be liable to the public agency for any monetary loss suffered by the public agency due to the failure of the custodial bank to take and maintain possession of such securities.
- (i) Notwithstanding the foregoing restrictions on investment in instruments constituting repurchase agreements the Illinois Housing Development Authority may invest in, and any financial institution with capital of at least \$250,000,000 may act as custodian for, instruments that constitute repurchase agreements, provided that the Illinois Housing Development Authority, in making each such investment, complies with the safety and soundness guidelines for engaging in repurchase transactions applicable to federally insured banks, savings banks, savings and loan associations or other depository institutions as set forth in the Federal Financial Institutions Examination Council Policy Statement Regarding Repurchase Agreements and any regulations issued, or which may be issued by the supervisory federal authority pertaining thereto and any amendments thereto; provided further that the securities shall be either (i) direct general obligations of, or obligations the payment of the principal of and/or interest on which are unconditionally guaranteed by, the United States of America or (ii) any obligations of any agency, corporation or subsidiary thereof controlled or supervised by and acting as an instrumentality of the United States Government pursuant to authority granted by the Congress of the United States and provided further that the security interest must be perfected by either the Illinois Housing Development Authority, its custodian or its agent receiving possession of the securities either physically or transferred through a nationally recognized book entry system.
- (j) In addition to all other investments authorized under this Section, a community college district may invest public funds in any mutual funds that invest primarily in corporate investment grade or global government short term bonds. Purchases of mutual funds that invest primarily in global government short term bonds shall be limited to funds with assets of at least \$100 million and that are rated at the time of purchase as one of the 10 highest classifications established by a recognized rating service. The investments shall be subject to approval by the local community college board of trustees. Each community college board of trustees shall develop a policy regarding the percentage of the college's investment portfolio that can be invested in such funds.

Nothing in this Section shall be construed to authorize an intergovernmental risk management entity to accept the deposit of public funds except for risk management purposes. (Source: P.A. 90-319, eff. 8-1-97.)

(30 ILCS 235/2.5)

Sec. 2.5. Investment policy.

- (a) Investment of public funds by a public agency shall be governed by a written investment policy adopted by the public agency. The level of detail and complexity of the investment policy shall be appropriate to the nature of the funds, the purpose for the funds, and the amount of the public funds within the investment portfolio. The policy shall address safety of principal, liquidity of funds, and return on investment and shall require that the investment portfolio be structured in such manner as to provide sufficient liquidity to pay obligations as they come due. In addition, the investment policy shall include or address the following:
- 1) a listing of authorized investments;
 - 2) a rule, such as the "prudent person rule", establishing the standard of care that must be maintained by the persons investing the public funds;
 - 3) investment guidelines that are appropriate to the nature of the funds, the purpose for the funds, and the amount of the public funds within the investment portfolio;
 - 4) a policy regarding diversification of the investment portfolio that is appropriate to the nature of the funds, the purpose for the funds, and the amount of the public funds within the investment portfolio;
 - 5) guidelines regarding collateral requirements, if any, for the deposit of public funds in a financial institution made pursuant to this Act, and, if applicable, guidelines for contractual arrangements for the custody and safekeeping of that collateral;
 - 6) a policy regarding the establishment of a system of internal controls and written operational procedures designed to prevent losses of funds that might arise from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of the entity;
 - 7) identification of the chief investment officer who is responsible for establishing the internal controls and written procedures for the operation of the investment program;
 - 8) performance measures that are appropriate to the nature of the funds, the purpose for the funds, and the amount of the public funds within the investment portfolio;
 - 9) a policy regarding appropriate periodic review of the investment portfolio, its effectiveness in meeting the public agency's needs for safety, liquidity, rate of return, and diversification, and its general performance;
 - 10) a policy establishing at least quarterly written reports of investment activities by the public agency's chief financial officer for submission to the governing body and chief executive officer of the public agency. The reports shall include information regarding securities in the portfolio by class or type, book value, income earned, and market value as of the report date;
 - 11) a policy regarding the selection of investment advisors, money managers, and financial institutions; and (12) a policy regarding ethics and conflicts of interest.
- (b) For purposes of the State or a county, the investment policy shall be adopted by the elected treasurer and presented to the chief executive officer and the governing body. For purposes of any other public agency, the investment policy shall be adopted by the governing body of the public agency.

- (c) The investment policy shall be made available to the public at the main administrative office of the public agency.
- (d) The written investment policy required under this Section shall be developed and implemented by January 1, 2000. (Source: P.A. 90-688, eff. 7-31-98.)

(30 ILCS 235/3)

Sec. 3. If any securities, purchased under authority of Section 2 hereof, are issuable to a designated payee or to the order of a designated payee, then the public agency shall be so designated, and further, if such securities are purchased with money taken from a particular fund of a public agency, the name of such fund shall be added to that of such public agency. If any such securities are registerable, either as to principal or interest, or both, then such securities shall be so registered in the name of the public agency, and in the name of the fund to which they are to be credited. (Source: Laws 1943, vol. 1, p. 951.)

(30 ILCS 235/4)

Sec. 4. All securities purchased under the authority of this Act shall be held for the benefit of the public agency which purchased them, and if purchased with money taken from a particular fund, such securities shall be credited to and deemed to be a part of such fund, and shall be held for the benefit thereof. All securities so purchased shall be deposited and held in a safe place by the person or persons having custody of the fund to which they are credited, and such person or persons are responsible upon his or their official bond or bonds for the safekeeping of all such securities. Any securities purchased by any such public agency under authority of this Act, may be sold at any time, at the then current market price thereof, by the governing authority of such public agency. Except as provided in Section 4.1 of "An Act in relation to State finance", all payments received as principal or interest, or otherwise, derived from any such securities shall be credited to the public agency and to the fund by or for which such securities were purchased. (Source: P.A. 84-1378.)

(30 ILCS 235/5)

Sec. 5. This Act, without reference to any other statute, shall be deemed full and complete authority for the investment of public funds, as hereinabove provided, and shall be construed as an additional and alternative method therefor. (Source: Laws 1943, vol. 1, p. 951.)

(30 ILCS 235/6)

Sec. 6. Report of financial institutions.

- (a) No bank shall receive any public funds unless it has furnished the corporate authorities of a public agency submitting a deposit with copies of the last two sworn statements of resources and liabilities which the bank is required to furnish to the Commissioner of Banks and Real Estate or to the Comptroller of the Currency. Each bank designated as a depository for public funds shall, while acting as such depository, furnish the corporate authorities of a public agency with a copy of all statements of resources and liabilities which it is required to furnish to the Commissioner of Banks and Real Estate or to the Comptroller of the Currency; provided, that if such funds or moneys are deposited in a bank, the amount of all such deposits not collateralized or insured by an agency of the federal government shall not exceed 75% of the capital stock and surplus of such bank, and the corporate authorities of a public agency submitting a deposit shall not be discharged from responsibility for any funds or moneys deposited in any bank in excess of such limitation.

- (b) No savings bank or savings and loan association shall receive public funds unless it has furnished the corporate authorities of a public agency submitting a deposit with copies of the last 2 sworn statements of resources and liabilities which the savings bank or savings and loan association is required to furnish to the Commissioner of Banks and Real Estate or the Federal Deposit Insurance Corporation. Each savings bank or savings and loan association designated as a depository for public funds shall, while acting as such depository, furnish the corporate authorities of a public agency with a copy of all statements of resources and liabilities which it is required to furnish to the Commissioner of Banks and Real Estate or the Federal Deposit Insurance Corporation; provided, that if such funds or moneys are deposited in a savings bank or savings and loan association, the amount of all such deposits not collateralized or insured by an agency of the federal government shall not exceed 75% of the net worth of such savings bank or savings and loan association as defined by the Federal Deposit Insurance Corporation, and the corporate authorities of a public agency submitting a deposit shall not be discharged from responsibility for any funds or moneys deposited in any savings bank or savings and loan association in excess of such limitation.
- (c) No credit union shall receive public funds unless it has furnished the corporate authorities of a public agency submitting a share deposit with copies of the last two reports of examination prepared by or submitted to the Illinois Department of Financial Institutions or the National Credit Union Administration. Each credit union designated as a depository for public funds shall, while acting as such depository, furnish the corporate authorities of a public agency with a copy of all reports of examination prepared by or furnished to the Illinois Department of Financial Institutions or the National Credit Union Administration; provided that if such funds or moneys are invested in a credit union account, the amount of all such investments not collateralized or insured by an agency of the federal government or other approved share insurer shall not exceed 50% of the unimpaired capital and surplus of such credit union, which shall include shares, reserves and undivided earnings and the corporate authorities of a public agency making an investment shall not be discharged from responsibility for any funds or moneys invested in a credit union in excess of such limitation.
- (d) Whenever a public agency deposits any public funds in a financial institution, the public agency may enter into an agreement with the financial institution requiring any funds not insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration or other approved share insurer to be collateralized by securities, mortgages, letters of credit issued by a Federal Home Loan Bank, or loans covered by a State Guaranty under the Illinois Farm Development Act in an amount equal to at least market value of that amount of funds deposited exceeding the insurance limitation provided by the Federal Deposit Insurance Corporation or the National Credit Union Administration or other approved share insurer.
- (e) Paragraphs (a), (b), (c), and (d) of this Section do not apply to the University of Illinois, Southern Illinois University, Chicago State University, Eastern Illinois University, Governors State University, Illinois State University, Northeastern Illinois University, Northern Illinois University, Western Illinois University, the Cooperative Computer Center and public community colleges. (Source: P.A. 91-324, eff. 1-1-00; 91-773, eff. 6-9-00.)

