



INVESTMENT POLICY

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CITY OF PEORIA INVESTMENT POLICY

1.0 Policy

It is the policy of the City of Peoria to invest public funds in a manner which will provide the highest Investment return with the maximum security while meeting the daily cash flow demands of the City of Peoria and conforming to all state/province and local statutes governing the investment of public Funds.

The ultimate goal is to enhance the economic status of the City while protecting its funds.

The City's Cash Management System is designed to monitor and forecast expenditures and revenues accurately, thus enabling the City Finance Director or the City Treasurer to invest funds to the fullest extent possible. The City Finance Director or the City Treasurer shall attempt to obtain the highest yield, provided that all investments meet the criteria established for safety and liquidity.

The investment policies and practices of the City Finance Director or City Treasurer for the City of Peoria are based upon Federal, State, and Local law and prudent money management. The primary goals of these policies are:

1. To assure compliance with all Federal, State and Local laws governing the investment of monies under the control of the City Finance Director or City Treasurer,
2. To protect the principal monies entrusted to these Offices, and
3. To generate the maximum amount of investment income within the parameters of this Investment Policy and the guidelines for suitable investments.

All participants in the City's investment process shall act responsibly as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

2.0 Scope

This investment policy applies to all financial assets of the City of Peoria. These funds are accounted for in the City of Peoria's Comprehensive Annual Financial Report and include:

2.1 Funds

2.1.1 General Fund

2.1.2 Special Revenue Funds

2.1.3 Capital Project Funds

2.1.4 Trust and Agency Funds

2.1.5 Retirement/Pension Funds

2.1.6 Debt Service Funds

2.2 Funds Excluded From This Policy

Funds set aside to decrease City debt in conjunction with an advance refunding agreement will be invested in accordance with appropriate bond documents and not necessarily in compliance with this policy.

Should bond covenants be more restrictive than this policy, funds will be invested in full compliance with those restrictions.

Funds held by the County Treasurer during tax collection periods shall be governed by the County's investment policies to the extent that they do not conflict with this policy and should be invested by the County Treasurer for the benefit of the City of Peoria as stipulated by the City in accordance with 55 ILCS 5/3-11006.

2.2.1 Retirement/Pension Funds

The policy for the Illinois Municipal Retirement Fund (IMRF), the Peoria Police Pension Fund, and the Peoria Firemen's Pension Fund will be as determined by the appropriate Boards of Administration and not covered by this Policy.

All investments of the City of Peoria must be made in compliance with Federal and State law and in accordance with applicable legal interpretations. Investment of any tax exempt borrowing proceeds and of any debt service funds must comply with the 1986 Tax Reform Act if the act applies to the debt issued.

3.0 Prudence

Investments shall be made with judgment and care-under circumstances then prevailing-that 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.

3.1 The standard of prudence to be used by investment officials shall be the "prudent person" and/or "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the 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 appropriate action is taken to control adverse developments.

4.0 Objective

Funds of the City will be invested in accordance with the Code of Illinois, these policies, and written administrative procedures.

The primary objectives, in order of priority, of the City of Peoria investment activities are as follows:

4.1 Legality: The City of Peoria's investments will be in compliance with all statutes governing the investment of public funds.

4.2 Safety: Safety of principal is the foremost objective of the investment program. Investments of the City of Peoria shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the City of Peoria will diversify its investments by investing funds among a variety of securities offering independent returns and financial institutions.

4.3 Liquidity: The City of Peoria investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.

4.4 Return on Investment: The City of Peoria's investment portfolio shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, commensurate with the City of Peoria's investment risk constraints and the cash flow characteristics of the portfolio.

5.0 Delegation of Authority

The Finance Director or the Treasurer (or their designees) are the investment officers of the City. The Finance Director or the Treasurer shall establish written procedures for the operation of the investment program consistent with this investment policy and approved by the City Manager. The Finance Director or the Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

5.1 Investment Procedures (See Appendix B)

The Finance Director and/or the Treasurer shall establish written investment procedure manual for the operation of the investment program consistent with this policy. The procedures should include reference to: safekeeping, PSA repurchase agreements, wire transfer agreements banking service contracts, cash flow forecasting, and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director or the Treasurer.

