Handbook for Class I County School District Treasurers

Illinois State Board of Education
Department of School Finance
January 1991
HANDBOOK FOR
CLASS I COUNTY
SCHOOL DISTRICT TREASURERS

Illinois State Board of Education
Department of School Finance

January, 1991

Thomas Lay Burroughs
Chairman

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State Superintendent of Education
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PROCEDURES FOR SCHOOL DISTRICT TREASURERS
IN CLASS I COUNTIES
(Class I Counties are all Counties Except Cook.)

I. The School Treasurer

A. Treasurer as Custodian

The treasurer is by law the official custodian of all district monies, as well as all investments owned by the district including joint agreements (Chapter 122, Sections 8-6 and 8-7). (Chapter 122 is more commonly known as The School Code of Illinois.)

Exceptions to above: Imprest funds, including funds for school cafeterias, lunchrooms, athletics, petty cash, or similar purposes, for which the district has named a special custodian, as provided by law, are not under the custody of the school treasurer. Student Activity Funds, generally considered as funds which are voluntarily acquired by student clubs and organizations, are to be safeguarded by such rules and regulations as are prescribed by the Board of Education. (Refer to Appendix J, "Activity Funds," Illinois Program Accounting Manual for Local Education Agencies.) A local board may appoint a custodian for Student Activity Funds (Chapter 122, Section 10-20.19).

B. Treasurer Eligibility

An appointed treasurer shall be at least 21 years of age and of approved integrity, but not a member of the county board of school trustees (Chapter 122, Section 8-1). School treasurers appointed after October 1, 1977, for their first term must have a financial background or related experience or 12 semester hours of credit in college-level accounting.

C. Treasurer's Term of Office

Each school board shall either elect one of its members to serve as treasurer without salary for a period of one year or appoint someone not a member of the school board as its treasurer, and the board shall fix the compensation (Chapter 122, Section 8-1). Only one treasurer may be appointed to serve a school district at a given time. The treasurer serves at the pleasure of the Board of Education.
D. Treasurer's Salary

Each school treasurer shall receive in full, for his/her services, a compensation to be fixed prior to his/her appointment, and such compensation shall not be decreased during his/her term of office (Chapter 122, Section 8-3). The treasurer, being an employee of the district, should be paid in the same manner as other employees. His/her salary is subject to withholding tax and other applicable payroll deductions.

E. Treasurer's Bond

Before assuming the duties of the treasurer, each school treasurer shall be bonded (Chapter 122, Sections 8-2 and 19-6).

1. The bond shall be executed with two or more persons having an interest in real estate who are not trustees or a surety company which is authorized to conduct business in the State of Illinois.

2. If individuals act as sureties, the amount of the penalty shall be at least twice the amount of all bonds, notes, mortgages, monies and effects of which the treasurer is to have custody.

3. If a surety company provides the surety, the amount of the penalty shall be at least equal to the amount of all bonds, notes, mortgages, monies and effects of which the treasurer is to have custody.

4. Increases or decreases in the amount of the penalty are subject to the direction of the regional superintendent of schools or the school board.

5. The bond shall be approved by at least a majority of the school board.

6. The bond shall be filed with the regional superintendent of schools who shall file with the State Board of Education before September 1 in each year an affidavit showing which treasurers of school districts under his/her supervision and control are properly bonded.

II. Duties of the Treasurer

A. Record of Financial Transactions

The treasurer is required to keep a record, by fund, of the district's financial transactions, which shows the amount received and the amount disbursed by order of the Board of Education. At the end of the month,
the bank account as well as the balance in each fund and reconcile such balances with the accounting or bookkeeping department of the district (Chapter 122, Section 8-6).

B. Bond Registering

It shall be the duty of the district treasurer to register, number, and countersign all bonds issued by the school district. It is also the treasurer’s duty to maintain a register in which shall be entered the record of the election authorizing such issue, the number, date, to whom issued, amount, rate of interest and due date (Chapter 122, Section 19-5).

C. Orders

A treasurer shall sign all lawful orders of the Board of Education. If a treasurer can determine that an order is illegal, either from previous knowledge or by inspection, he or she shall not affix his/her signature. It should be returned to the Board of Education for correction. The treasurer has no authority to change an order in any manner nor the fund on which it is drawn.