(30 ILCS 235/7)

Sec. 7. When investing or depositing public funds, each custodian shall, to the extent permitted by this Act and by the lawful and reasonable performance of his custodial duties, invest or deposit such funds with or in minority-owned financial institutions within this State. (Source: P.A. 84-754.)

1-10-4: CODE OF ETHICS

(A) Statement Of Purpose Of Policy

It is the policy of the city that in all cases its elected and appointed officers and employees perform their duties for the benefit of the citizens of the city. They shall conduct the affairs of the city with integrity and impartiality, without allowing prejudice, favoritism or the opportunity for personal gain to influence their decisions or actions or to interfere with serving the public interest.

Continuing observance of this policy is essential to maintaining the public trust necessary for good government. The city council is therefore adopting this code of ethics to establish guidelines for an ethical standard of conduct for officers and employees of the city and to ensure compliance with those guidelines.

The standards of this code are intended to supplement and comply with the provisions regarding municipal officers in 65 Illinois Compiled Statutes 5/3-14-4; 50 Illinois Compiled Statutes 105/1, and any other state statutes or ordinances of the city relating to ethical conduct for municipal officers and employees.

The obligations of this code shall not be limited to the provisions of the state statutes specified herein, nor shall the failure to include in this code any provisions of a state statute release officers and employees of the city from obligations, responsibilities and penalties imposed by state law.

This code is not to be construed so as to impair the ability of city officers and employees to participate in ceremonial, representational, or informational functions in the performance of their official duties.

(B) Persons Covered By This Code

The provisions of this code shall apply to any officer or employee of the city, whether elected or appointed, paid or unpaid, including members of boards and commissions appointed by the mayor or city council. The term officer applies throughout this code to members of boards and commissions appointed by the mayor or city council as well as to other municipal officers.

The city manager may promulgate rules and regulations for city employees in addition to the provisions of this code.

(C) Standards Of Conduct:

Every officer or employee of the city shall be subject to and abide by the following standards of conduct:

1. **Impartiality:** Every officer and employee shall perform his duties with impartiality and without prejudice or bias for the benefit of all citizens of the city. No officer or employee shall grant or make available to any citizen any consideration, treatment, advantage or favor beyond that which is available to every other citizen.
2. **Use Of Public Property:** No officer or employee shall request or permit the unauthorized use of city owned vehicles, equipment, materials or property for personal convenience or profit.
3. **Conflict Of Interest:** No officer or employee shall engage in any business or transaction or shall have a financial or other personal interest, direct or indirect, which is incompatible with the proper discharge of his official duties in the public interest or which may tend to impair his independence of judgment or action in the performance of his official duties. Personal, as distinguished from financial interest, includes an interest arising from blood or marriage relationships or close business or political association.

Examples of prohibited conflicts of interest are:

- a) Receiving Gifts And Favors: No officer or employee shall directly or indirectly solicit, accept or receive any valuable gift or benefit, whether in the form of money, services, loan, travel, entertainment, hospitality, thing or promise, or any other form, under circumstances in which it could reasonably be inferred that the gift or benefit was intended as a reward for an official action on his part or was intended to influence the employee, or could reasonably be expected to influence him in the performance of his official duties.
 - b) Disclosure Of Confidential Information: No officer or employee shall, without proper legal authorization, disclose confidential information concerning the property, government or affairs of the city. Nor shall he use such information to advance the financial or other private interests of himself or others.
 - c.) Abuse Of Power Of Office: No officer or employee shall use the prestige or power of his office or employment for his private gain or for the private gain of another. (Ord. 3-0-81)
 - d) Representing Private Interest Before City Bodies Or Courts: No employee or elected officer shall appear on behalf of private interests before any body of the city in a manner calculated to leave the impression that he/she is speaking for the city of Evanston, or acting on behalf of the city of Evanston when he/she is not authorized to do so. Any person so appearing shall indicate affirmatively that he/she is speaking in an individual capacity or as a representative of an organization or group other than the city. Nor shall any employee or elected officer represent private interests in any action or proceeding against the interests of the city in any litigation, administrative proceeding, or other type of adjudicative proceeding to which the city is a party. Nor shall he accept a retainer or compensation that is contingent upon a specific action by a city body. Except as may be provided for in the rules and organization of the city council of the city of Evanston, a council member may appear, without receiving additional compensation therefor, on behalf of constituents in the course of his duties as a representative of the electorate or in the performance of public or civic obligations. And an officer or employee may appear on behalf of himself, his spouse, or minor children before any city body or branch of the circuit court. An employee may also represent other employees in personnel matters, as provided in the city's personnel code and civil service rules. (Ord. 92-0-89)
 - e) Preacquisition Of Interest: No public officer or employee shall acquire an interest in or be affected by any contract or transaction at a time when the employee believes or has reason to believe that the contract or transaction will directly or indirectly be affected by an official act or action of the city.
 - f) Incompatible Employment: No public officer or employee shall engage in or accept private employment or render services for private interests when such employment or service creates a conflict with or impairs the proper discharge of his official duties.
4. Disclosure Of Financial Interest:
- a) Financial Interest: No officer or employee shall have any financial interest in any business or transaction with any board, commission, committee or public body of the city unless, as provided in 65 Illinois Compiled Statutes 5/3-14-4, that officer or employee discloses the nature and extent of such interest and refrains from voting upon the resolution of the business or transaction. (Ord. 3-0-81)
 - b) Financial Disclosure Statement: All elected officials, the city manager, the assistant city manager, department heads, and members and executive staff of all boards, commissions, special committees and those persons holding other positions designated by the city council or the city manager shall submit annually the signed and notarized financial disclosure and affiliation statement required by section 1-10-3 of this chapter, 1979, as amended. (Ord. 3-0-81; amd. Ord. 59-0-01)

5. **Political Activity:** No nonelective employee shall use the prestige of his position in behalf of any political party or for any political purpose. No appointment to or employment in any municipal position shall be dependent on political activity. (Ord. 3-0-81)

(D) Administration Of Code:

1. The board of ethics established pursuant to section 1-10-1 of this chapter, 1979, as amended, shall be responsible for interpreting and proposing revisions to the code of ethics.
2. When any officer or employee of the city wishes to have advice on the applicability of any provision of this code to a particular situation, or an interpretation of terms used in this code, he may apply to the board of ethics for an advisory opinion. Requests shall be in writing and shall contain a summary of pertinent facts. The board of ethics may also initiate investigations of the conduct of officers and employees of the city.
3. The board of ethics will consider matters only in accordance with rules and procedures enacted in conformity with this chapter. These rules shall require that any person desiring to make a complaint of ethical misconduct against an officer or employee of the city shall make the complaint in writing and under oath, on a form prescribed and made available to the public by the law department. No such complaint of official misconduct that fails to include the following will be considered by the board:
 - a) Name, address and phone number of complainant(s).
 - b) Name and position of respondent officer or employee.
 - c) Nature of alleged ethical misconduct.
 - d) A detailed description of the evidence known to complainant establishing the ethical misconduct of the city officer or employee. (All documentary evidence supporting the complainant's charges shall be attached to complaint.)
 - e) The board of ethics shall request each complainant to maintain the confidentiality of the fact of filing the complaint by inserting the following language in the complaint form:
 1. To protect confidentiality, I have been requested to not disclose the fact of filing the complaint unless and until the Board of Ethics informs the Complainant in writing that the Board has concluded that it has jurisdiction to conduct an investigation of the charges and intends to do so.
 - f) The complaint form shall contain this statement: "This complaint will not be considered by the Ethics Board unless first filed with the Law Department."
4. Within fourteen (14) days of receipt of a complaint of ethical misconduct with respect to an "officer" and/or "employee" as above described, the law department, after making an appropriate inquiry, shall issue a confidential written advisory report containing findings and conclusions as to each of the following questions:
 - a) Is or was the respondent a city officer or employee as defined herein at the time of the alleged ethical misconduct?
 - b) Is the ethical misconduct complained of covered by the ethics code?
5. The report of the law department shall be sent by prepaid receipted delivery to each member of the board of ethics and to the complainant within fourteen (14) days of the filing of the complaint with the law department. The board shall consider said report and the findings and conclusions therein in executive session at a meeting no later than at its next regularly scheduled meeting. If the board finds that it has no jurisdiction, it shall send a copy of its decision to the complainant within two (2) business days of such finding. If the board finds that it has jurisdiction and will commence an investigation of the charges set forth therein, or any parts

thereof, the law department shall, within two (2) business days of the finding notify respondent of the charges then pending against him/her by prepaid receipted delivery and enclose a copy of the complaint. The law department also shall notify both parties of the date and time when the complaint will be considered by the board of ethics as provided for in subsection (D)6 of this section, shall enclose a copy of the report provided for in subsection (D)4 of this section, a copy of the ethics code, the board's regulations and rules of procedure, and all documents provided to the board by the law department in connection with this matter.

6. Within thirty (30) days of receipt of the complaint sent by the law department to the respondent as required by subsection (D)5 of this section, or within five (5) days before the date of initial board consideration as provided for in subsection (D)5 of this section, whichever is later, the respondent shall at his or her option be accorded the opportunity of presenting to the law department for distribution to board members the respondent's interpretation of the facts and legal and factual defenses to the charges.
7. As more fully set forth in its procedures, the board may request additional information from other persons, may hold a hearing or hearings if it determines such to be necessary, and shall render a written opinion setting forth its conclusions with respect to each request for an opinion or each investigation it initiates. Whenever the board of ethics finds it necessary to conduct a hearing in order to secure pertinent information, or whenever any person whose conduct is subject to investigation demands a hearing, such a hearing shall be arranged. Such a hearing shall be public, unless the board determines, upon the request of any affected party or upon its own motion, that the hearing shall be in executive session. The members of the board shall conduct the hearing unless the board concludes it is appropriate to appoint some other person as a hearing officer to conduct the hearing and make recommendations to the board. At any such hearing the presiding officer shall have the power to administer oaths and affirmations and compel attendance of persons and production of books, documents, papers, accounts, letters and records by subpoena. Any person who appears before the board at a hearing shall have the right to be represented by counsel. The members of the board or the hearing officer shall examine any witnesses. The board may also permit examination or cross examination by counsel for the affected parties. At any hearing, the board or hearing officer shall not be bound by the rules of evidence, but may hear and consider any evidence it considers to have probative value on the issues before it.
8. A written report of any action taken with respect to any person found to have violated the code of ethics shall be made to the board of ethics by the appropriate city authority within thirty (30) days after receipt of the board's advisory opinion. Upon receipt of such a report, or if no report is made as provided herein, the board shall review the matter and make any further recommendations it deems suitable.

(E) Sanctions

Violations of any provision of this code may constitute a cause for censure, suspension, removal from office or employment or other disciplinary action, as determined by the appropriate city authority.

(F) Distribution Of The Code

Copies of the code of ethics shall be distributed to all present city officers and employees, as well as to all new employees and officers when they begin their service to the city. (Ord. 59-0-01)

II. AGREEMENTS

GFOA RECOMMENDED PRACTICE
REPURCHASE AGREEMENTS & REVERSE REPURCHASE AGREEMENTS
(1986, 1995, 1998, 2000, 2003)

Background. Where permitted by statute, local governments often enter into repurchase agreements (repos) to invest funds on a short-term basis. Repos works as follows: an investor purchases securities from a bank or dealer and at the same time, the selling bank or dealer contractually agrees to repurchase the securities at the same price (plus interest) at some mutually agreed-upon future date. Repos are commonly used by public entities to secure money market rates of interest and are an integral part of an investment program of state and local governments. In addition, repurchase agreements called "flexible repurchase agreements" (flex repos) are often used for bond reinvestment activity where cash is obtained from a bond issue associated with a capital project. This type of a repurchase agreement can be for a multi-year period associated with a specific capital program. The flexible portion of the agreement permits multiple cash draw downs to fund the expenditure requirement. Governments should ensure that these investments meet their liquidity requirements.

The Financial Accounting Standards Board (FASB), Statement 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," generally provides that if the repo buyer (i.e., government entity) has the right to sell or re-pledge the securities and the repo seller (i.e., bank or dealer) does not have the right to substitute the securities or terminate the contract on short notice, the repo buyer will be required to record both the securities, together with any obligation to return the securities. The repo seller will be required to reclassify the securities from a securities inventory or investment account to a securities pledged account on its balance sheet.

The Bond Market Association (TBMA) has published an optional substitution/termination provision to its *Master Repurchase Agreement* that would allow the repo seller (bank or dealer) to retain effective control over the purchased securities, or the repo seller could elect to terminate the transaction prior to maturity on short notice to the repo buyer (government entity). Although governments may not be bound by FASB pronouncements, Statement 125 affects the counterparties to repurchase transactions with governments and may change the nature of the underlying repurchase agreement from a buy-sell transaction to a collateralized loan. Treating repurchase agreements as collateralized loans would make them illegal for local governments in many states.

In a reverse repurchase agreement (reverse repo), an investor owns securities, such as a Treasury note, U.S. government agency bond or other security, that a bank or dealer purchases under an agreement to sell back to the investor on a specified date, at an agreed-upon interest rate. Reverse repos generally have two basic uses: first, reverse repos may be one way to avoid liquidating a portfolio to meet unexpected or immediate cash flow requirements. This straightforward use of the instrument is accepted by most public finance officers as a legitimate cash management practice.

The second, potentially more controversial, use of the reverse repo is to enhance portfolio returns through the purchase of securities financed through repurchase transactions. The cash obtained can then be invested in another higher-yielding instrument. The conservative and prudent approach to this use of reverse repos involves short-term contracts in which the term of the reverse repo is matched with the maturity of the reinvestment. Losses of state and local government funds have occurred as the result of the inappropriate use of reverse repos in leveraging portfolios to increase investment returns and as a result of other unsound investment practices.

Recommendation. The Government Finance Officers Association (GFOA) recommends that state and local government finance officers develop policies and procedures to insure the safety of repos and reverse repos. The following actions are recommended:

1. Governmental entities and investment officers should exercise special caution in selecting and evaluating the creditworthiness of parties with whom they will conduct repurchase transactions and be able to identify the parties acting as principals to the transaction.
2. Proper securitization practices are necessary to protect the public funds invested in repurchase agreements. Safekeeping shall be performed by a third-party custodian. Duties of the custodian (either direct or tri-party) should be outlined in a written agreement. The purchased securities associated with the repurchase agreement should have a market value in excess of the value of the repurchase agreement (called margin, "haircut," or over securitization). Market valuing the purchased securities regularly during the term of the repurchase agreement should be a mandatory practice in order to ensure the purchased securities maintain sufficient market value. A typical margin requirement for a short-term repo is at least 102%.
3. Master repurchase agreements should be employed, subject to appropriate legal and technical review. Governments using the prototype agreement developed by TBMA should include appropriate supplemental provisions regarding delivery, substitution, margin maintenance, margin amounts, seller representations, and governing law as contained in the GFOA-developed, *Considerations for Governments in Developing a Master Repurchase Agreement*.
4. Legal counsel should review TBMA's optional substitution/termination provision in its master agreement to assure no loss is incurred. In those jurisdictions where substitution of securities is permitted, a loss provision is provided that is intended to place the repo buyer in the same position it would have been had the repo seller not exercised the substitution/termination right. In those jurisdictions where substitution is restricted, however, the effect of FASB 125 may be troublesome depending on the relationship established with the bank or dealer, the jurisdiction's position with respect to the change in accounting treatment of the transaction, and whether the government has the ability to avoid the restriction on substitution of purchased securities.
5. Reverse repo proceeds generally should not be invested in securities whose maturity does not match the term of the reverse repo. For example, borrowing short to lend long can produce losses in adverse markets. Further, the possibility exists that other factors can go wrong, such as default by the dealer or adverse market changes that erode the value of the underlying securities.
6. The use of reverse repos should be considered only by entities that have the expertise and resources required to successfully engage in the technique. Additionally, state statutes may prohibit or discourage the use of reverse repos. Government officials who engage in reverse repos should verify whether such uses of reverse repos are legally sanctioned.
7. Public officials should not engage in investment practices, such as purchasing securities on margin (by borrowing funds from a counterparty), selling securities short (by borrowing the security from a third party and selling in anticipation of higher interest rates), purchasing long-term bonds with short-term funds, and trading futures contracts without an exact offsetting cash market position.

References:

- *Considerations for Governments in Developing a Master Repurchase Agreement, Second Edition*, GFOA Committee on Cash Management, 1988.
- *An Introduction to Broker/Dealer Relations for State and Local Governments*, M. Corinne Larson, GFOA, 1994.
- GFOA Sample Custodial Trust Agreement, 1995.
- *An Introduction to Collateralizing Public Deposits for State and Local Governments*, M. Corinne Larson, GFOA, 1996.
- "Investor Alert: Repo Agreements," *Public Investor*, April 3, 1998.
- *Investing Public Funds*, Second Edition, Girard Miller with M. Corinne Larson and W. Paul Zorn, GFOA, 1998.

Recommended for Approval by the Committee on Cash Management, January 23, 2003.
Approved by the GFOA's Executive Board, February 28, 2003.

GFOA RECOMMENDED PRACTICE

SECURITY LENDING PROGRAMS — MASTER TRUST, CUSTODIAL AND SAFEKEEPING CONSIDERATIONS (1995 AND 2002)

Background. The lending of securities helps to maintain an orderly market while providing incremental income to the participant lender. Broker/dealers borrow primarily to cover fails (the non-delivery of a security expected to be delivered on a date certain) and short sales (the sale of a security not presently owned by the seller in order to take advantage of an expected lower market price), and to execute arbitrage transactions. Their preferred partners in these transactions are the master trust, custodial and safekeeping banks, since their large portfolios basically offer "one-stop shopping".

As part of their services, banks, like other money managers, offer to lend securities owned by institutional clients to brokers in exchange for collateral. The collateral, which is usually cash, is invested as directed by the security owner. The resulting income is subsequently split between the lending agent and the client.

A security lending transaction is used to enhance investment returns on portfolio securities. While the indemnifications offered may vary, the lending agreement typically provides that broker credit risk, broker default risk, and collateral maintenance are risks undertaken by the lending agent. The security owner often can determine what counter-party is acceptable, the size of the investment program, and the type of securities used and this is generally reflected in the split of the investment proceeds. Lending agent credit risk, lending agent default risk, and collateral investment risk are undertaken by the institutional client.

Unsound collateral investment practices can result in some lending programs incurring losses on behalf of the institutional security lending program customers if the program is too aggressive. Additionally, rapidly changing interest rates, lending short and investing long, investing in speculative derivatives, and paying a fixed rebate rate while investing in floating rebate rate securities under adverse market conditions are examples of situations that can produce investment losses. The security owner must be cautious in directing the investment program to make certain it is consistent with investment policy.

Liquidity requirements are often accepted by and guaranteed by the lending agent upon one day's notice, as substitution of the lending client in large lending programs is easily accomplished and essentially risk less. Programs that require the client to undertake responsibility for managing the liquidity present greater risks and require that the client place limits on the amount of the portfolio which may be put on loan. The term of the securities on loan and the reinvestment of the proceeds must be carefully established by the client and strictly managed.

Recommendation. While investment strategies that include security lending programs are not inherently risky when employed judiciously with appropriate precautions and controls, the Government Finance Officers Association (GFOA) urges state and local government officials to exercise caution in their use of security lending programs. Prior to participating in a security lending program, finance officers should carefully evaluate whether security lending is legally permissible under state statute and the jurisdiction's written investment policy; the terms of the lending agreements; the indemnification provisions, if selected; the investment guidelines and terms of the lending,

including the maturity of loans as well as the securities purchased; the liquidity provisions and risks; the selection of the counter-parties to the lending program; the agreement for the split of investment proceeds; the experience of the lending agent; the resources required monitoring compliance with the agreement.

References:

- *Investing Public Funds*, Second Edition, Girard Miller with Corinne Larson and W. Paul Zorn, GFOA, 1998

Approved by the Committee on Cash Management, June 15, 2002

Approved by the Executive Board, October 25, 2002.

Long Form
SECURITY AGREEMENT

This SECURITY AGREEMENT, dated _____, is between [name of bank] (the "Bank"), a [bank and trust company, national banking association, state banking corporation, savings bank or savings and loan association] having an address at _____, and [public depositor], having an address at _____ (the "Public Depositor").

WITNESSETH:

WHEREAS, the Bank is a qualified public depository as defined in [state statute], (the "Act"); and

WHEREAS, Public Depositor from time to time makes deposits, as said term is defined in the Act, in the Bank (its "Public Deposits"), which Public Deposits shall from time to time aggregate in excess of One Hundred Thousand Dollars (\$100,000.00); and

WHEREAS, the Public Depositor desires to have its Public Deposits secured by collateral; and

WHEREAS, the Bank has agreed to secure the Public Depositor's Public Deposits by granting to the Public Depositor a security interest in certain collateral ("*Eligible Collateral*") owned by the Bank, as permitted by 12 U.S.C. § 90;

NOW THEREFORE, in consideration of the Public Depositor depositing its Public Deposits as herein described, and for other good and valuable consideration, hereby acknowledged as received, it is hereby agreed between the Public Depositor and the Bank as follows:

1. In order to secure the Public Depositor's Public Deposits the Bank hereby pledges, assigns, transfers and grants to the Public Depositor a perfected first priority security interest in (a) such amounts of the Eligible Collateral to meet the collateral ratios and other requirements described in this Agreement, and (b) the Custody Account (as defined in Section 9 below) and any and all investment property and security entitlements from time to time held in, by, or for the benefit of the Custody Account (including without limitation the Eligible Collateral) and all proceeds thereof (collectively, the "*Collateral*"). If at any time the ratio of the market value of the Eligible Collateral to the Public Depositor's Public Deposits, plus accrued interest, is less than required by this Agreement, the Bank shall immediately, within no more than 24 hours, make such additions to the Eligible Collateral in such amounts such that the ratio of the market value of the Eligible Collateral to the Public Depositor's Public Deposits, plus accrued interest, shall be at least equal to that required by this Agreement. Such additions to the Eligible Collateral shall constitute an assignment, transfer, pledge, and grant to the Public Depositor of a security interest in such additional Eligible Collateral pursuant to this Agreement and the Act.
2. The security interest granted herein (as described in Section 1 above) shall secure not only such Public Deposits and accrued interest of the Public Depositor as are held by the Bank at the time of this Agreement, but also any and all subsequent Public Deposits made by the Public Depositor in the Bank regardless of the accounts in which such funds may be held or identified by the Bank.