6.0 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 of the investment program, or could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Finance Director or Treasurer any material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City.

7.0 Authorized Financial Dealers And Institutions

The investment officer will maintain a list of financial institutions authorized to provide investment services. The selection process for inclusion on this list will be detailed in the investment procedure manual.

In addition, a list also will be maintained of approved security **brokers/dealers**, selected by credit worthiness, who are authorized to provide investment services in the State of Illinois. These may include "primary" dealers or regional dealers that qualify under **Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule)**. No public deposit shall be made except in a qualified public depository as established by Illinois laws. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Finance Director and/or the Treasurer with the following: (e.g. audited financial statements, proof of National Association of Security Dealers certification, trading resolution, proof of state/province registration, completed broker/dealer questionnaire, certification of having read entity's investment policy and depository contracts.)

An annual review of the financial condition and registrations of qualified bidders will be conducted by the financial officers. A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the City of Peoria invests.

Employees of any firm or financial institution offering securities or investments to the City are expected to be trained in the precautions appropriate to public-sector investments and are expected to familiarize themselves with the City's investment objectives, policies, and constraints. These firms and financial institutions are expected to make reasonable efforts to preclude imprudent transactions involving the City's funds.

Each dealer shall acknowledge that they have read and will adhere to this investment policy.

8.0 Authorized & Suitable Investments

From the governing body perspective, special care must be taken to ensure that the list of instruments includes only those allowed by law and those that local investment managers are trained and competent to handle.

The City of Peoria is empowered to invest in certain types of securities as detailed in 30 ILCS 235/2. Among the authorized investments are:

1. Non-negotiable certificates of deposit and other collateralized evidence of deposits with qualified public depositories.
2. Obligations of the U.S. Government, its agencies and instrumentality's. However, this authorization shall specifically exclude Collateralized Mortgage Obligations (CMOs), Real Estate Mortgage Investment Conduits (REMICs), and other Principal Only (POs) and Interest Only (IOs) obligations that are secured with mortgages issued by any federal agency, instrumentality or private firm.
3. Prime bankers' acceptances purchased on the secondary market with ratings of A1/P1.
4. Bonds of the State of Illinois and any local government in the State of Illinois, which bonds have at the time of investment, one of the three highest credit ratings of a nationally recognized rating agency.
5. Any investments authorized by the Public Funds Investment Act. (30ILCS 235.0.01seq).

8.1 Master Repurchase Agreement

Repurchase agreements for securities listed above, provided the transaction is structured so that the City obtains control over the underlying securities and a Master Repurchase Agreement has been signed with the bank or dealer.

9.0 Investment Pools/Mutual Funds

A thorough investigation of the pool/fund is required prior to investing, and on a continual basis. There shall be a questionnaire developed which will answer the following general questions;

- A description of eligible investment securities, and a written statement of investment policy and objectives.
- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including the settlement processes), and how often are the securities priced and the program audited.
- A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
- A schedule for receiving statements and portfolio listings.
- Are reserves, retained earnings, etc., utilized by the pool/fund?
- A fee schedule, and when and how it is assessed.
- Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds.

10.0 Collateralization

Collateralization will be required on all deposits, certificates of deposits, investments and repurchase agreements. So as to anticipate market changes and provide an adequate level of security for all funds, the collateralization level will be 105% of market value of principal and accrued interest. Collateral is limited to U. S. Treasuries. As an alternative, insurance/surety bonds may be used as collateral to ensure certificates of deposit payments of principal and interest at the date of maturity. Insurance/surety bonds may also be used to ensure replacement on checking and money market accounts in case of a financial institution's default.

Collateral will always be held by an independent third party with whom the entity has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the entity and retained. The right of collateral substitution is granted. Each time collateral is changed it must be approved by the City.

