



Banking Services

Request for Proposal Amendment #2

The following changes / clarifications / additions have been added to the Invitation to Bid project specifications and plans:

General Questions

- QUESTION:** What do you appreciate/value about your current banking relationships?
ANSWER: Dedicated service manager, location of local branch, range of service offerings.
- QUESTION:** What are some challenges in terms of your banking relationships?
ANSWER: Inability to count coin at branch location; required to utilize Mozilla Firefox browser.
- QUESTION:** How is the volume calculated for the Currency Processing listed on the Pricing Schedule?
ANSWER: This amount represents the average monthly cash deposit generated by the cashiers at city hall plus the average monthly cash deposit from the city's metered parking lots.
- QUESTION:** Can you confirm that the amount listed is the total dollar amount of currency deposited?
ANSWER: Yes, this is the dollar amount.
- QUESTION:** Are the deposits made at the branch by the City or do you have an Armored Car Service pick-up the currency deposits and deliver the currency to your current provider's vault?
ANSWER: Deposits made at the branch by city employee.
- QUESTION:** Is the balance listed on the Pricing Schedule the amount that remains in the concentration account at the end of the business day after excess funds are transferred to the sweep account?
ANSWER: This represents total funds at bank.
- QUESTION:** What is the average sweep balance?
ANSWER: The City's goal is to maintain a \$5,000,000 total bank balance.
- QUESTION:** Does the volume listed for Branch Deposits include currency deposits?
ANSWER: Yes.
- QUESTION:** Please provide the monthly volume of check deposits _____ vs. currency deposits _____
ANSWER: Average 2,688 check deposits and \$22,340 currency deposits (all denominations).

Section "II. Response Format", page 9

Regarding question #10 under d. Corporate Structure, page 11: "Please provide a copy of the following: i. Most recent Quarterly Call Report, ii. Current Community Reinvestment Act (CRA) Rating, and iii. List of current government clients in the State of Illinois."

10. **QUESTION:** Is it acceptable to the City if we provide either a link to the financial statements and quarterly call report, and/or include the information on the required electronic submission of a USB drive?

ANSWER: Include on the required electronic submission of a USB drive.

Regarding question #7 under f. Samples, page 12: "Contract for Deposit of Monies."

11. **QUESTION:** Please confirm if the City's inquiry is for Commercial Vault Services or the bank's Commercial Account Agreement.

ANSWER: Commercial Account Agreement.

Regarding question #11 under f. Samples, page 12: "Trading Authorization Forms."

12. **QUESTION:** Please explain what type of trades would be authorized.

ANSWER: The City may invest in any type of security authorized by Illinois Compiled Statutes (30ILCS 235/2 Public Funds Investment Act). Please refer to the City's investment policy for a detailed listing.

Section "I. Requirements", page 13

Regarding question #7 under e. General Account Services, page 14: "The bank must agree to maintain collateralization of deposits. The amount of collateral provided will not be less than one-hundred-two percent (102%) of the fair market value of the net amount of public funds secured. Collateral agreements will preclude the release of the pledged assets without an authorized signature from the CITY of WHEATON and they will allow for an exchange of collateral of like value. Monthly reports detailing the adequacy of collateral must be supplied by the bank within two (2) business days of the close of each month to Robert Lehnhardt, Director of Finance, via email rlehnhardt@wheaton.il.us."

13. **QUESTION:** The RFP requests that the collateral agreements preclude the release of pledged assets without authorized signatures from the City of Wheaton. Is this item negotiable assuming the city does not fall below the required 102% at any time?

ANSWER: This term is NOT negotiable.

14. **QUESTION:** The City is requesting monthly collateral reports supplied by the bank via email within two business days. Would the City accept free online access provided by the third party custodian? This access would give the City the ability to pull statements and generate on demand emailed reports.

ANSWER: Free online access provided by the third party custodian is acceptable as long as we can generate the necessary reports.

15. **QUESTION:** Would the City be willing to provide a copy of the City's Investment Policy and confirm which assets are approved to be pledged as collateral?

ANSWER: Yes.

Regarding question #9 under f. Depository Accounts, page 14: "Please provide all costs, including maintenance fees, associated with a direct debit program for utility payments."

16. **QUESTION:** What is the monthly average volume of payments?

ANSWER: 4,650

17. **QUESTION:** What is the average dollar amount of each payment?

ANSWER: \$65.79

18. **QUESTION:** How often are payments due – monthly, quarterly, etc.?

ANSWER: Monthly

Regarding question (h). Information Reporting, page 16:

19. **QUESTION:** How many users will have access to the information reporting system?

ANSWER: Four

Regarding question (i). Electronic Funds Transfer (EFT), page 16:

ACH Origination

20. **QUESTION:** Please explain future revenue collection systems and what the anticipated monthly volumes are.

ANSWER: The City is always looking for ways to provide customers efficient alternatives to make payments to the City for all types of transactions. Currently the City is using its financial software, Munis, to collect payments for utility bills. We may be looking to expand the types of payments customers can pay on-line, including parking tickets, general billing invoices and business licenses. The monthly volumes are unknown at this time.

21. **QUESTION:** Is the City's accounting software capable of creating a NACHA formatted file?

ANSWER: Yes

22. **QUESTION:** Are the credit card and insurance payments made via ACH direct debits originated from the credit card and insurance companies, or is the City initiating these payments via the ACH service through your current provider?

ANSWER: Originated by the credit card company (1) and insurance provider (2), including third party benefit (4/5) and claims administrators (4/5). Also, the US Postal Service (1) originates direct debits.

The City initiates direct debits for federal (4/5) and state (4/5) payroll taxes and child support (4/5) each payroll and pension (1) payments every month.

23. **QUESTION:** How many times per month are files sent to the bank for each of the accounts that are set up with ACH Origination?

ANSWER: ACH origination is only set up for the concentration account. Total 25 (4 payrolls per month) or 30 (5 payrolls per month)

- Concentration Account
- Payroll Account
- Disbursement Account

24. **QUESTION:** What is the account volume of ACH transactions originated based on the total volume listed of 5,290?

ANSWER:

- Concentration Account: Credits 835 Debits 4,455
- Payroll Account: Credits _____
- Disbursement Account: Debits _____

ACH Credits Received/ACH Debits Received – transactions not originated by the City

25. **QUESTION:** Is the city receiving a special report which includes addendum information or is the information provided via the Online Banking System?

ANSWER: Online Banking System

26. **QUESTION:** If a special report, is it a pdf formatted report or provided via a file transmission for upload?

ANSWER: N/A

Regarding question (j). Lockbox Services, page 17:

27. **QUESTION:** What is the average monthly volume of online bill pay checks received?

ANSWER: 3340

28. **QUESTION:** What is the average number of coupons received with each check payment?

ANSWER: One.

29. **QUESTION:** If a coupon is not included with the payment, do you have the ability to act on these items online which would allow you to provide the bank with the correct payment instructions?

ANSWER: Not currently.

Section "II. Optional Services", page 18

Regarding question (a). Merchant Services, page 18:

30. **QUESTION:** Does the city charge a convenience fee?

ANSWER: No

31. **QUESTION:** What types of payments will you be accepting for (Stickers, tickets, Utilities, etc...)

ANSWER: Utility bills, parking tickets, building permits, business licenses, transfer stamps. In general, the City will accept credit card payments for any type of fee or fine.

32. **QUESTION:** What is the average ticket size of a transaction?

ANSWER: \$117.55

33. **QUESTION:** What is the monthly number and dollar volume of transactions?

ANSWER: Monthly average = 1,944 payments - \$228,566

34. **QUESTION:** Do you process with a virtual terminal?

ANSWER: No.

35. **QUESTION:** How many stand-alone terminals does the city have?

ANSWER: Five

36. **QUESTION:** What is the percentage of transactions that are card present vs. card not present?

ANSWER: 25% - card present.

37. **QUESTION:** Do you require a mobile payment solution for events, activities, etc...?

ANSWER: No

38. **QUESTION:** Are you currently able to accept chip cards (EMV)?

ANSWER: No

39. **QUESTION:** How many merchant ID's will the city require?

ANSWER: Two

40. **QUESTION:** Does the city process transactions online? If so what is the payment gateway used?