3. The pledge of Collateral by the Bank shall be in addition to, and shall in no way eliminate or diminish, any insurance coverage to which the Public Depositor may be entitled under the rules and regulations of the Federal Deposit Insurance Corporation (FDIC) or any private insurance carried by the Bank for the purpose of protecting the claims and rights of its depositors.
4. The Public Depositor is under no obligation to maintain its deposits with the Bank and may withdraw them at any time without notice. It is agreed that when the Bank shall have paid out and accounted for all or any portion of the Public Depositor's Public Deposits, any Collateral pledged under this Agreement to secure such paid out Public Deposits shall be released from the security interest created hereunder.
5. The Bank hereby represents that (i) it is a [state banking corporation] duly organized and validly existing under the laws of the [State of [state]]; (ii) it is a qualified public depository as defined by the Act; (iii) it has, or will have as of the time of delivery of any securities as Collateral under this Agreement, the right, power and authority to grant a security interest therein with priority over any other rights or interests therein; (iv) the execution and delivery of this Agreement and the pledge of securities as Collateral hereunder have been approved by resolution of the Bank's Board of Directors at its meeting of [date], and the approval of the Board of Directors is reflected in the minutes of that meeting, copies of which resolution and relevant portion of the minutes of said meeting are attached hereto as Exhibit A and made a part hereof; (v) the execution and delivery of this Agreement and the pledge of securities as Collateral hereunder will not violate or be in conflict with the Articles of Incorporation or Bylaws of the Bank, any agreement or instrument to which the Bank may be a party, any rule, regulation or order of any banking regulator applicable to the Bank, or any internal policy of the Bank adopted by its Board of Directors; and (vi) this Agreement shall be continuously maintained, from the time of its execution, as an official record of the Bank.
6. The Bank warrants that it is the true and legal owner of all Collateral pledged under this Agreement, that the Collateral is free and clear of all liens and claims, that no other person or entity has any right, title or interest therein, and that the Collateral has not been pledged or assigned for any other purpose. Should an adverse claim be placed on any pledged Collateral, the Bank shall immediately substitute unencumbered Collateral of equivalent value that is free and clear of all adverse claims.
7. At any time that the Bank is not in default under this Agreement, the Bank may substitute Eligible Collateral, *provided* that (a) the total market value of Eligible Collateral held in the Custody Account shall meet the requirements of this Agreement, and (b) the Public Depositor shall have approved such actual substitution or substitution process and all documentation relating to such substitution before it becomes effective.
8. Any additional pledge of Collateral hereunder, substitution of Collateral, or release of Collateral shall be approved by an officer of the Bank duly authorized by resolution of the Board of Directors to approve such additional pledges, substitutions, or releases of Collateral under this Agreement.
9. The Bank agrees to place the Collateral with a Federal Reserve Bank, a trust department of a commercial bank, or with a trust company (the "*Custodian*") to hold in a custody account (the "*Custody Account*") for the benefit of the Public Depositor. Any such commercial bank or trust company shall be a securities intermediary that in the ordinary course of its business regularly maintains securities accounts for its customers. The Bank shall execute a custodial trust agreement with the Custodian ("*Custodial Trust Agreement*") for the custody of the Eligible Collateral consistent with the terms of this Agreement. The Custodial Trust Agreement shall contain the Custodian's

agreement to hold all Collateral in the Custody Account for the benefit of the Public Depositor and subject to the Public Depositor's direction and control and to comply with entitlement orders originated by the Public Depositor without the Bank's further consent. The executed Custodial Trust Agreement is attached hereto as Exhibit B. The execution by the Bank of the Custodial Trust Agreement shall in no way relieve it of any of its duties or obligations hereunder.

10. Upon the initial transfer of Eligible Collateral under this Agreement and monthly thereafter, the Bank shall cause the Custodian to report to the Public Depositor specifying the type and market value of Eligible Collateral being held in the Custody Account for the benefit of the Public Depositor.
11. The Bank shall pledge and transfer to the Custody Account Eligible Collateral having a total market value of at least the total value of the Public Deposits, including accrued interest, of the Public Depositor, less amounts covered by insurance of the FDIC.
12. Eligible Collateral shall include only the following securities and shall have a minimum market value as expressed in the following collateral ratios:

Form of Eligible Collateral Pledge	Collateral Ratio* (Market value divided by deposit plus accrued interest)
A. United States Treasury bills, notes and bonds	
i. Maturing in less than one year	102%
ii. Maturing in one to five years	105%
iii. Maturing in more than five years	110%
B. Actively traded United States government agency securities	
i. Maturing in less than one year	103%
ii. Maturing in one to five years	107%
iii. Maturing in more than five years	115%
C. United States government agency variable rate securities	
D. [State] general obligation bonds	
i. Maturing in less than one year	102%
ii. Maturing in one to five years	107%
iii. Maturing in more than five years	110%

^{*} The collateral ratios set forth below are merely suggested ratios and should be modified by the Public Depositor to reflect applicable statutory requirements and their investment policies.

13. The Bank shall recalculate the market value of individual securities comprising Eligible Collateral at least monthly.
14. The Bank has heretofore or will immediately hereafter deliver to the Custodian for immediate deposit into the Custody Account Eligible Collateral of sufficient value to meet the terms of this Agreement. Said Eligible Collateral, or substitute collateral, as herein provided for, shall be retained by the Custodian in the Custody Account so long as the Bank holds deposits of the Public Depositor.
15. In the event the Bank shall (a) fail to pay the Public Depositor any funds which the Public Depositor has on deposit, (b) fail to pay and satisfy when due any check, draft, or voucher lawfully drawn against any deposit of the Public Depositor, (c) fail or suspend active operations, (d) become insolvent, or (e) fail to maintain adequate Collateral as required by this Agreement, the Bank shall be in default, the Public Depositor's deposits in such Bank shall become due and payable immediately, the Public Depositor shall have the right to unilaterally direct the Custodian to liquidate the Collateral held in the Custody Account and pay the proceeds thereof to the Public Depositor and to exercise any and all other security entitlements with respect to the Custody Account and the other Collateral, to withdraw the Collateral, or any part thereof, from the Custody Account and deliver such Collateral to the Public Depositor or to transfer the Collateral or any part thereof into the name of the Public Depositor or into the name of the Public Depositor's nominee, and ownership of the Collateral shall transfer to the Public Depositor. The Bank authorizes the release, withdrawal and delivery of the Collateral to the Public Depositor upon default by the Bank, and authorizes the Custodian to rely without verification on the written statement of the Public Depositor as to the existence of a default and to comply with entitlement orders originated by the Public Depositor without further consent of that Bank.
16. In the event of default as described in Section 15, the Public Depositor shall also have the right to sell Collateral at any public or private sale at its option without advertising such sale, upon not less than three (3) days' notice to the Bank and the Custodian. In the event of such sale, the Public Depositor, after deducting all legal expenses and other costs, including reasonable attorney's fees, from the proceeds of such sale, shall apply the remainder on any one or more of the liabilities of the Bank to the Public Depositor, including accrued interest, and shall return the surplus, if any, to the Bank, or its receiver or conservator.
17. During the term of this Agreement, the Public Depositor will, through appropriate action of its governing board, designate the officer, or officers, who singly or jointly will be authorized to represent and act on behalf of the Public Depositor in any and all matters arising under this Agreement.
18. All parties to this Agreement agree to execute any additional documents that may be reasonably required to effectuate the terms, conditions and intent of this Agreement.
19. All of the terms and provisions of this Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns.
20. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and all of which taken together shall constitute one and the same instrument.

- 21. This Agreement shall be governed by and construed in accordance with the laws of [state] and the laws of the United States, and it supersedes any and all prior agreements, arrangements or understandings with respect to the subject matter hereof. In the event that any conflict of law issue(s) should arise in the interpretation of this Agreement, the parties agree that when [state] law is not preempted by laws of the United States, [state] law shall govern.
- 22. No provision of this Agreement may be waived except by a writing signed by the party to be bound thereby and any waiver of any nature shall not be construed to act as a waiver of subsequent acts.
- 23. In the event that any provision or clause of this Agreement conflicts with applicable law, such conflict shall not affect other provisions of this Security Agreement, which shall be given effect without the conflicting provision. To this end the provisions of this Agreement are declared to be severable.
- 24. Unless applicable law requires a different method, any notice that must be given under this Agreement shall be given in writing and sent by certified mail, return receipt requested or third party overnight priority mail carrier to the address set forth herein or such other place as may be designated by written notice in the same manner from one party to the other.

