

Introductions

Name: Alicia Cieszykowski, Speaker
- *Business Manager/CSBO, Mannheim School District 83*



Name: Lauren Hummel, Speaker
- *Chief Operating Officer, Township High School District 211*



Name: Sheetal Rai, Speaker
- *Managing Director, Fifth Third Securities Inc.*



Name: Eric Miller - Role: Moderator
- *Asst. Supt., Glenview 34,*



FUND BALANCE RESPONSIBILITY

What is Fund Balance?

Fund Balance is the excess of assets of a fund over its liabilities.
or simply put...

$$\text{ASSETS} - \text{LIABILITIES} = \text{FUND BALANCE}$$



Different Types of Fund Balance

According to GASB – fund balances are to be classified into five major classifications: Nondispensable, Restricted, Committed, Assigned, and Unassigned

Restricted Fund Balance

- The resources are subject to outside restrictions not controlled by the district, such creditors, grantors, or laws and regulations and are legally limited to being used for a particular purpose.

Unassigned Fund Balance

- The resources that have not been restricted, committed, or assigned to specific purposes within the General Fund.

What is a school district's fiscal responsibility?

- Illinois law does not establish a minimum or maximum fund balance. However, excessive fund balances may encourage tax objections.
 - 35 ILCS 200 Property Tax Code
Sec. 30-1. Fiscal Responsibility Law
(Source: P.A. 88-455.)
- The Illinois Supreme Court has held that fund balance in excess of two or three times the annual expenditures in the fund is illegal. (Central Illinois Public Service Co. v. Miller, 42 Ill.2d 542, 248 N.E. 2d 89)
- ISBE uses fund balance as an indicator of the school districts financial strength (calculated in financial profile score).

FISCAL RESPONSIBILITY



Considerations when creating fund balance

- Board Policy
- Future capital projects or planned expenditures
- Enrollment trends
- Taxpayer expectations

Too much fund balance.....

Possible outcomes of having too much fund balance:

- Objections from taxpayers
- Possible impact on negotiations and bargaining
- The “view” that the district is saving too much and not spending it on the students



WAYS TO SPEND DOWN FUND BALANCE RESPONSIBLY

- Capital Projects
- Debt pay down
- Unfunded Liability pay down

DEBT SERVICE ABATEMENT AND DEFEASANCE

ABATEMENT

- Districts can lower the amount received from property taxes by abating all or a portion of their annual debt service levy with their fund balance

Benefits:

- Lessen the tax burden on your community
- Shows fiscal responsibility to taxpayers while spending down fund balance

DEBT SERVICE ABATEMENT AND DEFEASANCE

DEFEASANCE

- Districts can pay off outstanding bonds by investing available cash in government securities in an escrow account, which earns interest until the call date or maturity date on existing bonds, at which time such bonds are paid off.
- Fund balance is used to purchase the government securities.

Benefits:

- Depending on interest rates, defeasance may enable an issuer to extinguish debt at the best possible price - saving on interest.
- Does not penalize the bondholder
- Does not require lengthy or costly proceedings
- Does not require the issuance of new debt
- Lessens the tax burden on your community

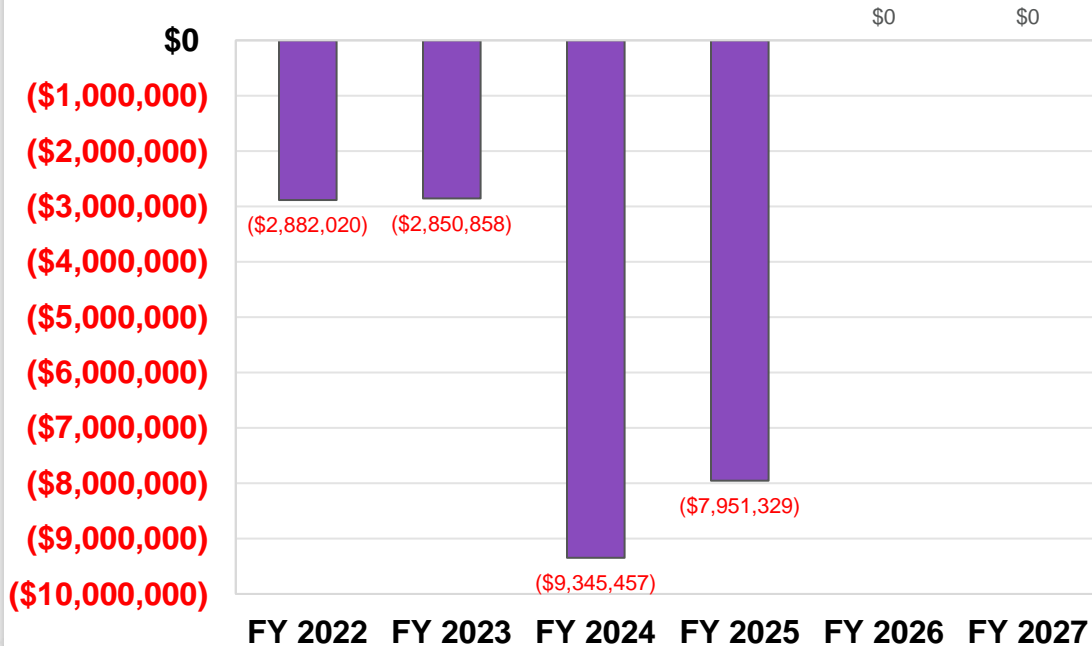
	ESTIMATED FUND BALANCE CONTRIBUTION	ESTIMATED DEFEASED PRINCIPAL	ESTIMATED DEFEASED INTEREST	ESTIMATED DEFEASED DEBT SERVICE	ESTIMATED SAVINGS FOR MEDIAN VALUE HOMEOWNER*	YEARS OF LEVY REDUCTIONS
2023	\$ 9,345,457	\$ (9,630,000)	\$ (4,002,238)	\$ (13,632,238)	\$ (684)	2023-2031
2024	\$ 7,951,329	\$ (7,970,000)	\$ (1,155,428)	\$ (9,125,428)	\$ (477)	2024-2027
TOTAL	\$ 17,296,786	\$ (17,600,000)	\$ (5,157,666)	\$ (22,757,666)	\$ (1,161)	

Assumes home's value increases by 2% per year in non-triennial years and by 10% in triennial years.