ANSWER: Yes, Govolution – Velocity Payment System.

Regarding question (b). Positive Pay, page 19:

41. **QUESTION:** How often does the City issue checks for each account?

ANSWER:

- Payroll Every week
- Disbursement Every other week

42. **QUESTION:** Would the City require the Full Reconciliation Service or Positive Pay only?

ANSWER: Positive Pay only.

Regarding question (c). Custody Services, page 19:

43. **QUESTION:** Please provide the volume of transactions that would be held in the safekeeping account and what type of transactions these investments are. If you have a copy of the statement, that would be helpful.

ANSWER: The City's current investment holdings would approximate \$45,000,000. The City may invest in any type of security authorized by Illinois Compiled Statutes. (30ILCS 235/2 Public Funds InvestmentAct). Please refer to the City's investment policy for a detailed listing

Regarding question (d). Purchasing/Procurement Card, page 19:

44. **QUESTION:** Who is the current credit card provider for the City?

ANSWER: JPMorgan Chase

45. What is the time frame in which you would be looking to have the program rolled out and in place?

ANSWER: This is an optional service therefore there is no timetable.

46. **QUESTION:** What is the City's annual spend on the current card program and what is the anticipated growth?

ANSWER: Annual spend approximately \$1.25 million dollars

47. **QUESTION:** What is the expected growth in number of cards?

ANSWER: No growth

48. **QUESTION:** What is the financial system used by the City?

ANSWER: MUNIS

49. **QUESTION:** What are the primary fees your program incurs each month (e.g. finance charges, transaction fees, cardholder fees, reporting and other services, etc.)?

ANSWER: No fees.

50. **QUESTION:** Please briefly describe the strengths and weaknesses of your current program and card services provider.

ANSWER: On-line reporting and maintenance of cards is a strength.

51. **QUESTION:** Is the Company enrolled in a cash rebate program? If yes, please describe the rebate program qualifications. How many rebate basis points were earned off of last year's activity?

ANSWER: Yes. 1) City must meet \$250,000 minimum annual charge volume 2) settlement of any centrally billed account(s) must be by automatic debit or by client initiated ACH or wire or by check 3) payments must be received by bank in accordance with settlement terms 4) City must maintain a satisfactory bank credit risk rating 5) City is not in default under the agreement. Prior year rebate rate was 1.15%

52. **QUESTION:** Does your organization mandate the use of commercial cards for all business related expenses?

ANSWER: No.

53. **QUESTION:** Describe your expense management reporting process and the technologies utilized in this process.

ANSWER: Spending limitations on cards; monthly actual to budget reporting.

54. **QUESTION:** What reporting system is used to manage cardholder, supplier and overall card program activities?

ANSWER: Chase Smartdata

55. **QUESTION:** On an annual basis, how many invoices and dollars are associated with payments made to suppliers?

ANSWER: Prior 12 months there were 2,868 invoices \$1,251,364

56. **QUESTION:** What is the mix of supplier payments made over the course of a year (% of dollars sent via ACH vs. Card vs. Check)?

ANSWER: ACH/Wire 20%; Pcard 3%; Checks 77%

RFP Checklist

57. **QUESTION:** Please confirm all attachments that's should be submitted and in what order. There are variances from the attachments referenced in the checklist than from the attachments provided with the RFP.

ANSWER: See instructions on pages 8 – 10.

Response Format

58. **QUESTION:** Do you require the electronic submission to be on CD-ROM or UBS?

ANSWER: USB

Corporate Structure

59. **QUESTION:** Are items 8, 9 and 10 included in the 4-page limitation?

ANSWER: No

Lockbox Services

60. **QUESTION:** Do you anticipate any changes to the volume of paper checks received in the lockbox?

ANSWER: No

. Merchant Card Services

61. **QUESTION:** Please provide the annual dollar volume and number of transactions by card type (Visa, MC, Discover, AmEx) for each department/entity accepting credit card payments.

ANSWER: MC 5,990 - \$939,675; Visa 16,582 - \$1,741,989; Discover 747 - \$60,249

. Merchant Card Services

62. **QUESTION:** Please provide a copy of current monthly merchant statements.

ANSWER: February 2016 statement provided

63. **QUESTION:** Please provide a list of the terminal make, model and quantity that is used for each of the entity/department accepting card payments.

ANSWER: 5 terminals/IDTEC/ IDMB-335133B/REV M

64. **QUESTION:** Please provide a list of the software name and version number that is used for each of the entity/department accepting card payments.

ANSWER: Tyler Cashiering version 2.8.

65. **QUESTION:** Please provide the annual dollar volume and number of transactions by card type (Visa, MC, Discover, AmEx) for each department/entity accepting credit card payments.

ANSWER: Credit cards only accepted at City Hall and on-line. MC 5,990 - \$939,675; Visa 16,582 - \$1,741,989; Discover 747 - \$60,249

66. **QUESTION:** Please provide a copy of current monthly merchant statements.

ANSWER: February 2016 statement provided.

67. **QUESTION:** Please provide the name of the City's software to which integration is requested. Does integration occur today? If so, is there a middleware or gateway that connects the software to your processor or does the system connect directly?

ANSWER: Tyler MUNIS. Yes. System connects directly.

68. **QUESTION:** Please provide Attachment 2 in electronic format.

ANSWER: Attachment will be provided in electronic format.

69. **QUESTION:** How many online banking users will the City have?

ANSWER: Four

70. **QUESTION:** How often is payroll transmitted?

ANSWER: Refer to question 41.

71. **QUESTION:** What is the average dollar amount of a payroll file?

ANSWER: The city processes 3 separate payrolls. The main payroll averages \$390,000. The other two payrolls are paid during the same week and average \$55,000 and \$95,000.

72. **QUESTION:** How often is the resident utility payment ACH file transmitted?

ANSWER: Once per month.

73. **QUESTION:** What is the average dollar amount of the file?

ANSWER: \$300,000

74. **QUESTION:** Does the City Finance Department or Lockbox Department receive any payments without a corresponding coupon?

ANSWER: Yes

75. **QUESTION:** Does the City currently utilize any ACH Fraud prevention services?

ANSWER: No

76. **QUESTION:** How many merchant accounts does the City process through today?

ANSWER: Two

77. **QUESTION:** How are merchant transactions processed? (Through stand-alone credit card terminals, virtual terminals, POS software, websites, etc.?)

ANSWER: Stand-alone credit card terminals and website.

78. **QUESTION:** How many merchant terminals will you require?

ANSWER: Five

79. **QUESTION:** What gateway do you use (if processing through a website)?

ANSWER: Govolution – Velocity Payment System.

80. **QUESTION:** What is the current monthly or annual sales volume for the City as a whole?

ANSWER: MC 5,990 - \$939,675; Visa 16,582 - \$1,741,989; Discover 747 - \$60,249

81. **QUESTION:** Can you provide a breakdown per location (if multiple locations)?

ANSWER: City Hall is the only location which accepts credit card payments

82. **QUESTION:** What's the current monthly or annual transaction volume?

ANSWER: MC 5,990 - \$939,675; Visa 16,582 - \$1,741,989; Discover 747 - \$60,249

83. **QUESTION:** If possible, please provide merchant statements for review.

ANSWER: February 2016 statement provided

84. **QUESTION:** Is the City currently PCI compliant?

ANSWER: Yes

85. **QUESTION:** Does the City use a 3rd party vendor for PCI compliance or is this accomplished through its current merchant processor?

ANSWER: Current merchant processor.

86. **QUESTION:** What is the City's annual spend amount for the Procurement Card program?

ANSWER: \$1.25 million

87. **QUESTION:** What is the current rebate and terms?

ANSWER: . 1) City must meet \$250,000 minimum annual charge volume 2) settlement of any centrally billed account(s) must be by automatic debit or by client initiated ACH or wire or by check 3) payments must be received by bank in accordance with settlement terms 4) City must maintain a satisfactory bank credit risk rating 5) City is not in default under the agreement.

88. **QUESTION:** What online reporting/data integration needs does the City need for the procurement card program?

ANSWER: At a minimum would like ability to maintain cards (limits/issuance), review and print statements and review purchases.

Regarding Custody and Safekeeping:

89. **QUESTION:** What is the size of the portfolio?