All withdrawals or payments from district bank accounts must be by virtue of the signature of the bonded school treasurer and only on order of the Board of Education (Chapter 122, Sections 8-7 and 8-15).

1. It is unlawful for a Board of Education to issue an order or for a treasurer to sign a check except when there is sufficient cash in the fund against which the order or check is drawn. Exception: Teachers’ orders may be drawn against the Educational Fund even though there is no cash available to pay same.

2. Should it be necessary for the district to issue teachers’ orders which cannot be paid for want of funds, the treasurer shall follow the procedure of Chapter 122, Section 8-16. Such orders shall be regarded as obligations outstanding against the district until paid. A numerical list of such orders must be maintained by both the treasurer and the district, and such list shall reflect the earliest order first and the most recent order last. The order shall thereafter bear interest at a rate not exceeding the greater of nine percent per annum or 125 percent of the 20 General Obligation Bonds Index of average municipal bond yields as published in the most recent edition of The Bond Buyer, published in New York, New York, at the time the contract is made for the issuance
of the orders (Chapter 17, Section 6602). Teachers' orders not paid for want of funds must be retired immediately as sufficient funds are available in the Educational Fund.

D. **Tax Distributions**

The distribution of taxes, as a result of levy, to funds shall be made in accordance with the ratio (percentage) of each separate tax extension to the total extension. The Superintendent (or Clerk of the Board in certain instances) shall determine the proper percentage to be distributed to each fund and advise the treasurer accordingly. The taxes shall be distributed to funds according to the percentage, as established above, each time any portion is received. Privilege taxes, such as for mobile homes, may be distributed to any operating fund.

E. **Corporate Personal Property Replacement Taxes**

In accordance with Chapter 85, paragraph 616 of the *Illinois Revised Statutes*, monies received by any school district from the Corporate Personal Property Tax Replacement Fund shall be first applied toward payment of the proportionate amount of debt service which was previously levied and collected from extensions against corporate personal property on bonds outstanding as of December 31, 1978, and next applied toward payment of the proportionate share of the pension or retirement obligations of the district which were previously levied and collected from extensions against corporate personal property.

For each such outstanding bond issue, the County Clerk shall determine the percentage of the debt service which was collected from extensions against real property in the district for 1978 taxes payable in 1979, as related to the total amount of such levies and collections from extensions against both real and corporate personal property. For 1979 and subsequent years' taxes, the County Clerk shall levy and collect from extensions taxes against the real property of each district which will yield the said percentage or percentages of the debt service on such outstanding bonds. The balance of the amount necessary to fully pay such debt service shall constitute a first and prior lien upon the monies received by each such school district through the Corporate Personal Property Tax Replacement Fund and shall be first applied or set aside for such purpose.

F. **Disbursements**

When disbursements are made, it is recommended that the order list procedure, provided in Chapter 122, Section 10-20.19, be used to provide cumulative totals for each
fund. Such a procedure reduces the record keeping of the treasurer and is better than the use of individual orders signed by the president and secretary. If the list is not used, the treasurer must record each individual check signed in his or her account book or prepare his or her own list. The treasurer should record disbursements when orders are drawn, rather than after they have cleared the bank.

G. Interfund Loans

Interfund loans may be made only on an authorization from the Board of Education. Loans made under the provisions of Chapter 122, Section 10-22.33 shall be repaid within one year. Authorized interfund loans include:

1. Operations and Maintenance Fund to Educational or Transportation Funds (Section 10-22.33).

2. Educational Fund to Operations and Maintenance or Transportation Funds (Section 10-22.33).

3. Transportation Fund to Educational or Operations and Maintenance Funds (Section 10-22.33).

4. Working Cash Fund to Educational, Operations and Maintenance or Transportation Funds (Section 20-4). Such loans are to be repaid immediately from the taxes received in anticipation of the collection whereof monies of the Working Cash Fund have been loaned.

H. Communication

District office personnel and the treasurer should develop a system of remittance advice both to and from each office so that both the district personnel and the treasurer have complete information as to the source and amount of each receipt.

I. Payment of Bonds and Interest

At the beginning of each fiscal year, each Board of Education may, by resolution, authorize the treasurer to make scheduled payments of bond principal and interest due during the year. Payments of bond principal and interest due may be included with other bills approved for payment by Boards of Education.