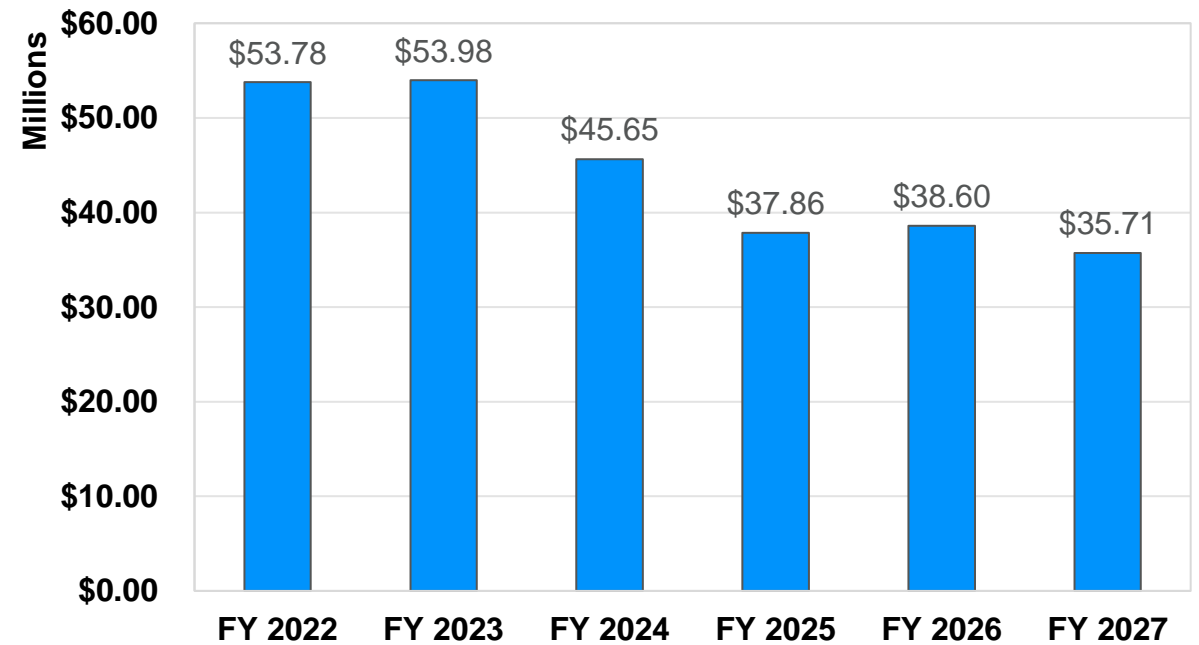
ESTIMATED SAVINGS - \$5,460,878. Estimated savings is calculated over the life of the defeased bond and is based on current rates.

Impact on Fund Balance

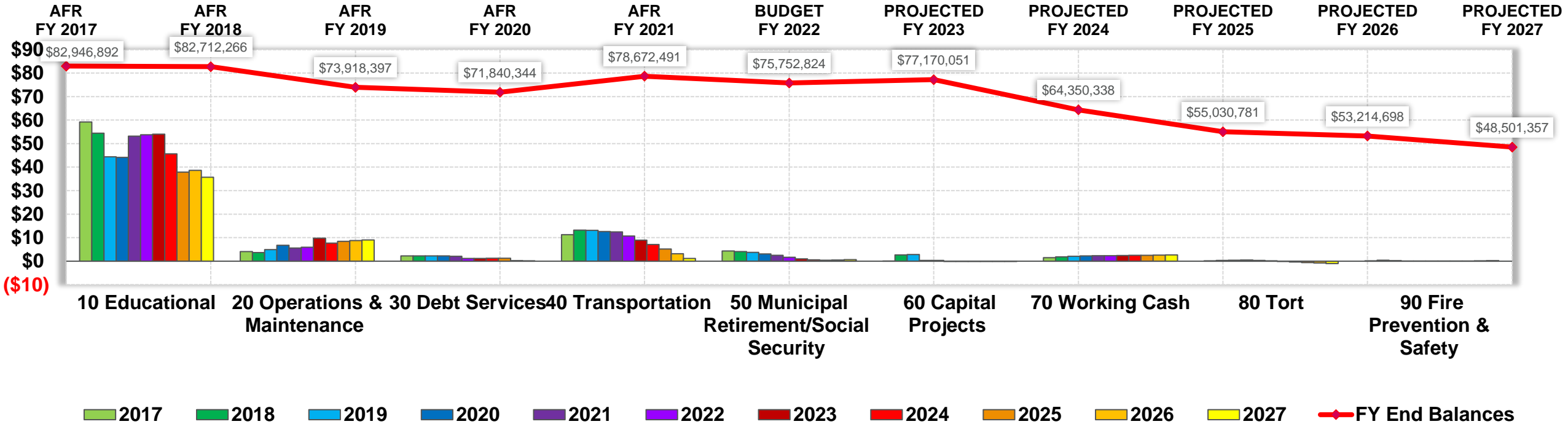
Other Financing Sources & Uses



Year End Fund Balances



Fund Balances



Utilization of Fund Balance To Reduce IMRF Unfunded Liability

IMRF Employer Contributions

- Each employer pays a % of their IMRF salaries annually
- The % varies by employer and is known as the employer rate.
- IMRF cites that their average employer rate has varied from 8.59% to 11.24% over the past five years

IMRF Investment Management



Understanding your Employer Rate

A funding adjustment is applied to your annual employer rate to bring your contributions to a desired level of funding.