ANSWER: \$45,000,000

90. **QUESTION:** What is the average number of monthly trades?

ANSWER: Unknown, investment program just beginning

91. **QUESTION:** What types of securities are in the portfolio?

ANSWER: The City may invest in any type of security authorized by Illinois Compiled Statutes (30ILCS 235/2 Public Funds InvestmentAct). Please refer to the City's investment policy for a detailed listing.

Merchant Services:

92. **QUESTION:** How many card present locations are in use/or are needed?

ANSWER: Five

93. **QUESTION:** What is the volume for each card present location?

ANSWER: City Hall Monthly: 544 payments - \$93,600

94. **QUESTION:** What services are being paid for with the card present locations?

ANSWER: Utility bills, parking tickets, building permits, business licenses, transfer stamps. In general, the City will accept credit card payments for any type of fee or fine.

95. **QUESTION:** What services are being paid for on the website?

ANSWER: Utility bills at this time. The City is looking to implement the ability to pay parking tickets, general billing invoices and business licenses in the near future.

96. **QUESTION:** What is the volume of processing on the website?

ANSWER: Monthly: 1,400 payments - \$135,000

Banking Services:

97. **QUESTION:** Currency Deposits - is the City making currency deposits via a branch or an armored car? What is the frequency of branch/vault deposits?

ANSWER: Currency deposits are made at the branch location every business day.

98. **QUESTION:** Check Deposits - Does the CITY receive check payments at City Hall? If so, does the CITY include these checks with the regular branch/vault deposits?

ANSWER: Yes, the city receives check payments at City Hall. These checks are deposited every business day at the branch location.

99. **QUESTION:** Purchasing Card - What is the CITY's annual purchasing card spend? Approximately how many cards does the CITY issue to employees? Is the CITY currently using any expense reporting tools?

ANSWER: \$1.25 million. Approximately 80 cards have been issued. Chase Smartdata.

100. **QUESTION:** Lockbox CD ROM - Could the CITY please explain the contents of the Lockbox CD Rom? Does this CD include check/coupon images only? Or does it contain additional data? Please also indicate how the CITY uses these CD ROMS so that the Bank can best represent our solution.

ANSWER: Check/coupon images only. Used in the case of posting errors or payment disputes.

101. **QUESTION:** Lockbox - What is the CITY's current daily lockbox processing deadline?

ANSWER: 2pm

102. **QUESTION:** Auto Investment Repo Agreement - The Pricing Document lists a volume of 3 for this service. Could the CITY please explain that particular volume and how it applies to the nightly sweep? The bank believes that the CITY has one nightly Repo Sweep account based on the written content of the RFP.

ANSWER: The concentration account will be swept nightly.

Attachments: Merchant Statement

City Investment Policy 09-19-2005

Attachment 2 – 2016 Request for Proposal Banking Services Pricing Schedule (available electronically)

Contacts for this proposal:

Joan M. Schouten CPIM CPPB; Procurement Officer; JSchouten@wheaton.il.us

GOVOLUTION
100 THROCKMORTON ST STE 1800
FORT WORTH TX 76102-2802

Page 1 of 5

Month Ending 01/31/16

MERCHANT NUMBER 6280200004244661
DDA/SAV/GL NR 5XXXXXX284

CUSTOMER SERVICE
TEL #: 888-453-4538

MERCHANT STATEMENT
SUMMARY OF BANKCARD DEPOSITS

!ATTENTION!

FOR INQUIRIES REGARDING CUSTOMER SERVICE, TERMINAL ASSISTANCE, BILLING
QUESTIONS OR SUPPLIES, PLEASE CONTACT THE CUSTOMER SERVICE PHONE NUMBER
LISTED ABOVE.

RECONCILE YOUR MERCHANT STATEMENT TO YOUR CHECKING ACCOUNT MONTHLY!!
GOVOLUTION MUST BE NOTIFIED OF ANY ITEMS THAT WERE NOT PROCESSED WITHIN
NINETY DAYS OF THE TRANSACTION DATE. WE MUST ALSO BE NOTIFIED IN WRITING
WITHIN NINETY DAYS OF ANY INCORRECT CHARGES TO YOUR ACCOUNT IN ORDER TO HAVE
THOSE CHARGES CONSIDERED FOR A REFUND.

COMPLIANCE WITH THE PAYMENT CARD INDUSTRY DATA SECURITY STANDARDS (PCI-DSS)
IS MANDATED BY THE ASSOCIATIONS FOR ALL MERCHANTS WHO PROCESS CREDIT CARDS.
IF A MERCHANT FAILS TO MAINTAIN ANNUAL COMPLIANCE AND EXPERIENCES A
COMPROMISE OF CARDHOLDER DATA, THE MERCHANT MAY BE SUBJECT TO FINES AND
ENHANCED COMPLIANCE LEVELS. VISIT THE VISA, MASTERCARD, DISCOVER, AND
AMERICAN EXPRESS CONSUMER WEBSITES FOR ADDITIONAL INFORMATION. IN THE EVENT
THAT YOU SUSPECT A COMPROMISE OF CARDHOLDER DATA, YOU MUST NOTIFY THE
COMPLIANCE DEPARTMENT AT 817-317-9100 IMMEDIATELY.

OUR RISK MANAGEMENT DEPARTMENT STRONGLY ADVISES MERCHANTS TO USE CAUTION WHEN
ACCEPTING UNSOLICITED TELEPHONE AND INTERNET ORDERS. A DEFRAUDER WILL CONTACT
MERCHANTS VIA EMAIL USING GENERIC G-MAIL, HOT MAIL, OR YAHOO EMAIL ADDRESSES.
THE DEFRAUDER EXECUTES THE SCHEME BY PROVIDING UNSUSPECTING MERCHANTS WITH
MULTIPLE COMPROMISED CREDIT CARD NUMBERS. MOST SALES ARE VERY LARGE AND ARE
NOT TYPICAL FOR YOUR NORMAL COURSE OF BUSINESS. IT IS COMMONLY REQUESTED THAT
THE PRODUCT BE SHIPPED OUT OF THE COUNTRY BY THE MOST EXPEDITIOUS MEANS
POSSIBLE. BEWARE OF CUSTOMERS WHO REQUEST MONEY WIRES FOR SHIPPING COSTS OR
INSURING THE PRODUCT TO BE SHIPPED.

DO NOT ALLOW ANYONE TO UPDATE OR REPROGRAM YOUR CREDIT CARD TERMINAL UNLESS

GOVOLUTION
100 THROCKMORTON ST STE 1800
FORT WORTH TX 76102-2802
6950 0010 ZO RP 01 01312016 NNNNNN 01 002037 0011

Month Ending 01/31/16

MERCHANT NUMBER 6280200004244661

DDA/SAV/GL NR 5XXXXXX284

CITY OF WHEATON
PO BOX 727
WHEATON, IL 60187-0727



CITY OF WHEATON FINANCE
303 W WESLEY ST
WHEATON, IL 60187

 YOU HAVE INITIATED A CHANGE TO YOUR ACCOUNT, SUCH AS A NAME OR ADDRESS
 CHANGE. PROTECT YOUR PERSONAL AND BUSINESS INFORMATION. IF YOU ARE EVER IN
 DOUBT, PLEASE CONTACT THE CUSTOMER SERVICE PHONE NUMBER LISTED ABOVE.