J. Monthly Report to the School District

In accordance with Chapter 122, Sections 8-6 and 8-15, the treasurer is required to prepare a monthly report to the Board of Education showing the beginning balance; the total amount received; the total amount disbursed, including orders issued but not cleared at
the bank; and the ending balance in each fund, as well as in the bank account.

1. The receipts, disbursements and beginning and ending balances must be reconciled with the records in the accounting department of the school district.

2. The monthly report must be reconciled with the amount on deposit in the bank. This is done by adding to the amount shown in the treasurer's books all orders issued, but unpaid, as of the last business day of the month.

III. Depositaries and Investments

A. Depositaries

The Board of Education shall designate the depositary or depositaries of the district. These shall be banks, or savings and loan associations situated in the State of Illinois (Chapter 122, Section 8-7). The depositary or depositaries for imprest funds must be approved by the treasurer (Chapter 122, Section 10-20.19). The designated depositaries must qualify in the manner set forth in Section 8-7. The Board of Education and the treasurer must be cognizant of the limitation on deposits which provides that they cannot exceed 75 percent of the capital stock and surplus of any bank or 75 percent of the net worth of any savings and loan association as indicated in Chapter 122, Section 8-7, unless collateralized or insured by the Federal Government (Chapter 85, par. 906). The depositary or depositaries must furnish school boards a copy of all required sworn statements of resources and liabilities as reported to the Commissioner of Banks and Trust Companies or the Comptroller of the Currency, or the Commissioner of Savings and Loan Associations, or the Federal Home Loan Bank.

It is not necessary for districts to keep separate bank accounts for each fund. However, detailed records, by fund, must be maintained.

B. Investments

The district shall invest, within two working days, all funds not needed immediately for district operation (Chapter 102, Section 34). The authority to make investments is vested in the "Governing Authority," i.e., the Board of Education, not the treasurer. The securities so purchased shall be held for the benefit of the school district by the treasurer of the district. Each Board of Education should establish an investment policy encompassing such things as investment objectives, instruments, collateralization, and qualified financial institutions.
C. Investment of Public Funds

Chapter 85, Sections 901 through 906 of the Illinois Revised Statutes, contains the guidelines and requirements for the investment of public funds.

Treasurers may combine funds and/or jointly invest funds with other districts and community college districts in order to maximize investment earnings. However, a complete accounting of all investments and earnings from investments shall be made for each fund and district (Chapter 122, Section 3-7).

The treasurer of any school district which deposits public funds in a financial institution may enter into an agreement with the financial institution requiring any funds not insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration or other approved share insurer to be collateralized by securities or mortgages in an amount equal to at least the market value of that amount of funds deposited exceeding the insurance limitation provided by the Federal Deposit Insurance Corporation or the National Credit Union Administration or other approved share insurer. (See sample Collateral Agreements on page 13.)

Funds may be invested in several different types of securities which assure low risk of investment. Listed below are alternative investments, as authorized by the Illinois Revised Statutes.

1. Bonds, notes, certificates, treasury bills, or other securities guaranteed by the full faith and credit of the United States Government as to principal and interest (Chapter 85, Section 902).

2. Savings accounts, certificates of deposit, or time deposits which constitute direct obligations of any bank or any fund which is managed, operated, and administered by a bank, as defined by the "Illinois Banking Act," not to exceed the limitation per depositary discussed in III, A, above. The treasurer may require collateralization by securities or mortgages held by that depositary for amounts invested in excess of the limits insured by the Federal Deposit Insurance Corporation (Chapter 85, Sections 902 and 906 and Chapter 122, Section 8-7).

4. Shares and securities legally issuable by savings and loan associations incorporated under state or federal law. The treasurer may require collateralization by securities or mortgages held by that depositary for amounts invested in excess of the limits insured by the Savings Association Insurance Fund (SAIF), a department of the FDIC. (Chapter 85, Sections 902 and 906 and Chapter 122, Section 8-7).

5. Dividend-bearing share accounts or class of share accounts of a credit union chartered under the laws of this state or the laws of the United States. The principal office of any such credit union must be located within the State of Illinois. Investments may be made only in credit unions insured by applicable laws.