The funding adjustment is applied to your “unfunded” rate

<u>Components of the Rate</u>	<u>2017*</u>
Normal Rate	6.68%
Unfunded Rate	3.29%
Death	0.20%
Disability	0.12%
Supplemental	<u>0.62%</u>
Total Employer Rate:	<u>10.91%</u>

Actuarial Value of Assets (AVA) is the present value of the plan assets.

Actuarial Accrued Liability (AAL) is today's cost of tomorrow's retirement payout.

Unfunded Accrued Actuarial Liability (UAAL) is the difference between the AVA and the AAL. Said another way, it is the amount of retirement benefits owed for active and inactive employees at a specific date that exceed current assets.

TOTAL
IMRF
LIABILITY
(AAL)

\$105M



Unfunded Portion (UAAL)
\$23M

+

FUNDED PORTION (AVA)
\$82M

Employer Reserve serves as a “Balancing Account.”



***Member Reserve and Annuitant Reserve accounts must be kept at 100% funded status. IMRF credits these accounts 7.5% yearly.**

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“Investing” in Your Unfunded Liability

A funding adjustment is applied to your annual employer rate to bring you to a desired level of funding.

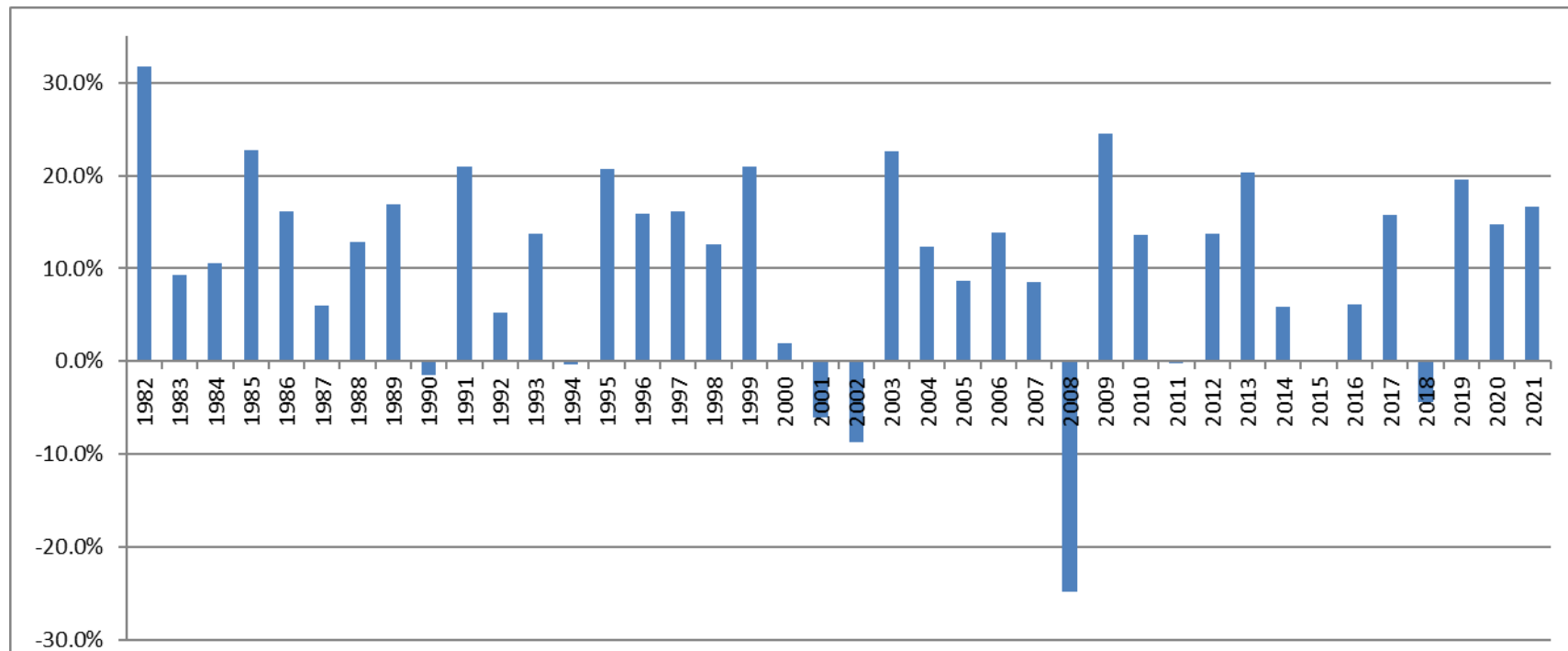
The funding adjustment is your “unfunded” rate

Utilization of fund balance (IMRF fund balance restricted- can utilize for this purpose)