 TOTAL CHARGE TO YOUR ACCOUNT IS 3,726.28

SUMMARY OF CARD DEPOSITS

CARD TYPE		SALES		RETURNS		NET
MASTERCARD	516	62,204.67		0	0.00	62,204.67
VISA	1396	137,005.58		0	0.00	137,005.58
TOTAL	1912	199,210.25		0	0.00	199,210.25

SUMMARY OF INTERCHANGE FEES

INTERCHANGE	RATE	ITEM	COUNT	VOLUME	FEE
MASTERCARD					
REG	0.0005	0.22	221	18,288.20	57.80
DR2 LVL3 WE	0.0221	0.10	3	413.29	9.44
PUB SEC	0.0155	0.10	21	1,196.28	20.64
PUB SEC ENH	0.0155	0.10	35	2,093.75	35.93
PUB SEC HIVAL	0.0155	0.10	6	462.19	7.77
DR2 LVL4	0.0231	0.10	4	5,267.48	122.08
EMRG MKT DB	0.0065	0.15	26	1,936.32	16.49
EMRG MKT PPD	0.0065	0.15	7	393.63	3.63
PUB SEC WRLD	0.0155	0.10	76	6,268.74	104.73
PUB SEC WE	0.0155	0.10	80	14,792.67	237.24
DR2 LG MKT	0.0250	0.10	17	8,853.61	223.03
DR2 LVL2 WRLD	0.0216	0.10	8	1,023.58	22.90
DR2 LVL1 BUS	0.0200	0.10	8	859.61	17.98
DR2 BUS DB/PPD	0.0220	0.10	4	355.32	8.21
VISA					
BUS TR4 CNP	0.0270	0.20	8	1,242.59	35.15
BUS TR4 RTL	0.0250	0.10	2	887.50	22.39
BUS REG	0.0005	0.22	28	2,868.65	7.60
REG	0.0005	0.22	580	44,774.77	150.09
REG PPD	0.0005	0.22	5	521.02	1.36
RTL2	0.0143	0.05	484	37,918.09	566.68
RTL2 DB	0.0065	0.15	86	6,429.18	54.73
RTL2 PPD	0.0065	0.15	11	724.25	6.38
BUS T1 CNP	0.0225	0.10	9	1,875.01	43.10
BUS T1 RTL	0.0220	0.10	1	300.00	6.70
BUS TR2 CNP	0.0245	0.15	12	2,159.99	54.73
SIG PREF CNP	0.0240	0.10	127	17,594.56	435.04
RTL DB	0.0080	0.15	3	258.44	2.51
RTL PPD	0.0115	0.15	1	59.01	0.83
BUS T2 RTL	0.0230	0.10	3	1,067.50	24.86
SIG PREF RTL	0.0210	0.10	5	926.62	19.96
PUR CNP	0.0265	0.10	6	10,841.69	287.91
PUR	0.0250	0.10	1	3,600.00	90.10
BUS CNP DB	0.0245	0.10	3	363.95	9.22
BUS DB	0.0170	0.10	1	41.99	0.81
BUS T3 CNP	0.0260	0.20	11	1,773.63	48.31
BUS T3 RTL	0.0240	0.10	2	699.14	16.98
SML TK REG	0.0005	0.22	7	78.00	1.58
TOTAL INTERCHANGE					2,774.89

SUMMARY OF CARD FEES

MASTERCARD				
DISCOUNT				
AUTH & AVS				
DF&A FOR MC VOL	62,204.67		88.64	
DGT ENBL MC VOL	57,797.13	.000100	5.78	
DF&A >1K MC VOL	20,855.78		2.09	
PROC FEE FOR MC	62,204.67	.002000	124.41	
BRND USG FEE MC	533		10.39	
INTERCHANGE			887.87	
TOTAL				1,119.18
VISA				
DISCOUNT				
AUTH & AVS				
DF&A VS DB VOL	56,119.26		74.36	
DF&A VS CR VOL	80,886.32		123.35	
PROC FEE FOR VS	137,005.58	.002000	274.01	
AUTH PRC CR VS	687		13.40	
AUTH PRC DB VS	750		11.63	
INTERCHANGE			1,887.02	
TOTAL				2,383.77
OTHER				
AUTH & AVS				
IP FOR VS TRAN	1,437	AT .1000	143.70	
IP FOR MC TRAN	533	AT .1000	53.30	
TOTAL				197.00
TOTAL CARD FEES				3,699.95

SUMMARY OF MISCELLANEOUS FEES

TOTAL CARD FEES				3,699.95
BTCH HDR CREDIT				13.00
NTWK FEE FOR VS				4.90
NTWK FEE FOR MC				3.23
NETWORK INQ FEE				5.20
TOTAL CHARGES				3,726.28

SUMMARY OF MONETARY BATCHES
BATCHES

GROSS	R&C	NET	DATE	REF
6,864.28	0.00	6,864.28	01/01	10100590700
1,777.57	0.00	1,777.57	01/01	10100590800
3,400.52	0.00	3,400.52	01/02	10200288900
4,013.39	0.00	4,013.39	01/03	10300349600
3,128.85	0.00	3,128.85	01/04	10400268100
6,496.97	0.00	6,496.97	01/05	10500642400
13,274.38	0.00	13,274.38	01/05	10500642500
1,940.01	0.00	1,940.01	01/06	10600628100
8,786.44	0.00	8,786.44	01/06	10600628200
1,877.62	0.00	1,877.62	01/07	10700612200
7,233.42	0.00	7,233.42	01/07	10700612300
2,341.03	0.00	2,341.03	01/08	10800609800
3,482.47	0.00	3,482.47	01/08	10800609900
4,074.63	0.00	4,074.63	01/09	10900614600
3,511.91	0.00	3,511.91	01/09	10900614700
4,562.53	0.00	4,562.53	01/10	11000362400
1,530.93	0.00	1,530.93	01/11	11100254000
1,962.77	0.00	1,962.77	01/12	11200606000
4,078.50	0.00	4,078.50	01/12	11200606100
2,270.00	0.00	2,270.00	01/13	11300600300
1,029.89	0.00	1,029.89	01/13	11300600400
725.02	0.00	725.02	01/14	11400595400
1,165.16	0.00	1,165.16	01/14	11400595500
2,264.69	0.00	2,264.69	01/15	11500634600
4,647.80	0.00	4,647.80	01/15	11500634700
3,433.10	0.00	3,433.10	01/16	11600637500

Month Ending 01/31/16

GROSS	R&C	NET	DATE	REF
6,964.91	0.00	6,964.91	01/16	11600637600
2,661.61	0.00	2,661.61	01/17	11700364800
2,159.26	0.00	2,159.26	01/18	11800250000
880.32	0.00	880.32	01/19	11900461400
2,216.30	0.00	2,216.30	01/19	11900461500
840.99	0.00	840.99	01/20	12000613800
13,468.57	0.00	13,468.57	01/20	12000613900
716.38	0.00	716.38	01/21	12100603900
1,614.24	0.00	1,614.24	01/21	12100604000
1,249.33	0.00	1,249.33	01/22	12200589000
4,208.00	0.00	4,208.00	01/22	12200589100
1,866.16	0.00	1,866.16	01/23	12300575200
3,163.63	0.00	3,163.63	01/23	12300575300
3,082.30	0.00	3,082.30	01/24	12400290000
2,511.18	0.00	2,511.18	01/25	12500235700
10,033.27	0.00	10,033.27	01/26	12600587000
6,822.56	0.00	6,822.56	01/26	12600587100
2,760.50	0.00	2,760.50	01/27	12700605300
4,734.25	0.00	4,734.25	01/27	12700605400
3,514.76	0.00	3,514.76	01/28	12800604500
3,092.37	0.00	3,092.37	01/28	12800604600
2,739.50	0.00	2,739.50	01/29	12900604900
4,029.45	0.00	4,029.45	01/29	12900605000
4,147.77	0.00	4,147.77	01/30	13000631400
6,344.11	0.00	6,344.11	01/30	13000631500
3,514.65	0.00	3,514.65	01/31	13100353400

SUMMARY OF DAILY DEPOSITS
SETTLED CARD TYPES

DATE	SALES CHRGBK/ADJ		RETURNS EXCL ADJ		DAILY DISCOUNT DAILY TOTAL
	COUNT	AMOUNT	COUNT	AMOUNT	
01/01	47	8,641.85	0	0.00	8,641.85
01/02	47	3,400.52	0	0.00	3,400.52
01/03	47	4,013.39	0	0.00	4,013.39
01/04	47	3,128.85	0	0.00	3,128.85
01/05	152	19,771.35	0	0.00	19,771.35
01/06	81	10,726.45	0	0.00	10,726.45
01/07	82	9,111.04	0	0.00	9,111.04
01/08	72	5,823.50	0	0.00	5,823.50
01/09	96	7,586.54	0	0.00	7,586.54
01/10	51	4,562.53	0	0.00	4,562.53
01/11	25	1,530.93	0	0.00	1,530.93
01/12	53	6,041.27	0	0.00	6,041.27
01/13	39	3,299.89	0	0.00	3,299.89
01/14	23	1,890.18	0	0.00	1,890.18
01/15	68	6,912.49	0	0.00	6,912.49