11.0 Safekeeping and Custody

To protect against potential fraud, embezzlement, or losses caused by collapse of individual securities dealers, all investment securities purchased by the City, including collateral on repurchase agreements, shall be held by the City or in safekeeping by the City's custodian bank or a third party bank trust department, acting as agent for the City under the terms of a custody or trustee agreement executed by the bank and by the City. The primary agent shall issue a safekeeping receipt to the City listing the specific instrument, rate, maturity, and other pertinent information.

All securities transactions conducted by the custodian on behalf of the City are to be on a **delivery-versus-payment (DVP)** only basis. Securities will be held by a third party custodian designated by a financial officer and evidenced by safekeeping receipts.

Investment officials shall be bonded to protect the City against loss due to possible embezzlement and malfeasance.

12.0 Diversification

The City will diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools, no more than fifty percent 50% of the City's total investment portfolio will be invested in a single security type or with a single financial institution.

13.0 Maximum Maturities

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than three (3) years from the date of purchase. However, the City may collateralize its repurchase agreements using longer-dated investments not to exceed five (5) Years to maturity.

Reserve or Capital Improvement Project monies may be invested in securities not to exceed five (5) years. The maturity of such investments is made to coincide as nearly as possible with the expected use of the funds.

14.0 Internal Controls

Day-to-day procedures concerning investment management and accounting are outside the scope of this policy. The City is subject to annual independent review of its internal controls by an independent accounting firm. This review will provide assurance that policies and procedures are being complied with. Such review also may result in recommendations to change operating procedures to improve internal control. The controls shall be designed to prevent loss of public funds due to fraud, error, and misrepresentation by third parties, unanticipated market changes, or imprudent actions by employees or officers of the City. The specific internal controls maintained by the City are contained in normal operating procedures of the Treasury.

15.0 Performance Standards

The City's investment portfolio will be designed to obtain a market average rate of return throughout budgetary and economic cycles, commensurate the City's investment risk constraints and cash flow needs.

15.1 Market Yield (Benchmark): The City investment strategy is passive, but the investment officer stays in touch with market conditions weekly and is available to take advantage of market opportunities. Given this strategy, the basis used by the investment officer to determine whether market yields are being achieved shall be the current six-month U.S. Treasury Bill and/or the Average Fed Funds rate. Since these indices are relatively risk-free benchmarks, they comprise a minimum standard for the portfolio's rate of return. The investment program shall seek to augment returns above this threshold, consistent with prudent investment principles and the risk limitations identified herein.

16.0 Reporting

The investment officer shall provide the Peoria City Council and the City Manager quarterly investment reports which provide a clear picture of the status of the current investment portfolio. The report shall summarize the investment strategies employed in the most recent quarter, description of the portfolio in terms of investment securities, maturities, risk characteristics and other features. The report shall explain the quarter's total investment returns; compare the return with target rate of return projections and budgetary expectations.

17.0 Investment Policy Adoption

The City of Peoria's investment policy shall be adopted by resolution of the Peoria City Council. The policy shall be reviewed annually by the Peoria City Council and any modifications made thereto must be approved by the Peoria City Council.

In the event any state or federal legislation or regulation should further restrict instruments or institutions authorized by this policy, such restrictions shall be deemed to be immediately incorporated in this policy.

If new legislation or regulation should liberalize the permitted instruments or institutions, such changes shall be available and included in this policy only after written notification to the City Council and their subsequent approval of said changes.

This policy supersedes all prior investment policies.

18.0 GLOSSARY

See Appendix A

APPENDIX A

GLOSSARY

ACCRUED INTEREST: Interest earned but not yet paid on a security since the later of the security's issue date or last record date.

AGENCIES: Federal agency securities and/or Government-sponsored enterprises.

ASKED: The price at which securities are offered.

BANKERS' ACCEPTANCE (BA): A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BASIS POINT: A measurement of changes in prices or yields for fixed income securities. One basis point equals 1/100 of 1 percent.

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid) See Offer.

BOND: A long-term debt security, (IOU) issued by a government or corporation. Generally pays a stated rate of interest, and returns the face value at maturity.

BOOK-ENTRY TRANSFER: A method of transferring securities through computerized entries, which may eliminate the need for physical certificates.