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IMRF Investment Performance

- 10-year return +8.95%
- Target rate of return = 7.25%

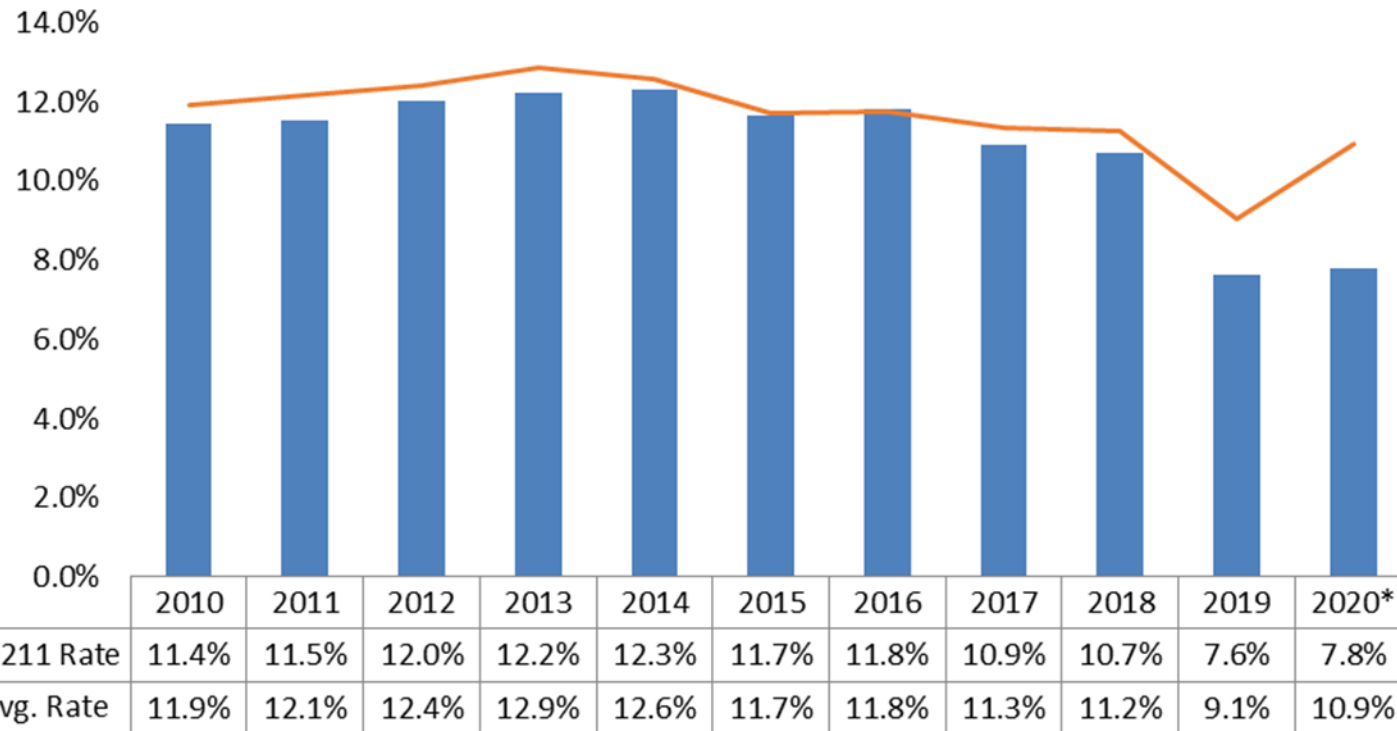


D211 Contribution Analysis

<u>Additional Contribution</u>		<u>Annual Savings</u>
\$ 1,000,000		\$ 60,000
\$ 2,000,000		\$ 120,000
\$ 3,000,000		\$ 180,000
\$ 4,000,000		\$ 240,000
\$ 5,000,000		\$ 300,000
\$ 6,000,000		\$ 360,000
\$ 22,876,308		\$ 1,327,644

\$21 million of additional
contributions made between
FY17-FY20

IMRF Employer Rate History



D211 Rate Summary

<u>Components of the Rate</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Normal Rate	6.58%	5.60%	5.98%	5.82%	5.18%
Unfunded Rate	3.29%	1.22%	0.92%	0.05%	-1.79%
Death	0.16%	0.12%	0.17%	0.21%	0.19%
Disability	0.07%	0.08%	0.09%	0.09%	0.08%
Supplemental	<u>0.62%</u>	<u>0.62%</u>	<u>0.62%</u>	<u>0.62%</u>	<u>0.62%</u>
Total Employer Rate:	<u>10.72%</u>	<u>7.64%</u>	<u>7.78%</u>	<u>6.79%</u>	<u>4.28%</u>
<i>calendar years</i>					

RISKS



- ☐ Market returns are less than anticipated
- ☐ Contributions are permanent
- ☐ Overfunding
- ☐

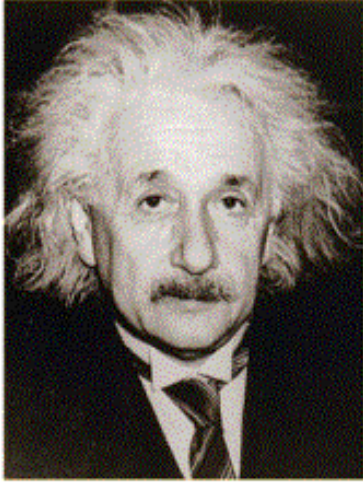
REWARDS



- ☐ Stable pension fund
- ☐ All contributions made are specific to employer- you get the benefit!
- ☐ Utilization of fund balance levied for IMRF expenses
- ☐ Contributions could earn additional interest

Action Steps

- Review Board Policies
- Meet with IMRF
- Board Understanding
- Board Resolution Required
- Payments Made by December 31 Each Year



**“The most powerful
force in the universe
is **compound
interest.**”**

Albert Einstein

Too little fund balance....