DATE	SALES		RETURNS		DAILY DISCOUNT DAILY TOTAL
	COUNT	CHRG BK/ADJ	AMOUNT	EXCL ADJ	
01/16	125		10,398.01	0	0.00
01/17	38		2,661.61	0	0.00
01/18	34		2,159.26	0	0.00
01/19	40		3,096.62	0	0.00
01/20	49		14,309.56	0	0.00
01/21	36		2,330.62	0	0.00
01/22	65		5,457.33	0	0.00
01/23	69		5,029.79	0	0.00
01/24	50		3,082.30	0	0.00
01/25	37		2,511.18	0	0.00
01/26	62		16,855.83	0	0.00
01/27	69		7,494.75	0	0.00
01/28	71		6,607.13	0	0.00
01/29	79		6,768.95	0	0.00
01/30	111		10,491.88	0	0.00
01/31	47		3,514.65	0	0.00





City of Wheaton

Wheaton, Illinois

Investment Policy

September 19, 2005

CITY OF WHEATON, ILLINOIS

INVESTMENT POLICY

1.0 **Policy:**

It is the policy of the City of Wheaton, Illinois (the "City") to prudently 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 and conforming to all state statutes governing the investment of public funds.

2.0 **Scope:**

This investment policy applies to all financial assets of the City as well as the assets of the Wheaton Public Library. The financial assets of the Police and Firefighter's Pension Funds are subject to the orders of their respective Boards of Trustees. The following funds are accounted for in the City'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 Debt Service Fund
- 2.1.5 Enterprise Funds
- 2.1.6 Trust and Agency Funds
- 2.1.7 (Any new fund created by the City Council, unless specifically exempt.)

2.2 **Blended Component Units**

- 2.2.1 Wheaton Public Library

3.0 **Prudence:**

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.

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:**

The primary objective, in priority order of the City's investment activities shall be:

4.1 **Safety:**

Safety of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to insure the preservation of capital in the overall portfolio.

A. **Credit Risk:**

Credit Risk is the risk of loss due to the failure of the security issuer or backer. Credit risk may be mitigated by:

- Limiting investments to the safest types of securities,
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business, and
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

B. Interest Rate Risk:

Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. Interest rate risk may be mitigated 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, and
- By investing operating funds primarily in shorter-term securities.

4.2 Liquidity:

The investment portfolio will 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. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary markets.

4.3 Return on Investments:

Return on investment is of tertiary concern when compared to the safety and liquidity objectives described above. The investment portfolio shall be designed with the objective of attaining a market rate of return throughout economic cycles, taking into account the investment risk constraints and liquidity needs. Investments are limited to very low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

- 1) a declining credit security could be sold early to minimize loss of principal;
- 2) a security swap would improve the quality yield, or target duration in the portfolio; or
- 3) liquidity needs of the portfolio require that the security be sold.

5.0 Delegation of Authority:

Authority to manage the City's investment program is derived from the following:

The establishment of investment policies is the responsibility of the City Council. Management and administrative responsibility for the investment program is hereby delegated to the Director of Finance who, under the direction of the City Manager, shall establish written procedures 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, collateral/depository agreements and banking service contracts. 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 Director of Finance. The Director of Finance shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. The Director of Finance may from time to time amend the written procedures in a manner not inconsistent with this policy or with state statutes.

6.0 Ethics and Conflicts of Interest:

Individuals 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. Individuals involved in the investment process shall disclose any interests in financial institutions with which they conduct business. In addition, such individuals shall disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Individuals involved in the investment process shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

7.0 Authorized Financial Dealers and Institutions:

The Director of Finance will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net

capital rule). No public deposit shall be made except in a qualified public depository as established by state statutes.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Director of Finance with the following:

- audited financial statements
- proof of National Association of Security Dealers (NASD) certification
- proof of state registration, and
- certification of having read the City's investment policy, (Attachment #1).

An annual review of the financial condition and registration of qualified bidders will be conducted by the Director of Finance.

A current audited financial statement must be on file for each financial institution and broker/dealer through which the City invests.

8.0 Authorized and Suitable Investments:

The City may invest in any type of security authorized by Illinois Compiled Statutes (30ILCS 235/2 Public Funds Investment Act). Approved investments include:

- Bonds, notes, certificates of indebtedness, treasury bills, treasury strips or other securities, including obligations of the Governmental National Mortgage Association (GNMA), which are guaranteed by the full faith and credit of the government of the United States of America, or other similar obligations of the United States of America or its agencies.
- Interest bearing savings accounts, interest bearing certificates of deposit or interest bearing time deposits or any other investment

constituting direct obligations of any institution as defined by the Illinois Banking Act and is insured by the Federal Deposit Insurance Corporation.

- Short-term obligations of corporations (banker's acceptances and commercial paper) organized in the United States with assets exceeding \$500 million and rated at the time of purchase at the highest classification established by at least two standard rating services. Such investments must mature within 180 days from the date of purchase, and may not exceed 10% of the corporation's outstanding obligations. No more than a combined 25% of the City's funds may be invested in banker's acceptances or commercial paper.
- Money market mutual funds registered under the Investment Company Act of 1940 provided the portfolio of the money market mutual fund is limited to investments described within this section.
- 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 agency of the State of Illinois or any other state. 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.
- Short-term discount obligations of the Federal National Mortgage Association (FNMA) or in shares of other forms of securities legally by 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 and loan associations of which the shares, or investment certificates are insured by the Federal Deposit Insurance Corporation (FDIC).

- Public Treasurer's Investment Pool created under Section 17 of the State Treasurer Act. Funds managed, operated and administered by a bank or subsidiary of a bank.

9.0 Investment Pools/Mutual Funds

A thorough investigation of the pool/fund is required prior to investing as well as on a continual basis. The following general questions must be answered as part of the investigation of investment pools/mutual funds:

- 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 the securities are 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 is it assessed.
- Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds.

10.0 **Collateralization:**

It is the policy of the City and in accordance with the GFOA's Recommended Practices on the Collateralization of Public Deposits, Attachment #2, that the City requires that funds on deposit in excess of FDIC limits be secured by some form of collateral. The City will accept any of the following assets as collateral:

- Government Securities
- Obligations of Federal Agencies
- Obligations of Federal Instrumentalities
- Obligations of the State of Illinois

The City reserves the right to accept/reject any form of the above named securities. The City also requests that all depositories that hold City deposits in excess of the FDIC limit agree to utilize the City's Collateralization Agreement, Attachment #2.

The amount of collateral provided will not be less than 105% of the fair market value of the net amount of public funds secured. The ratio of fair market value of collateral to the amount of funds secured will be reviewed monthly, and additional collateral will be required when the ratio declines below the level required and collateral will be released if the fair market value exceeds the required level. Pledged collateral will be held in safekeeping, by an independent third party depository, or the Federal Reserve Bank of Chicago, designated by the City and evidenced by a safekeeping agreement. Collateral agreements will preclude the release of the pledged assets without an authorized signature from the City. The City realizes that there is a cost factor involved with collateralization and the City will pay any reasonable and customary fees related to collateralization.

11.0 **Safekeeping and Custody:**

All security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery-verses-payment (DVP) basis. Securities will be held by a third party custodian designated by the Director of Finance and evidenced by safekeeping receipts.

12.0 **Diversification:**

The City will diversify its investments by security type, institution and maturities. With the exception of US Treasury securities and authorized pools no more than 25% of the City's total investment portfolio will be invested in a single security type or with a single financial institution.

Commercial paper shall not exceed 25% of the City's investment portfolio and brokered certificates of deposit shall not exceed 25% of the City's investment portfolio.

13.0 **Maximum Maturities:**

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Investment securities selected should have the highest yield available at the time of purchase unless matched with a specific expenditure or cash flow need.

Reserve funds may be invested in securities exceeding five years if the maturity of such investments are made to coincide as nearly as practicable with the expected use of the funds. The intent to invest in securities with longer maturities shall be disclosed in writing explaining the reason for the purchase to the City Manager.

Investments will also adhere to the City of Wheaton "Cash Management Program" restrictions on maturities, Attachment #4.