[public depository bank]
By:
Its:
Date: _____

[public depository bank]
By:
Its:
Date: _____

**PUBLIC ENTITY
BROKER/DEALER QUESTIONNAIRE AND CERTIFICATION**

1. Name of firm _____

2. Address _____ (Local) _____ (National offices)

3. Telephone no. (____) _____ Local _____

4. Primary representative/manager/partner-in-charge

Name _____ Name _____

Title _____ Title _____

Telephone no. (____) _____ Telephone no. (____) _____

5. Are you a primary dealer in U.S. Government securities? () Yes () No

6. If so, for how long has your firm been a primary dealer? _____ years

7. Are you a member of NASD? If so, for how many years? _____ years

8. Who is your primary examining authority? NASD____ SEC____ NYSE____ OTHER____

9. What was your firm's total volume in U.S. Government and agency security trading last year?

Firm-wide \$ _____ Number of transactions _____

Your local office \$ _____ Number of transactions _____

10. Which instruments are offered regularly by your local desk?

() T-Bills

() BAs (domestic)

() Treasury notes/bonds

() BAs (foreign)

() Agencies (specify)

() Commercial paper

() Bank CDs

() S & L CDs

() Instrumentalities

() Other

11. Identify all personnel who will be trading with or quoting securities to our government's employees.

Name	Title	Telephone no.
_____	_____	(____) _____
_____	_____	(____) _____
_____	_____	(____) _____
_____	_____	(____) _____
_____	_____	(____) _____
_____	_____	(____) _____

(ATTACH RESUMES OF ALL THE ABOVE PERSONS)

12. Which of the above personnel have read our government's investment policies?

_____	_____
_____	_____

13. Please indicate with agents of your firm's local offices currently are licensed, certified or registered, and by whom.

Agent	License or registered by
_____	_____
_____	_____
_____	_____

14. Please identify your public-sector clients in our geographical area who are most comparable to our government.

Entity	Contact person	Telephone no.	Client since
_____	_____	(____) _____	_____
_____	_____	(____) _____	_____
_____	_____	(____) _____	_____

15. Have any of your public-sector clients claimed in writing or through an attorney that they sustained a loss resulting from misrepresentation of the risk characteristics of a security? If so, explain.

16. Have any public-sector clients ever notified your firm or your officers in writing that they have sustained a loss on an individual security exceeding 10 percent of the original purchase price? Explain.

17. Has your firm ever been notified that it has been subjected to a regulatory or state or federal agency investigation for alleged improper, fraudulent, disreputable or unfair activities related to the sale of any securities or money market instruments? Have any of your employees ever been so investigated? Explain.

18. Has a public sector client filed a written claim against your firm for investment losses? Explain.

19. Please include samples of research reports that your firm regularly provides to public-sector clients.

20. Please explain your normal custody and delivery process. Who audits these fiduciary systems?

21. Please provide certified financial statements and other indicators regarding your firm's capitalization.

22. Describe the capital line and trading limits that support/limit the office that would conduct business with our government.

23. What training would you provide to our employees and investment officers?

24. Has your firm consistently complied with the SEC or Treasury Department capital adequacy guidelines? As of this date, does your firm comply with the guidelines? Has your capital position ever fallen short? By what factor (15x, 2x, etc.) does your firm presently exceed the capital adequacy guidelines? Include certified documentation of your capital adequacy as measured by the Federal Reserve standards.

25. Do you participate in the SIPC insurance program? If not, explain why not.

26. What portfolio information do you require from your clients?

27. What reports, transactions, confirmations and paper trail will we receive?

28. Enclose a complete schedule of fees and charges for various transactions.

29. How many and what percentage of your transactions failed last month? Last year?

29. Describe the precautions taken by your firm to protect the interests of the public when dealing with governmental agencies as investors.

-CERTIFICATION-

I hereby certify that I have personally read the investment policies and objectives of the Government of ABC and have implemented reasonable procedures and controls designed to prohibit investment transactions inconsistent with your policies. Whenever we are notified in writing, we will inform our sales personnel of your investment objectives, outlook, strategy and risk constraints. We will notify you immediately by telephone and in writing in the event of a material adverse change in our financial condition. We pledge to exercise due diligence in informing you of fundamental risks associated with financial transactions conducted with our firm. Price markups will be consistent with prevailing institutional pricing at the time of each transaction. I attest to the accuracy of our responses to your questionnaire.

Signed: _____

(Countersigned by corporate officer responsible for compliance)

GENERAL BOND INDENTURES – COVENANTS

Section 15. General Covenants. The City covenants and agrees with the holders and registered owners of the Outstanding Bonds as follows:

- A. **Investments.** Until such time as the Bonds, together with Parity Bonds to be issued in the future, shall constitute not less than 2/3 of all Outstanding Bonds, the provisions for consent to amendment under the Currently Outstanding Bond Ordinances shall be deemed to have been met and the money to the credit of the Water Fund prior to the monthly accounting and to the credit of the Operation and Maintenance Account may be invested pursuant to any authorization granted to municipal corporations by Illinois statute or court decision; and the money to the credit of the Bond and Interest Account, the Bond Reserve Account, the Depreciation, Improvement and Extension Account, and the Surplus Revenue Account may be invested from time to time in (a) direct full faith and credit obligations of the United States of America, whether bonds, notes, bills or otherwise called (collectively referred to herein as “Directs”); (b) certificates of participation in a trust or trust receipts from a trust comprised solely of Directs; (c) shares in a money market or mutual fund comprised more than 95% at all times of Directs or agreements to repurchase such obligations; (d) obligations unconditionally guaranteed as to both principal and interest by the United States Government, (e) obligations which are tax-exempt under Section 103(a) of the Code but are not private activity bonds under Section 141(a) of the Code, if rated at the time of purchase “AA” or better by a nationally recognized ratings service for municipal bonds; (f) the Public Treasures’ Investment Pool of the State of Illinois; (g) certificates of deposit or time deposits of any bank, as defined by the Illinois Banking Act, *provided* such bank is insured by the Federal Deposit Insurance Corporation or a successor corporation to the Federal Deposit Insurance Corporation, and *provided further* that the principal of such deposits in excess of the insured amount is secured by a pledge of obligations as described in clauses (a), (b) or (c) above in the full principal amount of such excess. Such investments must also be legal and proper investments for the City. Such investments may be sold from time to time as funds may be needed for the purpose for which the Accounts have been created. To the extent moneys in the Accounts are held uninvested and on deposit in demand accounts, such amounts shall be added to the amount invested pursuant to clause (g) above, and the sum so derived subject to the limitations as set forth therein.

At such time as the Bonds, together with Parity Bonds to be issued in the future, shall constitute not less than 2/3 of all Outstanding Bonds, the provisions for consent to amendment under the Currently Outstanding Bond Ordinance shall be deemed to have been met and the moneys to the credit of the Water Fund and all of the Accounts of the Water Fund may be invested pursuant to any authorization granted to municipal corporations by Illinois statute or court decision and in accordance with the City’s then current investment policy.

Investments in the Accounts shall mature or be subject to redemption at the option of the holder thereof prior to the time when needed. After making provision for the payment of any amount of excess arbitrage profits, as provided in the Code, attributable to investment earnings or profits to the Rebate Fund for the appropriate issue or issues of Outstanding Bonds, all earnings or profit, on any funds so invested in the Bond and Interest Account shall be retained therein. After making provision for the payment of any amount of excess arbitrage profits, as pro-

vided in the Code, attributable to investment earnings or profits to the Rebate Fund from the appropriate issue or issues of Outstanding Bonds, all earnings or profit, on any funds so invested in the Bond Reserve Account shall be credited upon receipt to the Bond and Interest Account. The City may take credit for such earnings or profits (not transferred to the Rebate Fund) in any monthly accounting for the Bond and Interest Account in any Fiscal Year. All interest or profit earned on any funds so invested in other Accounts shall be credited to the Water Fund. Moneys in any of said accounts shall be invested by the City, if necessary, in investments restricted as to yield, which investments may be in the United States Treasury Obligations — State and Local Government Series, if available, and to such end the Finance Director shall refer to any investment restrictions covenanted by the City or any officer thereof as part of the transcript of proceedings for the issuance of the Bonds, and to appropriate opinions of counsel.