Possible outcomes of having too little fund balance:

- Cannot plan for capital projects
- Not adhering to board policy
- Negative impact on financial profile designation
 - One indicator is fund balance to revenue ratio - measures the overall strength of the district.

Fund Balance to Revenue Ratio (has a weighting of 35%)

- **Category 4** - Greater or equal to 25% (lowest risk)
- **Category 3** - Less than 25% but greater or equal to 10%
- **Category 2** - Less than 10% but greater or equal to 0%
- **Category 1** - Less than 0% (highest risk)



How to build fund balance

- Collective bargaining agreements
- Evaluating and negotiating vendor contracts
- Pursue cooperative agreements for purchasing
- Controlling/cutting internal costs
- Evaluate personnel plans and staffing and look for areas of overstaffing
- Re-visit capital projects longer term plan
- Issue bonds or debt
- **Build a strategic investment fund balance reserve portfolio**

“YOU CAN’T PREDICT THE MARKET, BUT YOU CAN PREPARE”

Howard Marks

How the Economic Markets Affect Fund Balances

- **Cost of Goods and Services- higher inflationary pressures (highest inflation rates since the 1980's)**
- **Wage Labor- U.S Wages, benefits rose at a two-decade high as inflation picks up**
 - March Average Hourly earnings rose .04% From February and 5.6% from a year ago, the most since May 2020
 - Illinois State job openings rate 7%, Unemployment Rate-6.7%
- Salary Increases, Health Benefits, Operating Costs rise quicker than CPI- Labor not included in CPI

Future Trends

- Response to Rising Inflation-Higher interest Rates- Creates a slow down in the economy –lower rates
 - Current Markets indicate we will see rates start to lower in early 2024
 - Prospective inflation rates over the next several quarters will dictate the length and strength of the domestic economic cycle. If inflation moderates, we could expect several more years of continued economic growth. If inflation doesn't moderate, risks of a domestic recession in late 2023 are a real possibility