BROKER: A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

COLLATERAL: Securities, evidence of deposit, or other property that a borrower pledges to secure

repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COMMERCIAL PAPER: Corporate promissory notes issued to provide short-term financing, sold at a discount and redeemed at face value. A principal component of money market funds portfolios, because of the high yield.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the City of Peoria. It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material and a detail Statistical Section.

CONFIRMATION: A document used to state and supplement in writing the terms of a transaction which have previously been agreed to verbally.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on a bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

CUSIP NUMBER (COMMITTEE ON UNIFORM SECURITIES IDENTIFICATION PROCEDURES): An identifying number assigned to a publicly traded security. A nine-digit code is permanently assigned to each issue and is generally printed on the face of the security if it is in physical form.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities; delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DEPOSITORY: An entity, which accepts securities for deposit. A depository facilitates delivery and transfer between dealers by making account entries reflecting ownership instead of physically moving securities.

DERIVATIVES: (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g. U.S. Treasury Bills.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

FACE VALUE: The par value of a security. Face value is not an indication of market value.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit of various classes of institutions and individuals, e.g., S&L's, small-business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to \$100,000 per deposit.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANDS (FHLB): Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide

correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA); FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan association, and other institutions. Faith and credit of the U.S. Government protect security holder. Ginnie Mae securities are backed by the FHA, VA, or FmHA mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

GOVERNMENT SECURITIES: Any debt obligation issued by the U.S. Government, its agencies or instrumentalities. Certain securities (such as Treasury Bonds and Ginnie Maes) are backed by the government as to both principal and interest payments. Other securities, (such as those issued by the Federal Home Loan Mortgage Corporation or Freddie Mac) are backed by the issuing agency.

INTEREST: Compensation paid or to be paid for the use of money. Interest is generally expressed as an annual percentage rate.

INTEREST RATE: The face coupon rate of a security.

ISSUE DATE: The date on which a security is issued or originated.

ISSUER: An entity, which issues and is obligated to pay amounts due on securities.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase – reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PAR: The face amount of a security.

PORTFOLIO: Collection of securities held by an investor.

PRICE: The dollar amount to be paid for a security expressed as a percentage of its current face value.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

PRINCIPAL: The face amount of a bond, exclusive of accrued interest and payment at security.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a

fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state – the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

RATINGS: Designations used by investor services to give relative indications of credit quality.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed date. The security “buyer” in effect lends the “seller” money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money, that is, increasing bank reserves.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank’s vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15C3-1: See Uniform Net Capital

Rule.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations that have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BONDS: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as direct Obligations of the U.S. Government and having initial maturities from two to 10 years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called *net capital rule* and *net capital ratio*. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one-reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD: The rate of annual income return on an investment, expressed as a percentage. **(a) INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security. **(b) NET YIELD or YIELD TO MATURITY** is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

APPENDIX B

INVESTMENT PROCEDURES

1. Introduction

The Finance Department is responsible for conducting cash and investment transactions for all funds (except Police & Fire Pension Funds and the Library Endowment Fund) held by or for the benefit of the City of Peoria. The responsibility for the administration of the investment program has been delegated to the Finance Director, who shall implement the following investment procedures and internal controls, as prescribed by the Investment Policy.

2. Purpose

The Procedures Manual provides an outline for cash and investment transactions. This manual shall be reviewed on a yearly basis for possible revisions by the Finance Director and the Treasurer to ensure that the manual is current with investment industry standards and practices.

3. Cash Review

1.0 Policy

2.0 Scope

5.0 Delegation of Authority

The Finance Director or his/her delegate (hereafter referred to as Investment Officer) shall review the cash balances and investment portfolio daily, or as needed. Items to be reviewed should include:

- 1) Balances, by fund if so deposited, at primary bank
- 2) Balances, by fund if so deposited, at other banks
- 3) Maturing Investments (includes Repo's, CD's, Commercial Paper, Bankers' Acceptances and general securities).
- 4) Bond sales and other large, periodic receipts.
- 5) Bond & coupon payments (debt service) and other large periodic cash disbursements.