- B. **Accounts Excesses.** Any amounts to the credit of the Accounts in excess of the then current requirements therefore may be transferred by the City Council to such other Account or Accounts of the Water Fund as they may in their sole discretion designate.
- C. **Maintain System.** The City will maintain the System in good repair and working order, will operate the same efficiently and faithfully, and will punctually perform all duties with respect thereto required by the Constitution and laws of the State of Illinois and the United States.
- D. **Rates.** The City will establish and maintain at all times reasonable fees, charges and rates for all users of the service of the System, and provide for the collection thereof and for the segregation and application of the Revenues in the manner provided by this Ordinance, and sufficient at all times to pay the reasonable Operation and Maintenance Costs, to pay the principal of and interest on all revenue bonds of the City which by their terms are payable from the Revenues, and to provide for the creation and maintenance of the respective accounts as provided in Section 14 of this Ordinance, and from time to time make all needful and proper repairs, replacements, additions and betterments thereto, so that the System may at all times be operated properly and advantageously, and when any equipment or facility shall have been worn out, destroyed or otherwise is insufficient for proper use, it shall be promptly replaced or repaired so that the value and efficiency of the System shall be at all times fully maintained. The City covenants that the City will establish and maintain fees, charges and rates that will be adequate to produce Net Revenues in an amount not less than 125% of the principal and interest requirements for all Outstanding Bonds for the then current Fiscal Year. In the event that the Bond Year for any series of Outstanding Bonds does not end on the first day of the Fiscal Year, then, for purposes of calculation hereunder, the requirement of the two Bond Years occurring in part in such Fiscal Year.

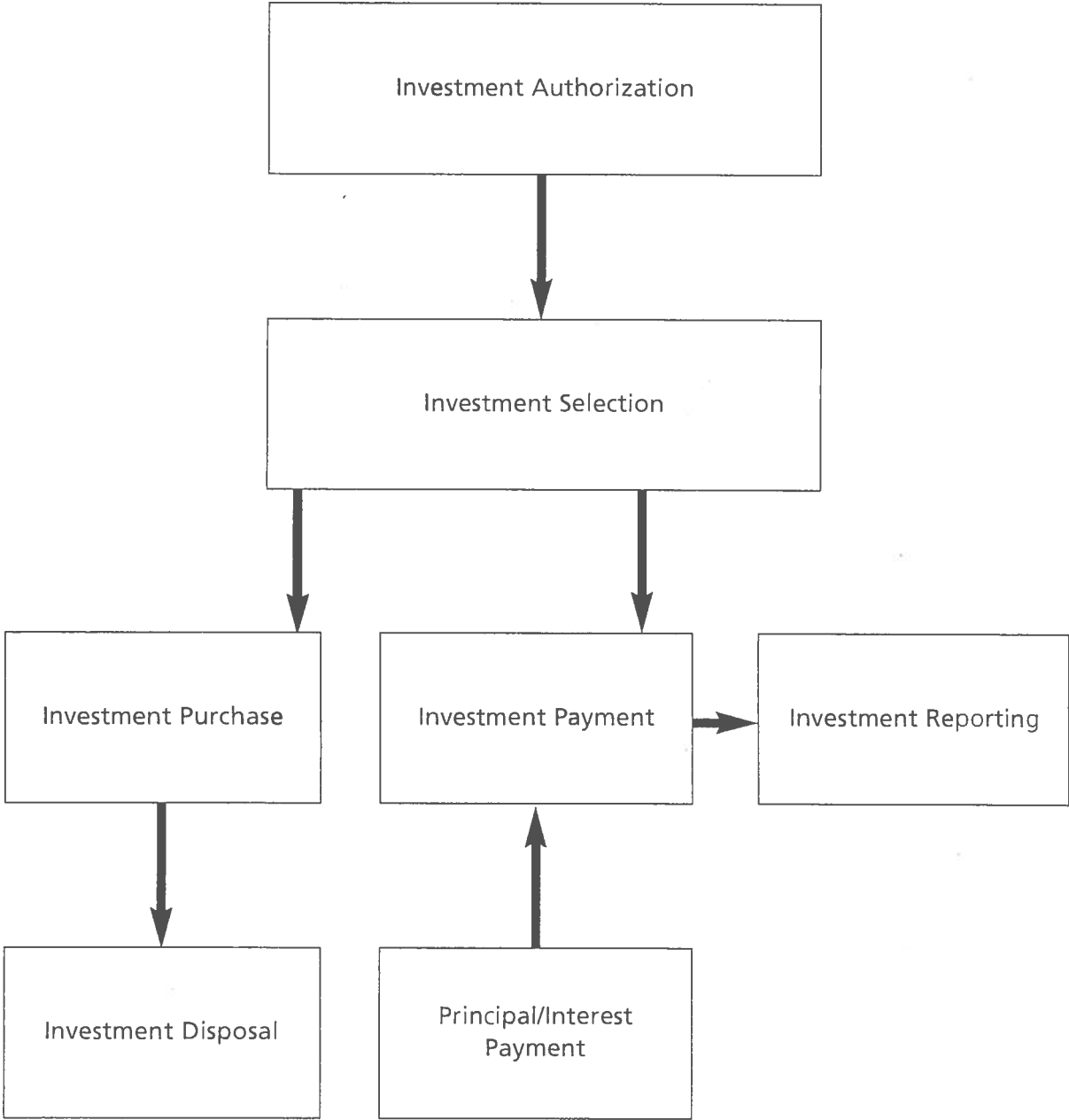
Charges for service rendered the City shall be made against said City, and payment for the same from the corporate funds shall be made monthly into the Water Fund, as Revenues, in the same manner as other Revenues are required to be deposited. No free service of the System shall be furnished to any person, firm, organization or corporation, public or private, and to the extent permitted by law it is expressly herein covenanted and agreed that the City will not grant a franchise for the operation of any other or competing waterworks system within the City, and that the Bonds herein authorized to be executed shall constitute legally enforceable liens on the Revenues.

- E. **Rules.** The City will establish such rules and regulations for the control and operation of the System necessary for the efficient and economical operation thereof, and rates and charges shall be fixed and revised from time to time as may be necessary to produce funds sufficient for all purposes herein provided.
- F. **Accounting.** The City will make and keep proper books and accounts (separate and apart from all other records and accounts of said City), in which complete entries shall be made of all transactions relating to the System, and hereby covenants that within 210 days following the close of each Fiscal Year it will cause the books and accounts of the System to be audited annually by independent certified public accountants showing the receipts and disbursements on account of the System. Each such audit, in addition to whatever matters may be through proper by the accountants to be included therein, shall, without limiting the generality of the foregoing, include the following:
1. A statement in detail of the income and expenditures of the system for such Fiscal Year, and including credits to the various accounts provided herein.
 2. A balance sheet as of the end of such Fiscal Year
 3. The accountant's comment regarding the manner in which the City has carried out the accounting requirements of this ordinance, and the accountant's recommendations for any changes of improvements in the operation of the system.
 4. A list of all insurance policies in force at the end of the Fiscal Year, setting out as to each policy the amount of the policy, the risks covered, the name of the insurer, and the expiration date of the policy.
 5. The number of metered water customers and the number of unmetered water customers at the end of the year, and the quantity of water pumped and billed.
- All expenses incurred in the making of the audit required by this section shall be regarded and paid as an Operation and Maintenance Cost. In addition, statements of revenues and expenditures of the System shall be furnished to the City Council at least quarterly during each Fiscal Year.
- G. **No Sale, etc.** The City will not sell, lease, loan, mortgage, or in any manner dispose of or encumber the System (subject to the reserved right of the City to issue additional obligations as provided in Section 16 of this Ordinance); *provided, however*, that this covenant shall not prevent said City from disposing of any property which in the judgment of the City Council is no longer useful or profitable in the operation of the System. The proceeds from the sale of any property shall be credited to the Depreciation, Improvement and Extension Account.
- H. **Contract; Enforcement.** The provisions of this Ordinance shall constitute a contract between the City and the holders and registered owners of the Bonds, and after the issuance of the Bonds, no changes, additions or alterations of any kind shall be made hereto, except as hereinabove provided for amendments hereto. Any holder or registered owner of a Bond or Bonds issued hereunder may proceed by civil action, mandamus, or other proceeding to enforce or compel performance by the officials of said City of all duties required by law, the Act and this Ordinance, including the making and collecting of sufficient charges and rates for the water services supplied by the System and the application of the income and revenue therefrom.