Credit unions are subject to various restrictions. No credit union shall receive public funds unless it has furnished the corporate authorities of a public agency submitting a share deposit with copies of the last two reports of examination prepared by or submitted to the Illinois Department of Financial Institutions or the National Credit Union Administration. Each credit union designated as a depositary for public funds shall, while acting as such depositary, furnish the corporate authorities of a public agency with a copy of all reports of examination prepared by or furnished to the Illinois Department of Financial Institutions or the National Credit Union Administration, provided that if such funds or monies are invested in a credit union account, the amount of all such investments not collateralized or insured by an agency of the federal government or other approved share insurer shall not exceed 50 percent of the unimpaired capital and surplus of such credit union, which shall include shares, reserves, and undivided earnings, and the corporate authorities of a public agency making an investment shall not be discharged from responsibility for any funds or monies invested in a credit union in excess of such limitation (Chapter 85, Sections 902 and 906).

6. Public Treasurer's Investment Pools (Chapter 130, par. 17). The Illinois Public Treasurer's Investment Pool enables treasurers to invest short-term funds which they were previously unable to invest due to time or yield. It is administered by the Treasurer of the State of Illinois.
With the Investment Pool, there is no minimum holding period; funds may be invested for terms as short as one day. The minimum initial investment is $10,000. Withdrawals shall be made in increments of $1,000. Any participating member of the Investment Pool will receive daily availability of funds, month-end statements, along with a check for earned interest, daily rate statements, and an annual report which will have been audited in compliance with the State Treasurer. Income is earned from date of receipt to date of withdrawal and will be computed and reinvested daily (includes interest accrued or discount earned, plus or minus market value changes, less fees). Also, the income is valued daily and any market value change is an adjustment to income earned. The Illinois Public Treasurer's Investment Pool will provide the current rate of interest and charge a $5.00 fee for each transaction in excess of five per calendar month.

The Investment Pool is designed to provide economical aid to public treasurers whose funds will not be needed for expenditures for several days.

7. Commercial paper of United States corporations with more than $500 million in assets. However, these obligations must, at the time of purchase, be the highest classification established by at least two standard rating services at the time of purchase, must mature not later than 180 days from the purchase date, and must not exceed ten percent of the outstanding obligations of the corporation or 25% of the funds of the school district (Chapter 85, Section 902).

8. Money market mutual funds registered under the Investment Company Act of 1940, provided that the portfolio is limited to bonds, notes, certificates of indebtedness, treasury bills, or other securities which are guaranteed by the full faith and credit of the United States of America as to principal and interest (Chapter 85, Section 902).

In any of these investments, the governing body shall consider safety of principal first since it is assumed the funds will be required for expenditure in the future and loss could have disastrous consequences. Safety of interest and return on investment should also be scrutinized.

Securities must be held for the benefit of the agency. If, however, the monies used to purchase an investment are for a particular fund, then the investment is part of, and credited to, that fund. Therefore, any financial statements of a fund must reflect applicable investments.
The district, plus the fund name, shall be the designated payee if a security is registerable. Securities must be held by the parties responsible for the fund to which they are credited and in a safe place to show proper responsibility by the agency (Chapter 85, Sections 901 through 906).

D. Repurchase Agreements

Except for repurchase agreements of government securities which are subject to the Government Securities Act of 1986 (P.L. 99-571), investments in repurchase agreements must meet the following Chapter 85, Section 902, requirements:

1. The securities, unless registered or inscribed in the name of the public agency, are purchased through banks or trust companies authorized to do business in the State of Illinois.

2. An authorized public officer, after ascertaining which firm will give the most favorable rate of interest, directs the custodial bank to "purchase" specified securities from a designated institution. The "custodial bank" is the bank or trust company, or agency of government, which acts for the public agency in connection with repurchase agreements involving the investment of funds by the public agency. The custodial bank should not be the seller of securities to the public agency. The State Treasurer may act as custodial bank.

3. A custodial bank must be a member bank of the Federal Reserve System or maintain accounts with member banks. All transfers of book-entry securities must be accomplished on a Reserve Bank's computer records through a member bank of the Federal Reserve System. These securities must be credited to the public agency on the records of the custodial bank, and the transaction must be confirmed in writing to the public agency by the custodial bank.