Cash should remain sufficiently liquid at all times so as to meet expenditure

requirements and to minimize inter-fund borrowing. Maintain a minimum liquid balance of 1.5 times the average monthly expenditures.

4. Investment Selection

3.0 Prudence

4.0 Objective

8.0 Authorized & Suitable Investments

12.0 Diversification

13.0 Maximum Maturities

The Investment Officer determines how much of the cash balance is available for investment and selects the area of the yield curve that most closely matches the required maturity date. In determining the maturity date, the Investment Officer should consider liquidity, cash flow and expected expenditures. A review of some of the following sources should be made to determine whether the investments should be placed to match projected expenditures or shorter, or to take advantage of current and expected interest rate environments:

- 1) Wall Street Journal or similar daily business publication
- 2) Input from approved broker/dealers
- 3) Input from depository banks
- 4) Publications on general trends of economic statistics
- 5) Input from data services (Telerate, Bloomberg, Reuters, etc.)

Prior to selecting and initiating the investment transaction, the Investment Officer will perform the following procedures:

- 1) Document diversification limit of 25% of investment portfolio in any single type of security other than Treasuries.
- 2) Document at least 3 quotes for all transactions. When comparing return, security type and term must be identical.
- 3) Investments in banks and/or savings and loans must have secured collateral agreement if the total investments in that institution exceed the FDIC insurance limit.
- 4) The Finance Director/Comptroller or his/her designee must authorize investment.

5. Purchasing an Investment

7.0 Authorized Financial Dealers

8.0 Authorized & Suitable

9.0 Investment Pools

10.0 Collateralization

11.0 Safekeeping & Custody.

12.0 Diversification

13.0 Maximum Maturities

As stated in the City of Peoria's Investment Policy, the Investment Officer shall only purchase securities from financial institutions, which meet the following criteria:

- 1) Financial Institutions (Banks with FDIC insurance) must maintain asset ratio of 3.0 or better with minimum net assets of \$5,000,000, verified using the most recent quarterly results at time of purchase.

If choosing an external pool or fund as the preferred investment vehicle, the following should be available for inspection prior to purchase and at any reasonable time thereafter:

- a) A written investment policy, if a government-run investment pool.
- b) A prospectus for money-market funds, mutual funds or bank-managed funds.
- c) A schedule of the types of reports and the frequency of distribution.
- d) A clear description of how interest rates are calculated (30/360, actual/365, etc.)
- e) A schedule of when and how income is distributed.
- f) Are the pool or fund types of investments restricted to your own legal and policy limits?
- g) Are the pool or fund investments restricted to your own maturity limits?

The Investment Officer shall only purchase securities from broker/dealers that were selected based on credit worthiness that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule).

6. Settlement & Follow-through

5.0 Delegation of Authority

Before concluding the transaction, the Investment Officer should validate the following:

- a) The security selected for purchase meets all criteria, including portfolio diversification, collateralization (if appropriate) and maturity. If the security has any imbedded options such as call provisions or coupon adjustments, these should also be reviewed.
- b) Yield calculations should be verified.
- c) Total purchase cost (including accrued interest) does not exceed funds

available for investment.

- d) Advise the successful provider that their offering has been selected for purchase.
- e) After confirmation of the purchase, as a courtesy, notify the other broker/dealers that you have placed the investment. Best price may be disclosed, if you choose.

All financial institutions and broker/dealers must sign a release that they have reviewed and meet the requirements of the City of Peoria's Investment Policy. The Finance Department shall maintain a file of authorized dealers and institutions containing audits and signature releases.

7. Accounting, Reporting & Auditing

Duties and Responsibilities: The Investment Officer shall be responsible for the management of the investment program and the daily operational duties (i.e., purchases, sells and reports). The Finance Director/Comptroller shall approve selections, sign rate sheets and return forms to the Investment Officer. Investment Officer prepares journal entry to be entered and updated by accountants. The Finance Director/Comptroller receives settlement sheets confirming investment transactions. The Finance Director/Comptroller reviews all settlement sheets and forwards signed forms including journal entry to accountants for entry. The Finance Manager receives monthly statements and reconciles balances with accounting system entries.