- I. **Insurance.** The City will carry insurance on the System of the kinds and in the amounts which are usually carried by private parties operating similar properties, covering such risks as shall be recommended by a competent insurance consultant employed by the City for the purpose of making such recommendations. Alternatively the City shall self-insure or provide insurance by means of a self-insurance pool with other units of local government, *provided* that either private insurance is not available at a reasonable cost of the City or the pool shall have assets or shall have created a self-insurance reserve fund in an amount as shall be determined by a competent insurance consultant to be not unreasonable in view of the risks insured. All moneys received for property loss under such insurance policies or from the self-insurance reserve fund or pool shall be deposited to the credit of the Depreciation, Improvement and Extension Account and used in making good the loss or damage in respect of which they were paid, either by repairing the property damaged or making replacement of the property destroyed, and provision for making good such loss or damage shall be made within 270 days from the date of the loss. The proceeds derived from any and all policies for workers' compensation or public liability or from the self-insurance reserve fund or pool for such purposes shall be paid into the Operation and Maintenance Account and used in paying the claims on account of which they were received or shall be used to reimburse any account from which the claim was previously paid. The payment of premiums, regular payments to a pool and regular accumulations for a reserve fund required under the provisions of this covenant shall be considered an Operation and Maintenance Cost.

III. OPERATING DOCUMENTS

FLOWCHART OF INVESTMENT ACTIVITIES



CITY OF X
INVESTMENT TRANSACTION SHEET

Transaction Date: _____

Bank or Money Market Fund

American Bank ()
The State Funds ()
First Bank & Trust Co. ()
City Bank ()
Fidelity ()
Merrill ()
FIT ()
First Tennessee ()

Type of Investment

Treasury Bill ()
Treasury Note or Bond ()
Certificate of Deposit ()
The State Funds ()
Money Market Fund ()
Gov't Securities ()
Commercial Paper ()

Transaction

Fund: _____ Bank Account: _____
Purchase Amount: _____ Maturity Date: _____
Sale Amount: _____ Maturity Date: _____

Account Information:

AMERICAN BANK ABA#071000000 INVESTMENTS: Jim Banker 312/000-0000
ACCOUNT: Jim Balance 312/000-000

General Fund 5330080568 ()
Special Assessment 5330080746 ()
Water & Sewer Operating 100010108 ()
Water Bond and Interest 101483361 ()
Parking Operating 101481605 ()
Fire Pension 100782086 ()
Police Pension 101481928 ()
Debt Service 100040394 ()

THE STATE FUNDS – CODES AND ACCOUNTS

ABA #081000000 Merchantile Bank 1-800-947-000 TAX ID#: 366005870 PIN #: 5870

General Fund Account # 7139107176 ()
MFT Fund Account # 7139112986 ()
Insurance Fund Account # 7139162218 ()
Sewer Fund Account # 7139107390 ()
Debt Service Fund Account # 7139140284 ()

FIRST BANK AND TRUST – ABA #071925000 Jill Money 733-0000 FAX 847/733-7499

Capital Improvement Account #4012041 ()
Water Fund Bond Reserve Account #4018611 ()
Water Fund D.I. & E. Account #4018949 ()

CITY OF X
INSTRUCTIONS AND GENERAL CONDITIONS OF BIDDING

1. Bidders must use the bid form provided for that purpose in submitting bids. The bidder must return the announcement and bid sheets comprising this bid, give unit prices, extend totals, and sign the bid.
2. In case of default by the bidder, the City of X reserves the right to procure the services and/or items from other sources.
3. This bid does not include funds currently invested by the City of X in other types of financial instruments.
4. All proposals must be made in accordance with the City's investment policy.
5. The City will consider investments in the following types of securities: bonds, bills, strips, or notes of the United States or an agency of the United States (FNMA, FFBC, FHLB, and FHLMC).
6. The bidder must make sure that the amount, the settlement date, the maturity value, and the approximate maturity date coincides with that shown in the request for proposal.
7. Winning bidder will be the investment mix that provides the highest yield to maturity.
8. Wiring instructions for the delivery of the securities will be provided to the winning bidder, delivery versus payment.
9. The winning bidder will be notified as soon as possible and funds will be transferred on the settlement date, DVP, by wire transfer.

CITY OF X
INVESTMENT PROPOSAL

The City of X requests proposals for the investment of General Fund monies. The total amount to be invested shall be an amount so as to produce maturity value of \$500,000 during November 200X with a settlement date of June 8, 200X.

Bids, subject to the Instructions and General Conditions of Bidding listed below and any special conditions set forth herein, will be received at the Office of the Director of Finance and Administration, City of X, 1234 Shelly Road, until 10:00 A.M. on Thursday, June 7, 200X for furnishing the City of X the services and/or items shown on the attached sheets. Proposals must be faxed to the City of X, Attention: John Doe — 232-343-4545

The City of X reserves the right to accept or reject all or any part of the bid, to waive technicalities and to accept the offer the Director of Finance and Administration considers the most advantageous to the City.

The offeror hereby agrees to provide the services and/or items, subject to availability and change in market, pursuant to the Instructions and General Conditions of Bidding as stated.

INVESTMENT PROPOSAL #01-01, Settlement June 8, 200X:

Type of security _____

Face amount or par amount _____

Maturity date _____

Coupon interest rate _____

Price per \$100 _____

Purchase price _____

Accrued interest, if any _____

Total cost _____

Yield to maturity _____

CUSIP # _____

Offeror's Signature _____

Offeror's Printed Name _____

Company Name _____ Date _____

Mailing Address _____ Telephone _____

_____ Fax _____

**CITY X
WIRE INSTRUCTIONS**

Bank XXX NYC
ABA # 071000770
FBO City X
A/C 077-187045
For further credit to

(Name of Account)

**CITY X
TRADE QUOTE**

OFFER _____ Amount _____

BID _____

Description _____

Price _____

Yield to maturity _____

Yield to call _____

Settlement _____

All quotations subject to market fluctuations

AUTHORIZED BROKERS

Broker 1 _____

Address _____

Contact _____

Phone _____

Fax _____

Email _____

Broker 2 _____

Address _____

Contact _____

Phone _____

Fax _____

Email _____

Broker 3 _____

Address _____

Contact _____

Phone _____

Fax _____

Email _____

AUTHORIZED PERSONNEL

Finance Director _____

Assistant Finance Director _____

Chief Accountant _____

City Manager _____

DISASTER RECOVERY/CONTINUITY PLAN

Still Under Development by the GFOA Standing Committees
and the GFOA Technology Resource Group

**CITY OF ORLANDO, FLORIDA
FIREFIGHTER PENSION FUND**

Investment Summary
September 30, 2002

<u>Type of Investment</u>	<u>Fair Value September 30, 2002</u>	<u>Percent of Total Fair Value</u>
Fixed Income:		
U.S. Government Obligation — Direct	\$ 15,306,614	9.72 %
U.S. Government Obligation — Agency	12,822,759	8.14
Corporate Bonds	13,880,509	8.81
Mortgage Related	17,542,814	11.14
Asseted Backed Securities	482,579	0.31
<i>Total Fixed Income</i>	<u>60,035,275</u>	<u>38.12</u>
Common Stock:		
Basic Industries	3,237,588	2.06
Capital Goods	2,070,639	1.31
Consumer Durable Goods	1,880,598	1.19
Consumer Non-Durables and Services	27,260,740	17.31
Energy	2,447,913	1.55
Financial Services	9,853,239	6.26
Miscellaneous	26,124,456	16.59
Technology	8,497,877	5.39
Utilities	2,225,857	1.41
<i>Total Common Stock</i>	<u>83,598,907</u>	<u>53.07</u>
Alternative Investment:		
Real Estate	2,658,171	1.69
<i>Total Alternative Investment</i>	<u>2,658,171</u>	<u>1.69</u>
Short-Term Investment:		
Short-Term Investment Fund	14,921,119	9.47
<i>Total Short-Term Investment</i>	<u>14,921,119</u>	<u>9.47</u>
Receivables & Other:		
Pending Trade Purchases	(8,194,012)	-5.20
Pending Trade Sales	3,067,774	1.95
Accrued Income	762,801	0.48
<i>Total Receivables</i>	<u>(4,363,437)</u>	<u>-2.77</u>
<i>Sub-Total</i>	<u>156,850,035</u>	<u>99.58</u>
<i>Pooled Cash with City</i>	<u>669,031</u>	<u>0.42</u>
Total	<u><u>\$ 157,519,066</u></u>	<u><u>100.00 %</u></u>