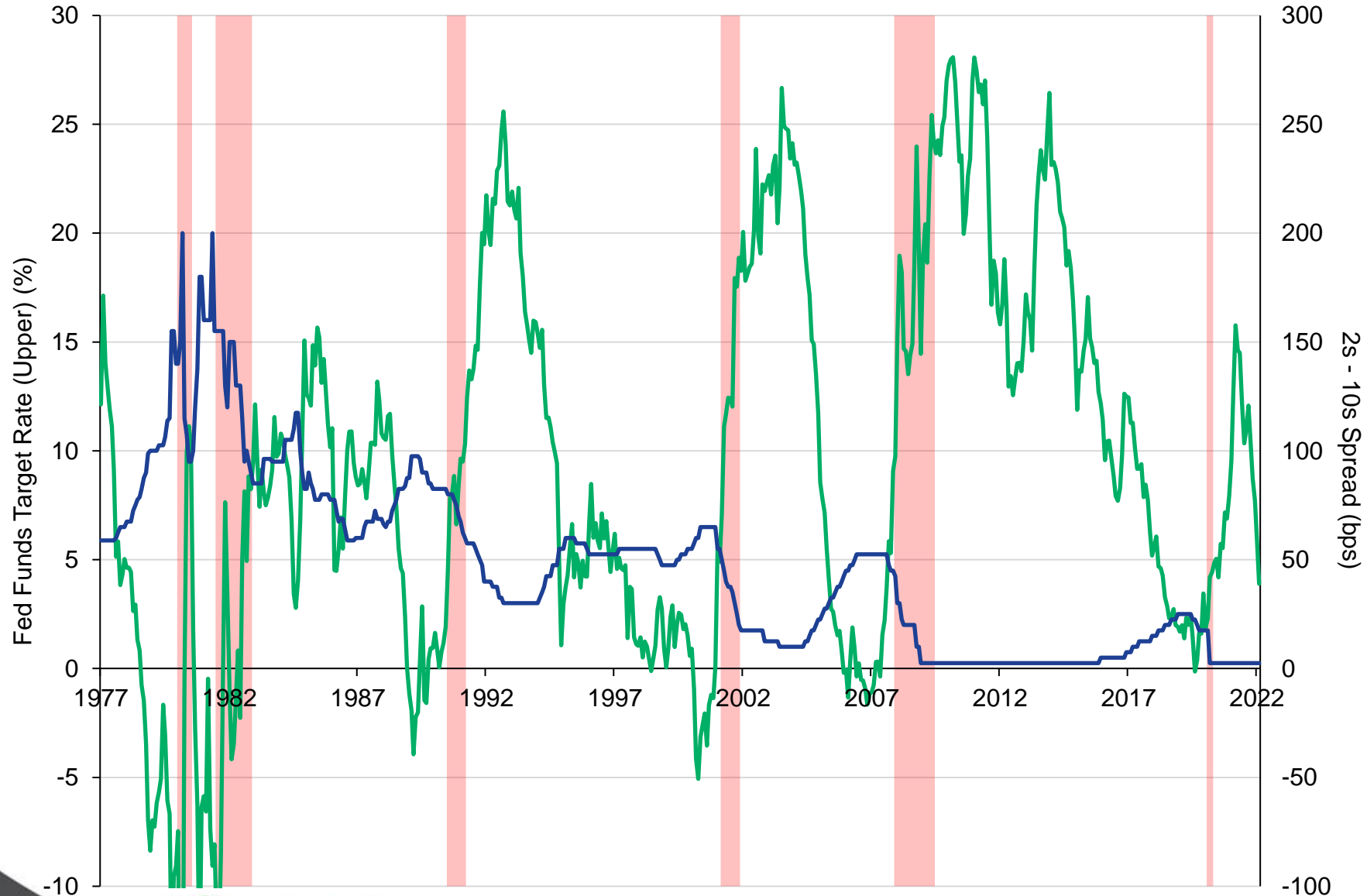
Current Economic Impact on Fund Balance

Country/Region/World		Contributor		Contributor Composite		Yearly		Quarter			
United States		Browse		Private		Official					
		Actual / Forecasts		Probability of Recession		25.0%					
Indicator		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Economic Activity											
+ Real GDP (YoY%)		2.7	1.7	2.3	2.9	2.3	-3.4	5.7	3.2	2.1	2.0
Industrial Production (YoY%)		-1.4	-2.2	1.3	3.2	-0.8	-7.2	5.6	4.4	2.4	2.0
Price Indices											
CPI (YoY%)		0.1	1.3	2.1	2.5	1.8	1.2	4.7	6.9	3.0	2.3
- PCE Price Index (YoY%)		0.2	1.0	1.8	2.2	1.5	1.2	3.9	5.5	2.8	2.3
Core PCE (yoy%)		1.3	1.6	1.7	2.0	1.7	1.4	3.3	4.7	2.8	2.2
Housing Market											
Housing Starts (000s SAA...)							1587	1641	1570	1531	
New Home Sales (000s S...							770	789	790	767	
Existing Home Sales (Mln...							6.1	6.2	5.9	5.8	
Building Permits (000s S...							1698	1765	1700	1700	
Labor Market											
Unemployment (%)		5.3	4.9	4.4	3.9	3.7	8.1	5.4	3.6	3.5	3.6
Non Farm Payrolls (000s...							550	353	159	129	
Average Hourly Earnings ...		2.5	2.7	2.7	3.4	2.9	5.5	4.9	5.3	4.1	3.6

Source: Bloomberg

U.S. Treasury 2s - 10s Curve vs. Fed Funds Upper Target, Since 1977

US Recessionary Period UST 2s - 10s Spread Fed Funds Rate - Upper Bound



US ECONOMY
IS A BUSINESS
CYCLE

Source: Bloomberg

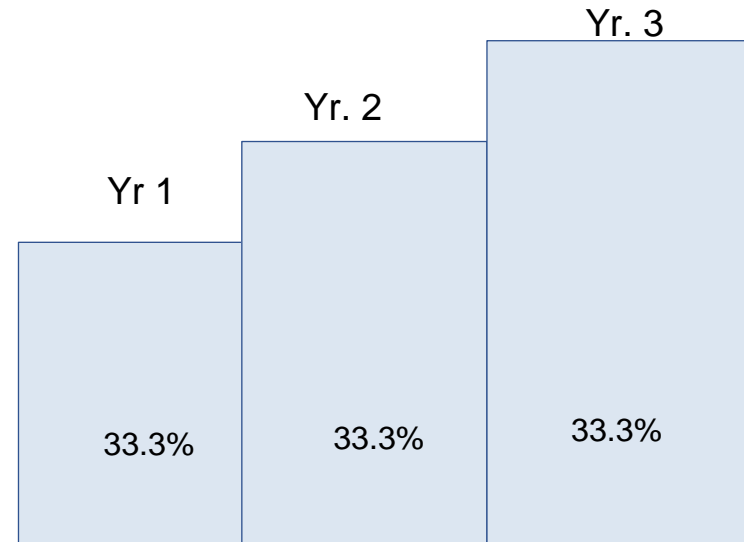
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STRONGER TOGETHER. SMARTER TOGETHER.

Laddered Bond Strategies For Fund Balances

- A bond ladder is built by equally weighting portfolio assets around the investor's targeted maturity or duration.



- In this example, a portfolio with a 1.5-year target maturity is equally weighted in maturities between 1 and 3 years.
- The bond ladder continues to be employed as the proceeds from the one-year maturity are used to purchase new 3-year bonds, while the remaining holdings all roll-down the maturity spectrum.. **Current 3 Year Treasury is a 2.78**



Create a Strategy to Enhance Revenue and Cash Needs

Report:	Book Yield by Final Maturity	
As of:	01/19/2022	
Base Currency:	USD	
Final Maturity By Year	Base Current Units	Book Yield
2022	10,835,000.00	1.579
2023	10,765,000.00	0.632
2024	10,119,000.00	0.578
2025	1,000,000.00	1.230
—	32,719,000.00	0.948

Source: Clearwater, Fifth Third Securities, Inc.