Ethics and Conflict of Interest: For the protection of the investment staff, it is imperative that full disclosure be made by the investment personnel to the City Manager of any material interest which they may hold in a financial institution (brokers/dealers, banks, etc.) which conducts business with the City.

Separation of Duties: Investment staff shall observe proper segregation of duties while engaged in investment activities. Persons responsible for consummating investment transactions should not be engaged in activities relating to the recording of the transactions in the financial records or the reconciliation of cash and safekeeping account statements.

Reporting: A quarterly report shall be prepared and forwarded to the City Manager who in turn shall forward to the City Council. The report shall report investment outcome as outlined in the investment policy and shall be completed by the 30th of the month following the quarter's end.

Performance Measurement: The investment return will be benchmarked against the 6

month US Treasury Bill and the Federal Funds Rate as reported in the Wall Street Journal, Internet Web Site for Federal Reserve Rates or similar daily business publication.

APPENDIX C

STATE STATUTES

(30 ILCS 235/0.01) (from Ch. 85, par. 900)

Sec. 0.01. Short title. This Act may be cited as the Public Funds Investment Act.

(Source: P.A. 86-1324.)

(30 ILCS 235/1) (from Ch. 85, par. 901)

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) (from Ch. 85, par. 902)

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, of the State of Illinois, of any other state, or of any political subdivision or agency of the State of Illinois or of any other state, whether the interest earned thereon is taxable or tax-exempt under federal law. 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. 93-360, eff. 7-24-03.)

(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 235/2.10)

Sec. 2.10. Unit of local government; deposit at reduced rate of interest. The treasurer of a unit of local government may, in his or her discretion, deposit public moneys of that unit of local government in a financial institution pursuant to an agreement that provides for a reduced rate of interest, provided that the institution agrees to expend an amount of money equal to the amount of the reduction for senior centers.

(Source: P.A. 93-246, eff. 7-22-03.)

(30 ILCS 235/3) (from Ch. 85, par. 903)

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) (from Ch. 85, par. 904)

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) (from Ch. 85, par. 905)

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) (from Ch. 85, par. 906)

(Text of Section from P.A. 93-205)

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 Finance Authority 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; 93-205, eff. 1-1-04.)

(Text of Section from P.A. 93-561)

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 any of the following classes of securities, provided there has been no default in the payment of principal or interest thereon:

- (1) Bonds, notes, or other securities constituting direct and general obligations

of the United States, the bonds, notes, or other securities constituting the direct and general obligation of any agency or instrumentality of the United States, the interest and principal of which is unconditionally guaranteed by the United States, and bonds, notes, or other securities or evidence of indebtedness constituting the obligation of a U.S. agency or instrumentality.

(2) Direct and general obligation bonds of the State of Illinois or of any other state of the United States.

(3) Revenue bonds of this State or any authority, board, commission, or similar agency thereof.

(4) Direct and general obligation bonds of any city, town, county, school district, or other taxing body of any state, the debt service of which is payable from general ad valorem taxes.

(5) Revenue bonds of any city, town, county, or school district of the State of Illinois.

(6) Obligations issued, assumed, or guaranteed by the International Finance Corporation, the principal of which is not amortized during the life of the obligation, but no such obligation shall be accepted at more than 90% of its market value.

(7) Illinois Affordable Housing Program Trust Fund Bonds or Notes as defined in and issued pursuant to the Illinois Housing Development Act.

(8) 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: (i) securities, (ii) mortgages, (iii) letters of credit issued by a Federal Home Loan Bank, or (iv) loans covered by a State Guaranty under the Illinois Farm Development Act.

(9) Certificates of deposit or share certificates issued to the depository institution pledging them as security. The public agency may require security in the amount of 125% of the value of the public agency deposit. Such certificate of deposit or share certificate shall:

(i) be fully insured by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, or the National Credit Union Share Insurance Fund or issued by a depository institution which is rated within the 3 highest classifications established by at least one of the 2 standard rating services;

(ii) be issued by a financial institution having assets of \$15,000,000 or more; and

(iii) be issued by either a savings and loan association having a capital to asset ratio of at least 2%, by a bank having a capital to asset ratio of at least 6% or by a credit union having a capital to asset ratio of at least 4%.