14.0 **Internal Controls:**

The Director of Finance is responsible for establishing and maintaining an internal control structure designed to insure that the assets of the City are protected from loss, theft or misuse. 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 the control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits require estimates and judgments by management.

Accordingly, the Director of Finance shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and record keeping
- Custodial safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of telephone transactions for investments and wire transfers
- Development of a procedure for making wire transfers

Attachment #5, Internal Controls.

15.0 **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. Portfolio performance should

be compared to appropriate benchmarks on a regular basis.

15.1 **Market Yield (Benchmark):**

The City's investment strategy is passive.

Given this strategy, the basis is used by the Director of Finance to determine whether market yields are being achieved shall be comparisons to a respective benchmark for specific durations of the portfolio. The portfolio's total return will be compared to a composite index which reflects the existing breakdown of the Portfolio's assets. Indexes used for the segment allocations will be; the 3 Month Treasury Bill Index (0 – 0.5 year segment); the Lehman 1-3 Year Government Index (0.5 – 3.0 year segment); the Lehman Intermediate Agency Index (the 3.0 – 5.0 year segment), the Lehman agency Index (the 5.0 – 10.0 year segment); and the Lehman Long Agency Index (the 10+ year segment)

16.0 **Reporting:**

The Director of Finance shall prepare an investment report quarterly, including a succinct management summary that provides a clear picture of the status of the current investment portfolio. 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 City Manager. The report may include the following:

- Comments on the fixed income markets and economic conditions.
- A listing of individual securities held at the end of the reporting period

- Average weighted yield to maturity of portfolio on City investments as compared to applicable benchmarks
- Listing of investments by maturity date
- The percentage of the total portfolio which each type of investment represents
- The percentage of the total portfolio which each institution is holding
- The percentage of the total portfolio broken down by defined maturity periods
- Principal and type of investment by fund
- Review of current and future investment strategy

16.1 Marketing to Market:

A statement of the market value of the portfolio shall be issued at least quarterly. This will ensure that the minimal amount of review has been performed on the investment portfolio in terms of value and subsequent price volatility. Review should be consistent with the GFOA Recommended Practice on Mark-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools (Attachment 6).

17.0 Investment Policy Adoption:

The City of Wheaton's investment policy shall be adopted by resolution of the City. This policy shall be reviewed on an annual basis by the Director of Finance and any modifications made thereto must be approved by the City Council.

GLOSSARY

AGENCIES: Informal name that refers to securities issued by the United States government and U.S. government sponsored agencies.

ASKED: The trading price proposed by the prospective seller of securities. Also called the offer or offered price.

BANKERS' ACCEPTANCE (BA): A short-term financial instrument that is the unconditional obligation of the accepting bank.

BASIS POINT (BP): The unit of measurement for interest rates or yields that are expressed in percentages. (One hundred basis points equal 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 trading price acceptable to a prospective buyer of securities.

BOND EQUIVALENT YIELD (BEY): An annual yield, expressed as a percentage, describing the return provided to bond holders. The BEY is a way to compare yields available from discount securities such as Treasury bills and BAs with yields available from coupon securities.

BROKER: A party who brings buyers and sellers together. Brokers do not take ownership of the property being traded. They are compensated by commissions. They are not the same as dealers; however, the same individuals and firms that act as

brokers in some transactions may act as dealers in other transactions.

CERTIFICATE OF DEPOSIT (CD): A deposit of funds, in a bank or savings and loan association, for a specific term that earns interest at a specified rate or rate formula.

CDs may be secured or unsecured, may be in negotiable or nonnegotiable form and may be issued in either physical or book entry form.

COLLATERAL: Securities, evidence of deposit or other property which 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 (CP): Unsecured, short-term promissory notes issued by corporations for specific amounts and with specific maturity dates.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the City of Wheaton. It includes five combined statements and basic financial 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 detailed Statistical Section

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

DEALER: A firm or individual who buys and sells for their own account. Dealers have ownership between a purchase from one party and a sale to another party. Dealers are compensated by the spread between the price they pay and the price they receive.

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

DELIVERY VERSUS PAYMENT (DVP): The simultaneous exchange of securities and cash. The safest method of settling either the purchase or sale of a security. In a DVP settlement, the funds are wired from the buyer's account and the security is delivered from the seller's account in simultaneous independent wires.

DISCOUNT: The amount by which the price for a security is less than its par.

DISCOUNT SECURITIES: Securities that do not pay periodic interest. Investors earn the difference between the discount issue price and the full face value paid at maturity. Treasury bills, banker's acceptances and zero coupon bonds are discount securities.

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

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

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

FEDERAL FUNDS RATE: The rate for which overnight federal funds are traded.

FEDERAL HOME LOAN BANKS (FHLB): The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-à-vis member commercial banks.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA of FANNIE MAE): FNMA is a federal corporation working under the auspices of the Department of Housing & 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 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 rotation 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): GNMA, like FNMA, was chartered under the Federal National Mortgage Association Act of 1938. Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by FHA, VA or FMHM mortgages. The term *passthroughs* is often used to describe Ginnie Maes.

INTERNAL CONTROLS: Internal controls must be designed to ensure that the assets of the City are protected from loss, theft or misuse. The internal control structure should be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management. Internal controls should address the following points:

1. Control of Collusion - Collusion is a situation where two or more employees are working in conjunction to defraud their employer.

2. Separation of transaction authority from accounting and record keeping - By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.

3. Custodial Safekeeping - Securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.

4. Avoidance of Physical Delivery Securities - Book-entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.

5. Clear delegation of authority to subordinate staff members - Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.

6. Written confirmation or telephone transactions for investments and wire transactions - Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and if the safekeeping institution has a list of authorized signatures.

7. Development of a wire transfer agreement with the lead bank or third party custodian - The designated official should ensure that an agreement will be entered into and will address the following points: controls; security provisions, and responsibilities of each party making and receiving wire transfers.

LIQUIDITY: A liquid asset is one that can be readily converted to cash through sale in an active secondary market.

LOCAL GOVERNMENT

INVESTMENT POOL (LGIP): Pools through which governmental entities may invest short term cash. Examples of LGIP's are the Illinois Funds, administered by the Illinois State Treasurer and the Illinois Metropolitan Investment Fund.

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

MARK TO MARKET: The process of restating the carrying value of an asset or liability to equal its current market value.

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 of the seller-borrower.

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

MONEY MARKET: The aggregation of buyers and sellers actively trading money market instruments.

OFFER OR OFFERED PRICE: The trading price proposed by the prospective seller of securities (also called the asked or asking price).

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.

PORTFOLIO: Collection of financial assets belonging to a single owner.

PREMIUM: The amount by which the price for a security is greater than its par amount.

PRIMARY DEALER: A group of government securities dealers that 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 unrelated 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 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 as 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 or the current income return.

REINVESTMENT RISK: The risk that all or part of the principal may be received when interest rates are lower than when the security was originally purchased, so that the principal must be reinvested at a lower rate than the rate originally received by the investor.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on 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 rendered by banks whereby securities and valuables of all types and descriptions are held by the bank.

SEC RULE 15C3-1: See uniform net capital rule.

SECONDARY MARKET: Markets for the purchase and sale of any previously issued financial instrument.

SECURITIES & EXCHANGE

COMMISSION (SEC): The federal agency with responsibility for regulating financial exchanges for cash instruments.

SPREAD OVER TREASURIES: The difference between the bond equivalent yield for any investment and the bond equivalent yield for a Treasury investment with the same maturity.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations, which 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 (T-BILLS): Short-term obligations issued by the U.S. Treasury for maturities of one year or less. They do not pay interest but are issued on a discount basis instead.

TREASURY BONDS (T-BONDS): Long-term obligations issued by the U.S. Treasury with initial maturities of more than ten years.

TREASURY NOTES (T-NOTES):

Medium-term obligations issued by the U.S. Treasury with initial maturities of from one to ten years.

UNIFORM NET CAPITAL RULE:

Securities and Exchange Commission requirement that member firms as well as non-member 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 syndicate. Liquid capital includes cash and assets easily converted to cash.