4. Trading partners shall be limited to banks or trust companies authorized to do business in the State of Illinois or to registered primary reporting dealers.

5. The security interest must be perfected. In order to perfect the security interest, the secured party or its custodian or agent must take possession of the securities. The seller or a person controlled by the seller cannot qualify as either a custodian or an agent. A public agency which buys federal securities subject to a repurchase agreement obtains a security interest
when it or its custodian or its agent receives possession of the securities, either physically or by transfer through book entry on the Federal Reserve System. Confirmation in writing must be obtained from the custodian or agent.

6. The public agency enters into a written master repurchase agreement which outlines the basic responsibilities and liabilities of both buyer and seller.

7. Agreements shall be for periods of 330 days or less.

8. The authorized public officer of the public agency informs the custodial bank in writing of the maturity details of the repurchase agreement.

9. The custodial bank must take delivery and maintain the securities in its custody for the account of the public agency and confirm the transaction in writing to the public agency. The Custodial Undertaking shall provide that the custodian take possession of the securities exclusively for the public agency, that the securities be free of any claims against the trading partner, and that any claims by the custodian be subordinate to the public agency's claims to rights to those securities.

10. The obligations purchased by a public agency may only be sold or presented for redemption or payment by the fiscal agent bank or trust company holding the obligations upon the written instruction of the public agency or officer authorized to make such investments.

The custodial bank shall be liable to the public agency for any monetary loss suffered by the public agency due to the failure of the custodial bank to take and maintain possession of such securities.

IV. Records

A. Records to Be Developed and Maintained Currently

Detailed financial records of the district shall be kept, or shall be caused to be kept, by the Superintendent of Schools or the Clerk of the Board of Directors as provided in Chapter 122, Sections 10-7 and 10-21.4.
1. The treasurer is required to keep a record, by fund, of the district’s financial transactions, wherein is shown the amount received and the amount disbursed by order of the Board of Education. At the end of each month the treasurer shall extend the balances showing the balance in the bank account, as well as the balance in each fund (Chapter 122, Section 8-6).

2. Proper accounting requires that all interest earnings be prorated and deposited into the fund generating the interest earnings. All permanent transfers of interest between funds must be in compliance with Chapter 122, Section 10-22.44, or Section 20-5. Also, interest earned on the investment of funds from federal government sources is restricted in most cases.

3. It shall be the duty of the district treasurer to register, number and countersign all bonds issued by the school district. It is also his/her duty to maintain a register in which shall be entered the record of the election authorizing such issue, the number, date, to whom issued, amount, rate of interest and due date (Chapter 122, Section 19-5).

B. Public Inspection of Records

Reports and records of the obligation, receipt and use of public funds of school districts are public records. As such, they are required to be made available for public inspection during regular office hours of the district at the official place of business or a designated place of business of the school district. A written notice specifying which records are to be inspected may be required to be submitted 24 hours prior to such inspection (Chapter 116, Section 43.103a).

C. Retention of Records

It is recommended that the office of the treasurer keep the paid orders or checks of the district and paid bonds and interest coupons. The treasurer shall contact the Local Records Unit Office of the Secretary of State for specific information on the retention, microfilming or destruction of records.

Local Records Unit
Illinois State Archives
Springfield, Illinois 62756
Telephone: 217/782-7076
D. **Annual Audit**

An annual audit of all district accounts, which includes treasurers' records, is required by law (Chapter 122, Section 3-7). In all cases the auditor shall be appointed by the Board of Education, who shall arrange for payment of his or her fee and for the reasonable conduct of the audit itself. During the time of the annual audit, the treasurer shall authorize that his or her records necessary for the audit shall be available at the school district office. If the treasurer does not choose to release them to someone else, then he or she shall be there with them personally. No records may be removed from the district office unless specifically authorized by the Board of Education.

