MAINE TOWNSHIP SCHOOL TREASURER

Township 41 North, Range 12
1665 Elk Boulevard • Des Plaines, Illinois 60016-4776
Tel: 847/824-4000 • Fax: 847/824-4012

School District 64 Board of Education
Finance Committee Meeting
August 11, 2008

Agenda

I. Overview

II. Economic Conditions and the Effect on the Portfolio

III. Analysis of Bank Condition and Security of Investments

IV. Portfolio Analysis

V. Summary

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July 21, 2008

Annual Commentary of Economic Conditions

This year has been an economic rollercoaster. We are now in the second year of the housing slowdown, which has had a very adverse effect on the banks and most recently the government agencies. The banks were convinced that they had good collateral with real estate loans and especially with mortgages on personal residences. Although Allen Greenspan is credited with doing an excellent job in controlling inflation, he is criticized for holding interest rates too low for too long. The Federal Reserve reduced interest rates in response to the credit crisis, but with the side effect of higher commodity prices. Now the Federal Reserve would like to raise interest rates to curb inflation fears and reduce commodity prices, but that would put a strain on the housing industries and lenders. What went wrong? How is this different? In my opinion, nothing is wrong or different; it is the markets, including consumers, responding to the economic issues.

How did we respond in the Treasurer's office? When rates were unbelievably low, we did not purchase any exotic investments, such as derivatives or structured notes. We never want to take unnecessary credit risk. This can result in huge losses for a very marginal increase in yield, which banks discovered in the subprime crisis. We continue to monitor our average life, smoothing out the market fluctuations and allowing us a safer way to manage our market risk. Our overall bias is that rates are too low and that they will have to go higher.

As rates rose last summer, we invested in longer term maturities at higher interest rates. Unfortunately, this environment did not last long. The subprime crisis led to the Federal Reserve lowering rates to stimulate the economy. The rates fell to very low levels and we kept an unprecedented amount of money in daily bank money markets. Most of it was with large money center banks that were paying a very good yield. We did not take unnecessary duration risk (invest long-term) or take any unnecessary investment risk (exotic investments) at these low levels. Upon rates rising and the money market declining in yield, we invested a significant portion in the two to three year time frame.

Our biggest concern now is the quality of credit, or in other words the security of banks. There are a number of bank failures due to excess investment on their part in commercial and residential real estate. The Treasurer's office will move operating accounts and certificates of deposits from any bank that is not performing at an acceptable level. We expect the banks with whom we operate to be profitable, adequately capitalized, and have no excessive amount of bad loans.

Recently, we have had to review the credit quality of the agencies whose bonds we purchase. These bonds are usually held by us to maturity and aligned with our cash flow, so that even a liquidity crisis, which we have seen in some of the financial markets would not affect us. A liquidity crisis occurs when there are more sellers than buyers in the marketplace. At one time it was unimaginable that these agencies could have liquidity or credit problems. Since the amount invested in the agencies worldwide by banks, institutions, and individuals is enormous, the treasury will support these institutions as required. It is also important to note that the agencies "passed a crucial test of investor confidence when its auction of short-term debt met with strong demand". The market has accepted that the agencies are secure and the government will support them. As always, we continue to monitor the security of all the institutions with whom we invest.

June 30, 2008 Annual Investment Report

Mix of Investments:

Bank		Amount Invested
Agency Obligations:		$ 158,065,000
CDs:		
Northern Trust	$ 35,000,000	
MB Financial	10,000,000	
LaSalle	10,296,444	
American Chartered	7,222,205	
Total CD's:		62,518,649
JP Morgan Chase Money Market Account:		12,224,085
MB Financial Bank Money Market Account:		2,501,154
Citibank Money Market Account:		36,901,645
		$ 272,210,533

Long-Term and Short-Term Portfolios:

Amount Invested Short-Term	Short-Term Expected Life	Short-Term Expected Yield	Amount Invested Long-Term	Long-Term Expected Life	Long-Term Expected Yield
$ 171,745,533	0.14	3.34%	$ 100,465,000	2.25	3.95%

Effect of Callable Securities on Average Life:

	Expected Avg Life	Expected Yield	Minimum Avg Life	Calculated Yield	Maximum Avg Life	Calculated Yield
Short-Term Portfolio	0.14	3.34%	0.14	3.35%	0.5	3.34%
Long-Term Portfolio	2.25	3.95%	2.22	3.95%	2.57	4.02%

Market Value: The aggregate market value of the portfolio is 101.16% of the portfolio's par value.