Identifier	Description	Security Type	Base Current Units	Book Yield	Final Maturity
14329NEC4	CARMEL IND REDEV A UTH LEA SE RENT REV	MUNI	500,000.00	1.900	02/01/2022
119677LE0	BUFFALO NY	MUNI	405,000.00	2.300	02/01/2022
7252087X4	PITTSBURGH PA	MUNI	890,000.00	3.350	03/01/2022
06279KV45	Bank of India, New York Branch	CD	245,000.00	0.150	03/09/2022
666613JU9	Northpointe Bank (Grand Rapids, MI)	CD	245,000.00	0.150	03/17/2022
31943LA W8	First Century Bank, National Association	CD	245,000.00	0.150	03/17/2022
062163BF6	Bank Forward	CD	245,000.00	2.650	03/18/2022
588493MT0	Merchants Bank of Indiana	CD	245,000.00	0.233	03/22/2022
949763YT7	Wells Fargo Bank, National Association	CD	245,000.00	2.750	03/28/2022
35137RBJ0	FOX CROSSING VLG WIS	MUNI	375,000.00	0.200	04/01/2022
022661BD3	Amalgamated Bank of Chicago	CD	245,000.00	2.500	04/18/2022
977100DY9	WISCONSIN ST GEN FD ANNUAL APPROPRIATION REV	MUNI	550,000.00	1.800	05/01/2022
59013KAF3	Menick Bank Corporation	CD	245,000.00	2.450	05/09/2022
549104GQ4	Luana Savings Bank	CD	245,000.00	2.300	06/07/2022
33847E2K2	Flagstar Bank, FSB	CD	245,000.00	2.450	06/13/2022
60685BLS8	Mizrahi Tefahot Bank, Ltd. (Los Angeles, CA)	CD	245,000.00	0.200	06/13/2022
14042RMB4	Capital One, National Association	CD	245,000.00	2.200	06/27/2022
45776NDD5	InsBank	CD	245,000.00	2.100	06/28/2022
31860PAM0	The First and Farmers Bank	CD	245,000.00	1.900	07/25/2022
20772JL75	CONNECTICUT ST	MUNI	500,000.00	1.950	08/01/2022
02007GLA9	Ally Bank	CD	245,000.00	2.150	08/08/2022
843879DD6	Southern States Bank	CD	245,000.00	0.200	08/12/2022
857894E62	Steam s Bank National A ssociation	CD	245,000.00	1.700	08/16/2022
6022453H3	MILWAUKEE CNTY WIS	MUNI	500,000.00	0.301	09/01/2022
45581EBR1	Industrial and Commercial Bank of China (USA), Nat	CD	245,000.00	0.200	09/23/2022
29278TLZ1	EnerBank USA	CD	245,000.00	1.750	10/25/2022
61690UNY2	Morgan Stanley Bank, N.A.	CD	245,000.00	1.850	11/21/2022
61760A3A5	Morgan Stanley Private Bank, National Association	CD	245,000.00	1.800	11/21/2022
75472RAL5	Raymond James Bank	CD	245,000.00	1.750	11/28/2022
788278KF5	ST CLAIR CNTY ILL PUB BLDG COMMN BLDG REV	MUNI	235,000.00	1.450	12/01/2022
78658RGE5	Safa National Bank of New York	CD	245,000.00	0.255	12/08/2022
029733CJ9	American State Bank (Osceola, IA)	CD	245,000.00	1.600	12/13/2022
912828YW4	UNITED STATES TREA SURY	US GOV	1,000,000.00	0.307	12/15/2022
—	—	—	10,835,000.00	1.579	07/02/2022



Why a Fund Balance Strategy ??

Book Yield As of:	12/31/2018	
Final Maturity By Year	Base Current Units	Book Yield
2019	7,944,000.00	1.631
2020	8,445,000.00	1.999
2021	7,595,000.00	2.907
--	23,984,000.00	2.165

Book Yield As of:	12/31/2019	
Final Maturity By Year	Base Current Units	Book Yield
2020	6,445,000.00	1.894
2021	6,120,000.00	2.623
2022	8,217,000.00	1.937
--	20,782,000.00	2.126

Pandemic!!!!!!!!!!!!!!!!!!!!!!

Treasury	3 Month	1 Year	2 Year	3 Year	5 Year
11/22/2021	0.02	0.15	0.6	0.9	1.3
7/27/2021	0.04	0.05	0.2	0.35	0.69
6/21/2021	0.03	0.08	0.25	0.5	0.91
3/30/2021	0.01	0.05	0.16	0.34	0.93
12/31/2020	0.07	0.1	0.12	0.36	0.36
9/30/2020	0.09	0.11	0.12	0.27	0.27
6/30/2020	0.13	0.15	0.14	0.28	0.28
3/31/2020	0.09	0.15	0.25	0.37	0.37
12/31/2019	1.54	1.53	1.56	1.54	1.69
12/31/2018	2.45	2.63	2.63	2.45	2.51
Change from 03/31/20	-0.07	0	0.35	0.53	0.93
Change from 12/31/2019	-1.52	-1.38	-0.96	-0.64	-0.39
Change from 12/31/2018	-2.43	-2.48	-2.03	-1.55	-1.21

Book Yield As Of	12/31/2020	
Final Maturity By Year	Base Current Units	Book Yield
2021	5,630,000.00	2.703
2022	7,010,000.00	1.279
2023	8,501,000.00	0.573
--	21,141,000.00	1.373

Book Yield	AS OF 12/6/2021	
Final Maturity By Year	Base Current Units	Book Yield
2021	1,990,000.00	2.317
2022	9,410,000.00	1.967
2023	9,520,000.00	0.643
2024	7,969,000.00	0.472
--	28,889,000.00	1.146



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Source: Clearwater, Fifth Third Securities, Inc.



STRONGER TOGETHER. SMARTER TOGETHER.