The depository institution shall effect the assignment of the certificate of deposit or share certificate to the public agency and shall agree that, in the event the issuer of the certificate fails to maintain the capital to asset ratio required by this Section, such certificate of deposit or share certificate shall be replaced by additional suitable security.

(e) The public agency may accept a system established by the State Treasurer to aggregate permissible securities received as collateral from financial institutions in a collateral pool to secure public deposits of the institutions that have pledged securities to the pool.

(f) The public agency may at any time declare any particular security ineligible to qualify as collateral when, in the public agency's judgment, it is deemed desirable to do so.

(g) Notwithstanding any other provision of this Section, as security a public agency may, at its discretion, accept a bond, executed by a company authorized to transact the kinds of business described in clause (g) of Section 4 of the Illinois Insurance Code, in an amount not less than the amount of the deposits required by this Section to be secured, payable to the public agency for the benefit of the People of the unit of government, in a form that is acceptable to the public agency.

(h) Paragraphs (a), (b), (c), (d), (e), (f), and (g) 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. 1-1-0; 91-773, eff. 6-9-00; 93-561, eff. 1-1-04.)

(30 ILCS 235/6.5)

Sec. 6.5. Federally insured deposits at Illinois financial institutions.

(a) Notwithstanding any other provision of this Act or any other statute, whenever a public agency invests public funds in an interest-bearing savings account, interest-bearing certificate of deposit, or interest-bearing time deposit under Section 2 of this Act, the provisions of Section 6 of this Act and any other statutory requirements pertaining to the eligibility of a bank to receive or hold public deposits or to the pledging of collateral by a bank to secure public deposits do not apply to any bank receiving or holding all or part of the invested public funds if (i) the public agency initiates the investment at or through a bank located in Illinois and (ii) the invested public funds are at all time fully insured by an agency or instrumentality of the federal government.

(b) Nothing in this Section is intended to:

(1) prohibit a public agency from requiring the bank at or through which the investment of public funds is initiated to provide the public agency with the information otherwise required by subsections (a), (b), or (c) of Section 6 of this Act as a condition of investing the public funds at or through that bank; or

(2) permit a bank to receive or hold public deposits if that bank is prohibited from doing so by any rule, sanction, or order issued by a regulatory agency or by a court.

(c) For purposes of this Section, the term "bank" includes any person doing a banking business whether subject to the laws of this or any other jurisdiction.

(Source: P.A. 93-756, eff. 7-16-04.)

(30 ILCS 235/7) (from Ch. 85, par. 907)

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.)

(30 ILCS 235/8)

Sec. 8. Consideration of financial institution's commitment to its community.

(a) In addition to any other requirements of this Act, a public agency is authorized to consider the financial institution's record and current level of financial commitment to its local community when deciding whether to deposit public funds in that financial institution. The public agency may consider factors including, but not necessarily limited to:

(1) for financial institutions subject to the federal Community Reinvestment Act of 1977, the current and historical ratings that the financial institution has received, to the extent that those ratings are publicly available, under the federal Community Reinvestment Act of 1977;

(2) any changes in ownership, management, policies, or practices of the financial institution that may affect the level of the financial institution's commitment to its community;

(3) the financial impact that the withdrawal or denial of deposits of public funds might have on the financial institution;

(4) the financial impact to the public agency as a result of withdrawing public funds or refusing to deposit additional public funds in the financial institution; and

(5) any additional burden on the resources of the public agency that might result from ceasing to maintain deposits of public funds at the financial institution under consideration.

(b) Nothing in this Section shall be construed as authorizing the public agency to conduct an examination or investigation of a financial institution or to receive information that is not publicly available and the disclosure of which is otherwise prohibited by law.

(Source: P.A. 93-251, eff. 7-1-04.)

Revised 1/17/06