YIELD: Loosely refers to the annual return on an investment expressed as a percentage on an annual basis. For interest-bearing securities, the yield is a function of the rate, the purchase price, the income that can be earned from the reinvestment of income received prior to maturity, call or sale. Different formulas or methods are used to calculate yields.

Attachment #1

CITY OF WHEATON, ILLINOIS
DIRECTOR OF FINANCE
INVESTMENT FIRM CERTIFICATION FORM

As an authorized account representative for _____, I hereby certify that I have personally read and understand the investment policies of City of Wheaton, Illinois, in such form as said policies of the City were provided to me. I agree to abide by said policy in all transactions between myself, on behalf of the above referenced firm, and the City and further agree to undertake reasonable efforts to preclude imprudent transactions involving the City's funds.

Authorized Account Representative

(Signature)

(Title)

(Name - Printed)

(Date)

Attachment #2

Collateralization of Public Deposits (1984, 1987, 1993, and 2000)

Background. The safety of public funds should be the foremost objective in public fund management. Collateralization of public deposits through the pledging of appropriate securities or surety bonds by depositories is an important safeguard for such deposits. State programs pertaining to the collateralization of public deposits have generally proven to be beneficial for both the public sector and its depositories. However, federal law imposes certain limitations on collateral agreements between financial institutions and public entities in order to secure public entity deposits. Under certain circumstances, the Federal Deposit Insurance Corporation (FDIC) may be able to avoid a perfected security interest and leave the public depositor with only the right to share with other creditors in the pro rata distribution of the assets of a failed institution.

Recommendation. The Government Finance Officers Association (GFOA) favors the use of pledging requirements as protection for state or local government's deposits. GFOA further favors and encourages state and local governments to establish adequate and efficient administrative systems to maintain such pledged collateral, including state or locally administered collateral pledging or collateral pools. To accomplish these goals, GFOA recommends the following:

1. Public entities should implement programs of prudent risk control. Such programs could include a formal depository risk policy, credit analysis, and use of fully secured investments. In the absence of an effective statewide collateralization program, local officials should establish and implement collateralization procedures.
2. State and local government depositors should take all possible actions to comply with federal requirements in order to ensure that their security interests in collateral pledged to secure deposits are enforceable against the receiver of a failed financial institution. Federal law provides that a depositor's security agreement, which tends to diminish or defeat the interest of the FDIC in an asset acquired by it as receiver of an insured depository, shall not be valid against the FDIC unless the agreement
 - is in writing;
 - was approved by the board of directors of the depository or its loan committee; and
 - has been, continuously, from the time of its execution, an official record of the depository institution.
3. Public entities should have all pledged collateral held at an independent third party institution, and evidenced by a written agreement in an effort to satisfy The Uniform Commercial Code (UCC) requirement for control. The UCC states that the depositor does not have a perfected interest in a security unless the depositor controls it. Control means that swaps, sales, and transfers cannot occur without the depositor's written approval.

- The value of the pledged collateral should be marked to market monthly, or more frequently depending on the volatility of the collateral pledged. If state statute does not dictate a minimum margin level for collateral based on deposit levels (e.g., Georgia statute requires 110 percent), the margin levels should be at least 102 percent, depending on the volatility of the collateral pledged.
 - Substitutions of collateral should meet the requirements of the collateral agreement, be approved in writing prior to release, and the collateral should not be released until the replacement collateral has been received.
4. The pledge of collateral should comply with the investment policy or state statute, whichever is more restrictive.
 5. The use of surety bonds and other appropriate types of insurance in lieu of collateral could be reviewed as an alternative to collateralization. If a public entity agrees to the use of surety bonds and other types of insurance in lieu of collateral, only insurers of the highest credit quality as determined by a nationally recognized insurance rating agency should be used.

Note: As a result of the court case *North Arkansas Medical Center v. Barrett*, 963 F.2d 780 (8th Cir. 1992), the FDIC issued a policy statement in March 1993 indicating that it would not seek to void a security interest of a federal, state, or local government entity solely because the security agreement did not comply with the contemporaneous execution requirement set forth in Section 13(e) of the Federal Deposit Insurance Act 12 U.S.C. 1823(e). The policy statement was officially enacted by Section 317 of the Riegle Community Development and Regulatory Improvement Act of 1994 (Public Law 103-325). Because of this change, the bullet item "was executed by the depository institution and any person claiming an adverse interest, contemporaneously with the acquisition of the asset by the depository institution" that appeared in previous versions of this recommended practice has been removed from this version.

References

- GFOA Sample Security Agreement, 1995.
- GFOA Sample Custodial Trust Agreement, 1995.
- *An Introduction to Collateralizing Public Deposits for State and Local Governments*, M. Corinne Larson, GFOA, 1996.
- *Investing Public Funds*, Second Edition, Girard Miller with M. Corinne Larson and W. Paul Zorn, GFOA, 1998.

Attachment #3

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 the City of Wheaton, having an address at 303 W. Wesley Street, Wheaton, IL 60187, (the “*Public Depositor*”).

Witnesseth:

Whereas, the Bank is a qualified public depository as defined in 30ILCS 235/2 (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 in the amounts required by the Act; 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, which collateral meets the requirements described in the Act, as permitted by 12 U.S.C. § 90 and the Act;

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. Pursuant to the Act and 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 the Act, 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 the Act, 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 the Act. 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 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 Illinois; (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 By-laws 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 the Act and 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 a trust company (the "*Custodian*"), to hold in a custody account (the "*Custody Account*") for the benefit of the Public Depositor, as required by the Act. 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 or under the Act.

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 has heretofore or will immediately hereafter deliver to the Custodian for immediate deposit in 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.

12. 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 the Bank.

13. In the event of default as described in Section 12, 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.

14. 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.

15. 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.

16. 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.

17. 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.

18. This Agreement shall be governed by and construed in accordance with the laws of Illinois, 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 Illinois law is not preempted by laws of the United States, Illinois law shall govern.

19. 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.

20. 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.

21. 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 depositor]

By: _____

Its: _____

Date: _____

Attachment #4

CITY OF WHEATON
Cash Management Program
“Operating Funds”

As of August 15, 2005

CITY OF WHEATON
Cash Management Program
“Operating Funds”

SHORT TERM (0-3 YEARS):

The Director of Finance will address the cash flow needs of the City’s operating budget by investing available funds and attempt to maximize yield with the use of the following investment vehicles:

- The American Freedom Funds (AFF) U.S. Government Money Market Fund; a balance, equivalent to at least one months of the City’s obligations, will be maintained in this Fund at all times,
- The IL Funds Money Market Account; a balance of \$1 million will be maintained in this Fund,
- The Illinois Metropolitan Investment Fund (IMET); a balance of \$1 million will be maintained in this Fund,
- The (custodial) money market account will be maintained at an approximate balance of \$100,000 at all time,
- Commercial Paper in accordance with the City’s investment policy, any such executions will be no lower in yield than the relevant average current market yields (as provided by Capital Management Services); no such executions will mature beyond 180 days from the date of purchase, according to State statute,
- Government securities and agencies which provide the best opportunity for yield enhancement; this includes securities with attached “call provisions”, the preference for such “calls” will be short term and multiple (continuous is most desired). One time calls are allowed if the final maturity is no more than 18 months from settlement date, any one time calls with final maturity from 18 months to 3 years from settlement date must be pre-approved by the City’s Director of Finance before execution; the maturity of any such security in this category, will be no more than approximately 3 years from the date of purchase,
- The City will seek the highest bid from industry sources, for any secondary issues used in this timeframe; such a bid will be selected from competitive bids with similar maturity periods; this requirement will not apply to “new issues” wherein it is “one price to all” for any broker execution,
- The City will only purchase Government securities and/or agencies after obtaining a pulse of the current market to determine whether purchases can produce an attractive yield, again relative to the market; it will be expected that such purchases may be delayed if there is an anticipation of higher yields in the immediate future,
- The total amount of the investments held in this timeframe will be approximately 60% of the operating cash total; (25% in the 0 - .05 year timeframe and 35% in the .05 -3.0 year timeframe).