V. **Collateral Agreements**

Although not currently required by state law, collateralization of investments, not otherwise insured, is a recommended school district investment policy. Several forms of collateralization exist. However, the safest form is for the district, or an independent third party, to take possession of any pledged securities or other instruments. The following pages contain a sample collateral agreement involving a third-party depository. It is presented for sample purposes only. All collateral agreements and investment policies should be reviewed by a qualified attorney with a knowledge of school district law and practices.
SAMPLE

COLLATERAL AGREEMENT

THIS AGREEMENT made and executed this _____ day of ____________, 1990, by and between School District 1, Anywhere, Illinois, hereinafter referred to as the "District"; The Bank of Anywhere, Anywhere, Illinois, hereinafter referred to as "The Bank"; and Hometown Bank, Hometown, Illinois, herein referred to as the "Depository" as follows:

WHEREAS, the District desires to continue to maintain substantial deposits of District funds at The Bank, and,

WHEREAS, The Bank desires to hold the deposits of the District and can provide pledged securities as collateral security for those deposits:

NOW, THEREFORE, it is agreed by and between the parties hereto as follows:

1. The Bank hereby convenants and warrants that it is the legal and actual owner of the securities described upon Exhibit A attached hereto free and clear of all liens or claims of others, which securities and substitutions therefore as permitted by this Agreement are hereinafter referred to as the "pledged securities."

2. The Bank hereby grants to the District a security interest in, and pledges to the District, the pledged securities as collateral for repayment of deposits of District funds made by the District prior, or subsequent hereto, to the extent that the District's time and demand deposits exceed the limit insured by the FDIC. In the event that the District withdraws from The Bank, the District shall release the aforesaid security interest in the pledged securities in the dollar amount necessary to reduce the total amount of pledged securities to the new minimum level of collateral security and will forthwith take all action necessary to authorize the Depository to release and deliver pledged securities to The Bank. In the event that the District increases its funds deposited with The Bank, The Bank shall thereupon deliver to the Depository additional pledged securities in the dollar amount necessary to raise the total dollar amount of pledged securities to the new minimum level of collateral securities. Any provision of the Agreement that refers to the dollar amount of pledged securities shall be deemed to mean the face value or market value thereof, whichever is lower. It is the intent of the parties to this Agreement that any determination of the value of any pledged securities, or substitutions thereof, is to be made by, and is the joint responsibility of, the District and The Bank, and any question or dispute over such value is to be resolved jointly by the District and The Bank.
3. The Depository is hereby designated as depository for the purpose of holding the pledged securities and agrees to deal with the same as provided herein. The Depository hereby agrees to keep the pledged securities in a suitable vault and to safeguard and to fully insure the pledged securities against loss by fire, theft, and similar causes, excluding acts of God and the public enemy. The Depository shall be authorized to do the following:

(a) Deliver receipts to The Bank upon receipt of any pledged security or substitutions therefor.

(b) Hold the pledged securities as collateral security in the manner set forth herein.

(c) Release pledged securities to The Bank as set forth in paragraph 2 hereof upon written instruction from the District.

(d) Either keep the pledged securities separate and apart and not commingled with any other securities or, at a minimum, hold the pledged securities in bulk with securities of the same class and issuer, provided that in such case, the pledged securities shall be clearly identified as those belonging to The Bank and pledged to the District.

(e) Collect maturing interest coupons and principal on the pledged securities which are in bearer form and credit the account of The Bank.

(f) Surrender to The Bank all pledged securities that are requested by The Bank to be surrendered (whether for the reason that they are maturing, have been called or redeemed, or are being substituted for by The Bank), provided that The Bank shall, either prior to or concurrently with such surrender, substitute therefor other securities meeting the requirements of paragraph 4 hereof and having a total dollar amount certified by The Bank as being not less than 100 percent (100%) of the total dollar amount of the pledged securities which are being surrendered.

(g) Accept securities being substituted for pledged securities in accordance with paragraph (f) above.

(h) Accept pledged securities in event of increases in deposits of the District as certified to the Depository by The Bank.

(i) Deliver pledged securities to the District upon default of The Bank as provided in paragraph 6 hereof.