Maximizing Reserve Funds to Offset Unexpected Costs Increases and Build Fund Balances

Portfolio Yield	2.05	
Par Amount	\$ 6,000,000.00	
Total Interest	\$ 245,683.94	Based on Yield

Par Amount	CUSIP	Security Name	Mty	Type	Yield
\$ 500,000.00	9128282P4	T 1 7/8 07/31/22	7/31/2022	Treasury	0.79
\$ 500,000.00	912828M49	T 1 7/8 10/31/22	10/31/2022	Treasury	1.28
\$ 500,000.00	912828Z29	T 1 1/2 01/15/23	1/15/2023	Treasury	1.61
\$ 500,000.00	912828R28	T 1 5/8 04/30/23	4/30/2023	Treasury	1.96
\$ 500,000.00	912828Y61	T 2 3/4 07/31/23	7/31/2023	Treasury	2.22
\$ 500,000.00	912828T91	T 1 5/8 10/31/23	10/31/2023	Treasury	2.38
\$ 500,000.00	9128285Z9	T 2 1/2 01/31/24	1/31/2024	Treasury	2.53
\$ 500,000.00	9128286R6	T 2 1/4 04/30/24	4/30/2024	Treasury	2.59
\$ 500,000.00	9128282N9	T 2 1/8 07/31/24	7/31/2024	Treasury	2.67
\$ 500,000.00	9128283D0	T 2 1/4 10/31/24	10/31/2024	Treasury	2.75
\$ 500,000.00	9128283V0	T 2 1/2 01/31/25	1/31/2025	Treasury	2.77
\$ 500,000.00	91282CEH0	T 2 5/8 04/15/25	4/15/2025	Treasury	2.78



Cash Flow Report- Coupon/Dividend- Forecasting Revenue

Report:	Cash Flow - Coupon/Dividend		
Account:			
Projected Cashflows For:	01/19/2022 - 01/18/2028		
Base Currency:	USD		
Date Groups	Transaction Type Group	Amount	Ending Cash Balance
01/19/2022 - 01/31/2022	Coupon/Dividend	8,997.06	8,997.06
02/01/2022 - 02/28/2022	Coupon/Dividend	38,083.95	47,081.01
03/01/2022 - 03/31/2022	Coupon/Dividend	57,882.95	104,963.95
04/01/2022 - 04/30/2022	Coupon/Dividend	16,348.12	121,312.08
05/01/2022 - 05/31/2022	Coupon/Dividend	23,521.81	144,833.89
06/01/2022 - 06/30/2022	Coupon/Dividend	32,775.87	177,609.76
07/01/2022 - 07/31/2022	Coupon/Dividend	17,310.46	194,920.22
08/01/2022 - 08/31/2022	Coupon/Dividend	28,643.40	223,563.61
09/01/2022 - 09/30/2022	Coupon/Dividend	26,467.59	250,031.21
10/01/2022 - 10/31/2022	Coupon/Dividend	9,449.20	259,480.41
11/01/2022 - 11/30/2022	Coupon/Dividend	13,958.79	273,439.20
12/01/2022 - 12/31/2022	Coupon/Dividend	14,452.40	287,891.60
01/01/2023 - 01/31/2023	Coupon/Dividend	27,488.16	315,379.77
02/01/2023 - 02/28/2023	Coupon/Dividend	10,434.78	325,814.55
03/01/2023 - 03/31/2023	Coupon/Dividend	14,756.73	340,571.27
04/01/2023 - 04/30/2023	Coupon/Dividend	6,445.69	347,016.96
05/01/2023 - 05/31/2023	Coupon/Dividend	7,813.69	354,830.65
06/01/2023 - 06/30/2023	Coupon/Dividend	9,401.13	364,231.78
07/01/2023 - 07/31/2023	Coupon/Dividend	22,078.08	386,309.86
08/01/2023 - 08/31/2023	Coupon/Dividend	10,321.68	396,631.54
09/01/2023 - 09/30/2023	Coupon/Dividend	4,788.40	401,419.94
10/01/2023 - 10/31/2023	Coupon/Dividend	13,244.42	414,664.37
11/01/2023 - 11/30/2023	Coupon/Dividend	5,478.77	420,143.13
12/01/2023 - 12/31/2023	Coupon/Dividend	4,041.99	424,185.12
01/01/2024 - 01/31/2024	Coupon/Dividend	10,926.72	435,111.84
02/01/2024 - 02/29/2024	Coupon/Dividend	8,729.51	443,841.35
03/01/2024 - 03/31/2024	Coupon/Dividend	1,151.37	444,992.72
04/01/2024 - 04/30/2024	Coupon/Dividend	10,815.65	455,808.37
05/01/2024 - 05/31/2024	Coupon/Dividend	4,522.14	460,330.51
06/01/2024 - 06/30/2024	Coupon/Dividend	3,270.66	463,601.17
07/01/2024 - 07/31/2024	Coupon/Dividend	11,073.05	474,674.21
08/01/2024 - 08/31/2024	Coupon/Dividend	2,614.22	477,288.43
09/01/2024 - 09/30/2024	Coupon/Dividend	2,114.07	479,402.50
10/01/2024 - 10/31/2024	Coupon/Dividend	1,274.67	480,677.17
11/01/2024 - 11/30/2024	Coupon/Dividend	4,394.60	485,071.77
01/01/2025 - 01/31/2025	Coupon/Dividend	6,250.00	491,321.77
—	Coupon/Dividend	491,321.77	491,321.77



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++ Services and activities offered through Fifth Third Securities, Inc.

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Questions and Answers

We thank you for your time!

Presenters:

MODERATOR INFO:

Eric Miller, Asst. Supt; Glenview 34

PANELISTS INFO:

Alicia Cieszykowski, CSBO; Mannheim School District 83
(847) 455-4413 x1236; cieszykowskia@d83.org

Lauren Hummel, COO: Township High School District 211
(847) 755-6612; lhummel@d211.org

Sheetal Rai, Managing Director; Fifth Third Securities
(312) 704-6140; sheetal.raai@53.com