MID-TERM (3-5 YEARS):

The Director of Finance will address the cash flow needs of the City's operating budget by investing available funds and attempt to maximize yield with the use of the following investment vehicles:

- Government securities and agencies which provide the best opportunity for yield enhancement; this includes securities with attached "call provisions"; the preference for such "calls" will be short term and multiple (continuous is most desired) - no one time calls are to be executed; the maximum maturity of any such securities will be no more than 5 years from the date of purchase,
- The City will only purchase Government securities and/or agencies after obtaining a pulse of the current market to determine whether such purchases can produce an attractive yield, again relative to the market; it will be expected that such purchases may be delayed if there is an anticipation of higher yields in the immediate future,
- The City will seek the highest bid from industry sources, for any secondary issues used in this timeframe; such a bid will be selected from competitive bids with similar maturity periods; this requirement will not apply to "new issues" wherein it is "one price to all" for any broker execution, however every attempt will be made to spread purchases amongst the Approved List of Brokers on file with the Director of Finance,
- The total amount of the investments held in this timeframe will be approximately 10% of the operating cash total.

INTERMEDIATE TERM (5-10 YEARS):

The Director of Finance will address the cash flow needs of the City's operating budget by investing available funds and attempt to maximize yield with the use of the following investment vehicles:

- Government securities which provide the best opportunity for yield enhancement; this includes securities with attached "call provisions"; the maximum maturity of any such securities will be no more than approximately 10 years from the date of purchase,
- The City will direct purchases in Government securities and/or agencies only after obtaining a pulse of the current market to determine whether such purchases can produce an attractive yield, again relative to the market; it will be expected that such purchases may be delayed if there is an anticipation of higher yields in the immediate future,
- The total amount of the investments held in this timeframe will be approximately 15% of the operating cash total. If the yield curve does not warrant such a longer term investment the percentage in this timeframe will be reallocated to the 0 – 5 year segments.

LONG TERM (GREATER THAN 10 YEARS):

The Director of Finance will address the cash flow needs of the City's operating budget by investing available funds and attempt to maximize yield with the use of the following investment vehicles:

- Government securities which provide the best opportunity for yield enhancement; such securities will be used only when the yield curve provides for such securities that have good potential for liquidation (and capital gains) within three years from the date of purchase.
- The City will always be required to seek the highest bid (from at least three competitive bids) from industry sources for any secondary issues used in this timeframe; this requirement will not apply to "new issues" wherein it is "one price to all" for any broker execution,
- The total amount of the investments held in this timeframe will be maintained at no more than 15% of the operating cash total. If the yield curve does not warrant such a longer term investment the percentage in this timeframe will be reallocated to the 0 – 5 year segments.

Attachment #5

Internal Controls

Separation of Duties.

Individuals who perform investment transactions shall not be responsible for the reconciliation of the accounts; furthermore, adequate separation of duties requires that persons who perform investment transactions should not also be responsible for writing checks or preparing bank deposit slips.

Duties and Responsibilities.

The Director of Finance shall be responsible for the management of the City's Investment Program, including the purchases and sales of securities, bank transfers and wires. All such transactions must be authorized and signed off by the Director of Finance and the Assistance Director of Finance. The Assistant Director of Finance may authorize investment transactions in the absence of the Director of Finance.

The Staff Accountant shall be responsible for the reconciliation of all investment transactions and for producing reports in the "Monthly Financial Statement".

Security Selection Process.

When purchasing an investment, the City shall select the security which provides the highest bond equivalent yield (BEY) for a given investment. For investments which require bidding, at least two (2) bids shall be secured. If no security is offered for the date(s) requested, the Director of Finance may select the security with the highest BEY closest to the date(s) requested, or may rebid the investment.

On an exception basis, when in the determination of the Director of Finance competitive bidding would inhibit the selection process, securities may be purchased utilizing the comparison to current market price method. Acceptable current market price providers include, but are not limited to:

1. The Bloomberg Information System
2. The Wall Street Journal, or comparable nationally recognized financial publication, and
3. Market pricing provided by the City's safekeeping institution.

Examples of when this method may be used include:

1. When time constraints due to unusual circumstances preclude the use of the competitive bidding process;
2. When no active market exists for the issue being traded due to the age or depth of the issue;
3. When a security is unique to a single institution, (i.e., as a result of a portfolio being purchased by a broker);

4. When the transaction involves new issues “purchased at the window” or issues in the “when issued” market.

When selection is made based on comparison to market prices, the following information shall become part of the record of the security involved:

1. Reason for use of this method
2. Source of the current market value used, and
3. Price and/or interest rate quoted by said source.

Safekeeping.

All settlements shall be executed by faxing a signed cover sheet and a transaction ticket from the successful bidder to the City’s safekeeping institution. All transactions, whether purchases or sales, shall require the signature of two (2) authorized signors.

Delivery versus Payment.

Settlements shall be on a delivery versus payment (“DVP”) basis and shall settle and be held at the City’s safekeeping institution. Except for Banker’s Acceptances (which are only deliverable in physical form), the City will not purchase any security requiring physical delivery.

Investment Accounting.

Following the execution and settlement of a transaction, all transaction documentation shall be given to the Staff Accountant for preparation of the required journal entry and for input into the City’s investment tracking software.

Hard copy confirmations of all transactions shall be reviewed by the Staff Accountant to ensure they agree with the settlement note received by the City on the day of the transaction. Any deviation between the two documents must be immediately brought to the attention of the Director of Finance for remediation.

On a monthly basis, all outstanding investments shall be reconciled by the Staff Accountant between:

- the general ledger and the City’s investment software, and
- the City’s investment software and the City’s safekeeping trust statement.

In addition, on a monthly basis, bank statements shall be reviewed by the Assistant Director of Finance or the Staff Accountant for any unusual or unauthorized transactions. Should there not be a reasonable explanation for any such transaction, the transaction will be brought to the immediate attention of the Director of Finance.

A listing of all outstanding investments shall be produced monthly and reviewed by the Director of Finance and Assistant Director of Finance and shall be contained in the “Monthly Financial Statement” distributed to the Mayor, City Council and City Manager.

Wire Transfer Agreements.

All wire transactions will be made in accordance with the procedures contained in the executed wire transfer agreement between the City and its safekeeping institution.

Collateral/Depository Agreements and Banking Service Contracts

The City will solicit proposals for banking services once every five years unless circumstances warrant earlier solicitations. A signed banking services agreement must be adopted by the City Council. Collateral/depository agreements must be included as part of the banking services agreement.

Repurchase Agreements.

While the City does not intend to utilize repurchase agreements (repos) directly as a component of its investment portfolio at this time, it is mindful that the majority of funds deposited into The Illinois Funds are invested in repos. The City believes that The Illinois Funds collateralization requirement (equal to 102% of the value of the repo at time of execution, and marked to market on a daily basis thereafter) makes it a prudent vehicle in which to place short term cash.

GFOA Recommended Practice
Mark-to-Market Practices for State and Local Government Investment
Portfolios and Investment Pools (1995, 2000, and 2003)

Background. As the investment portfolios of state and local governments are subjected to increased scrutiny, it is essential that reporting standards be enhanced so that investors, governing bodies, and the public remain informed of the current market value of the portfolio. Regular disclosure of the value of a governmental entity's investments is an important step to furthering taxpayer and market confidence in state and local government investment practices. The Governmental Accounting Standards Board (GASB) has also recognized in GASB Statement 31 the need to report investments at fair value at fiscal year end. Government officials should be aware of state, local, accounting, and rating agency requirements regarding mark to market practices.

Recommendation. The Government Finance Officers Association (GFOA) recommends that state and local government officials responsible for investment portfolio reporting determine the market value of all securities in the portfolio on at least a quarterly basis. These values should be obtained from a reputable and independent source and disclosed to the governing body or other oversight body at least quarterly in a written report. It is recommended that the report include the market value, book value, and unrealized gain or loss of the securities in the portfolio. Many state and local government officials are allowed to invest in various state and local government investment pools available in their state or region. GFOA recommends that pool administrators, on a daily basis, determine the market value of all securities in the pool and report this information to all pool participants on at least a monthly basis. These values should be obtained from a reputable and independent source. This information should be included in the report to the governing body prepared on at least a quarterly basis.

References

- *An Elected Official's Guide to Investing*, M. Corinne Larson, GFOA, 1996.
- *GASB Statement 31 and Implementation Guide*.
- *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 Committee, February 28, 2003.