(j) Release all pledged securities to The Bank upon the termination of this Agreement as provided herein.
4. The Bank may substitute securities of which it is the legal and actual owner, free and clear of all liens and claims, for all or any part of the pledged securities so long as such substitute securities are of one or more of the following types:

(a) Negotiable obligations of the United States Government;

(b) Negotiable obligations of any agency or instrumentality of the United States Government guaranteed by the full faith and credit of the United States Government;

(c) Negotiable obligations of the State of Illinois; or of any country, city, town, or municipal corporation of this State or any other political subdivision of this State which are rated A or better by Moody’s or Standard and Poor’s;

(d) Negotiable obligations of any State of the United States, or any municipal or other political subdivision thereof which are rated AA or better by Moody’s or Standard and Poor’s rating thereof;

(e) Any other negotiable obligation approved in writing by the District’s Treasurer prior to substitution.

Provided, however, that the principal of any such negotiable obligation which is deposited pursuant to this Agreement shall not be amortized during the life of the security.

Not less than two (2) days prior to delivery by The Bank to the Depository of securities described in (a) through (e) above to be substituted for pledged securities, The Bank shall give written notice of the substitution to the District. Such notice shall contain a complete description of the securities, the total dollar amount as of the day of notice, and the Moody’s or Standard and Poor’s rating thereof, if any. Within ten (10) days, excluding Saturdays, Sundays, and holidays, after receipt of said notice, the District may object to the substitution, and may, at its sole discretion, require that the substitution be rescinded. In such event, The Bank agrees to withdraw the securities so substituted and to substitute for the same other securities described in paragraph (a) through (e) above acceptable to the Treasurer.

5. At all times during which this Agreement is in effect, the dollar amount of the pledged securities shall equal or exceed the minimum level of collateral security. Should the dollar amount of the pledged securities at any time not exceed the minimum level of collateral security, The Bank shall cure such deficiency within two (2) days after knowledge thereof by delivering to the Depository additional pledged securities in the dollar amount of not less than any such deficiency. Notwithstanding any provisions of this Agreement to the contrary, the Depository is to have no responsibility for determining the dollar amount of pledged securities, or substitutions therefor, or for insuring that the dollar amount of such securities held by it is proper under the terms of this Agreement. The Bank shall
furnish monthly statements to the District during the term hereof, certified by the Depository, designating the pledged securities. In addition, the Treasurer shall have the right to request certified statements designating the pledged securities at such time or times as it shall, in its discretion, deem reasonable. The Depository shall furnish certificates to the District, upon request, evidencing the policy of insurance required by paragraph 3 hereof.

6. In the event The Bank shall fail to pay to the District any funds which the District has on deposit therein in accordance with the terms of such deposit or should the Depository fail or suspend active operations, the deposit in such Depository shall become due and payable immediately, and the District shall have the right to unilaterally demand delivery of all pledged securities. The District shall also have the right to sell the said securities 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 Depository. In the event of such sale, the District, after deducting all legal expenses and other costs including reasonable attorneys' fees from the proceeds of such sale, shall apply the remainder on any one or more of the liabilities of The Bank to the District and shall return the surplus, if any, to The Bank.

7. This Agreement shall be governed by the laws of the State of Illinois.

8. This Agreement shall be binding upon The Bank, the District, and the Depository, and their respective successors and assigns.

9. The Bank shall pay all service charges made by the Depository in connection with this Agreement.

10. The term of this Agreement shall be for five (5) years from the date hereof unless terminated prior thereto by thirty (30) days' written notice delivered by any party to the others. Upon the expiration of said five-year (5) period, the Agreement shall automatically renew for successive six-month (6) periods unless a party delivers written notice of cancellation to the others not less than thirty (30) days before the next renewal date.

11. All notices herein required shall be in writing and shall be served upon the parties at the addresses listed below. Delivery to an officer authorized to receive notices or the mailing of the notice by registered mail or certified mail, return receipt requested, shall be sufficient service. For purposes of this paragraph, the address of the parties shall be:

To the District:

School District 1
1018 School Avenue
Anywhere, Illinois 62801
To The Bank:

The Bank of Anywhere
415 Main Street
Anywhere, Illinois 62801

To the Depository:

Hometown Bank
Post Office Box 618
Hometown, Illinois 62932

IN WITNESS WHEREOF, the parties have executed the foregoing Agreement the day and year first above mentioned.

School District 1
BY
Louis Pontiac
Superintendent
School District 1

(Seal)
The Bank of Anywhere
An Illinois Banking Corporation
BY

(Seal)
Hometown Bank
An Illinois Banking Corporation
BY