

# **Illinois Metropolitan Investment Fund**

**Comprehensive Annual Financial Report  
Year ended September 30, 2006**

# ILLINOIS METROPOLITAN INVESTMENT FUND

Comprehensive Annual Financial Report  
Year Ended September 30, 2006

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## **INTRODUCTORY SECTION**

Dear Fellow IMET Participants:

We hereby submit to you the tenth Comprehensive Annual Financial Report of the Illinois Metropolitan Investment Fund (IMET) which covers the fiscal year of October 1, 2005 through September 30, 2006. The 2006 fiscal year was busy and productive, with IMET offering two investment funds as well as arbitrage rebate calculation services to its membership. The Federal Reserve Bank continued to tighten short-term interest rates through June of 2006 and then held steady for the remainder of IMET's fiscal year. This interest rate environment proved beneficial for investors in the IMET Convenience Series, as the IMET Convenience Series return is fixed to the federal funds target rate and adjusted upwards with each tightening move. Interest rates also proved beneficial for the IMET 1-3 Year Series, particularly as short-term rates stabilized during the latter half of the fiscal year. Combined net assets for both series increased by a full 21 percent during the fiscal year from \$289,041,148 to \$349,728,903.

The 2006 fiscal year also brought operational change and improvement, as IMET once again evaluated its contractual relationships in the ongoing effort to provide the best service possible to IMET participants at a reasonable, pooled price. In 2006, IMET issued a Request for Proposals for custody, transfer agent, and fund accounting services. In accordance with evaluation of the proposals, the IMET Board of Trustees selected PMA Financial Network as the new provider of transfer agent and fund accounting services and selected Harris Bank as IMET's new custodial bank. IMET's previous partner, Fifth Third Bank, provided fund accounting, transfer agent, and custodial services to IMET from April 2002 through October 2006.

As a result of the new partnerships, IMET benefits from several enhancements:

- The Fund has a new online transaction and reporting system that allows participants to initiate deposits, withdrawals and fund transfers online. Previously, participants had online information access exclusively -- without transaction capabilities.
- Participants are now able to choose whether to receive transaction confirmations and account statements via U.S. mail, online access, or even via password protected email.
- IMET participants can now access the IMET Operations Desk at a very easy-to-remember toll free number: 888/288-IMET.
- Transaction requests may be placed up to one year in advance, and county tax revenues can now be issued directly to the IMET Fund.

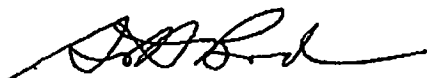
As part of creating more user-friendly online account information and reporting functions, IMET issued a Request for Proposals for website redesign during fiscal year 06. With the assistance of Mr. Chuck Vavra of the Z Plane, Inc., IMET is nearing completion of its website redesign; this redesign will improve user navigation and will facilitate more timely updates to the website.

Fiscal year 2006 also brought a new rating service to IMET and its investors. On June 1, 2006, IMET was delighted to announce that the Standard & Poor's rating service had assigned IMET the highest credit and market risk ratings. Standard & Poor's has assigned its 'AAA' credit quality rating and 'S1' volatility rating to the IMET 1-3 Year Series.

Through all of the changes, IMET is pleased and proud to be supported by a strong, dedicated staff as well as led and directed by a talented and committed group of IMET trustees. In addition to Michelle Saddler's continued work as Executive Director, Public Funds Associate Deb Zimmerman was promoted in December 2005 to the role of Associate Director. Deb has been with IMET since November of 2001. Together with selected members of the board, staff led the IMET organization in 2006 through a comprehensive strategic planning retreat and development of a new three-year business plan. We are pleased and excited that this new plan includes active recruitment of new members from public agencies such as park, school and library districts.

Finally, in fiscal year 2006 IMET recognized with appreciation the longstanding service of two retiring trustees who served as founding members of the IMET Board. Bill Brimm of the Village of Buffalo Grove and John Crois of the City of Yorkville (formerly with the Village of Westchester) stepped down after serving for more than ten full years as trustees. IMET is indebted to them for their leadership and vision. IMET also expressed its indebtedness to two other retiring trustees who have made invaluable contributions during their tenure. Laura Vesecky of the Intergovernmental Risk Management Agency (IRMA) and Christy Powell of the Geneva Park District (formerly the Village of Riverside) stepped down from the board also during the 2006 fiscal year. We are grateful to our former trustees, and we welcome the arrival of four new board members under IMET's updated and expanded nominating procedures: Kevin Barr of the Village of Schiller Park, Elizabeth Holleb (formerly Elizabeth Spencer) of the City of Highland Park, Michael Mondschain of the Village of Wheeling, and Sue Stanish from the Village of Willowbrook. Each member of the board, each volunteer on IMET's standing committees, and each participant make IMET the strong, creative and cooperative membership organization that is and will continue to be.

In service with you,



Scott Bordui  
IMET Chair



Michelle R. B. Saddler  
IMET Executive Director

# ILLINOIS METROPOLITAN INVESTMENT FUND

Board of Trustees  
September 30, 2006

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## ILLINOIS METROPOLITAN INVESTMENT FUND

1616 E. Golf Road  
Des Plaines, IL 60016  
Telephone: (847) 296-9200, ext. 38  
Facsimile: (847) 296-9207

### BOARD OF TRUSTEES

Chairman: Scott Bordui  
Village of Flossmoor

Vice Chairman: Gary Holmes  
Village of Lemont

Treasurer: Robert Nowak  
Village of Skokie

Secretary: Leonard J. Flood  
Village of Lombard

Trustee: Kevin Barr  
Village of Schiller Park

Trustee: Michael Mondschain  
Village of Wheeling

Trustee: Elizabeth Holleb  
City of Highland Park

Trustee: Sue Stanish  
Village of Willowbrook

Executive Director: Michelle R. B. Saddler

# **ILLINOIS METROPOLITAN INVESTMENT FUND**

Supporting Chicago Area Councils of Government  
and External Advisors  
September 30, 2006

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## **SUPPORTING CHICAGO AREA COUNCILS OF GOVERNMENT**

### **DUPAGE MAYORS AND MANAGERS CONFERENCE**

Mark Baloga  
Executive Director

### **NORTHWEST MUNICIPAL CONFERENCE**

Mark Fowler  
Executive Director

### **SOUTH SUBURBAN MAYORS AND MANAGERS ASSOCIATION**

Ed Paesel  
Executive Director

### **WEST CENTRAL MUNICIPAL CONFERENCE**

Donald Storino  
Executive Director

### **WILL COUNTY GOVERNMENTAL LEAGUE**

Steven Quigley  
Executive Director

## **EXTERNAL ADVISORS**

### **INVESTMENT ADVISOR**

JP Morgan Asset Management  
Chicago, Illinois  
Columbus, Ohio

### **FUND ACCOUNTANT AND CUSTODIAN**

Fifth Third Bancorp  
Rolling Meadows, Illinois

### **EXTERNAL PERFORMANCE MONITORING**

The Consulting Group of Smith Barney  
Deerfield, Illinois

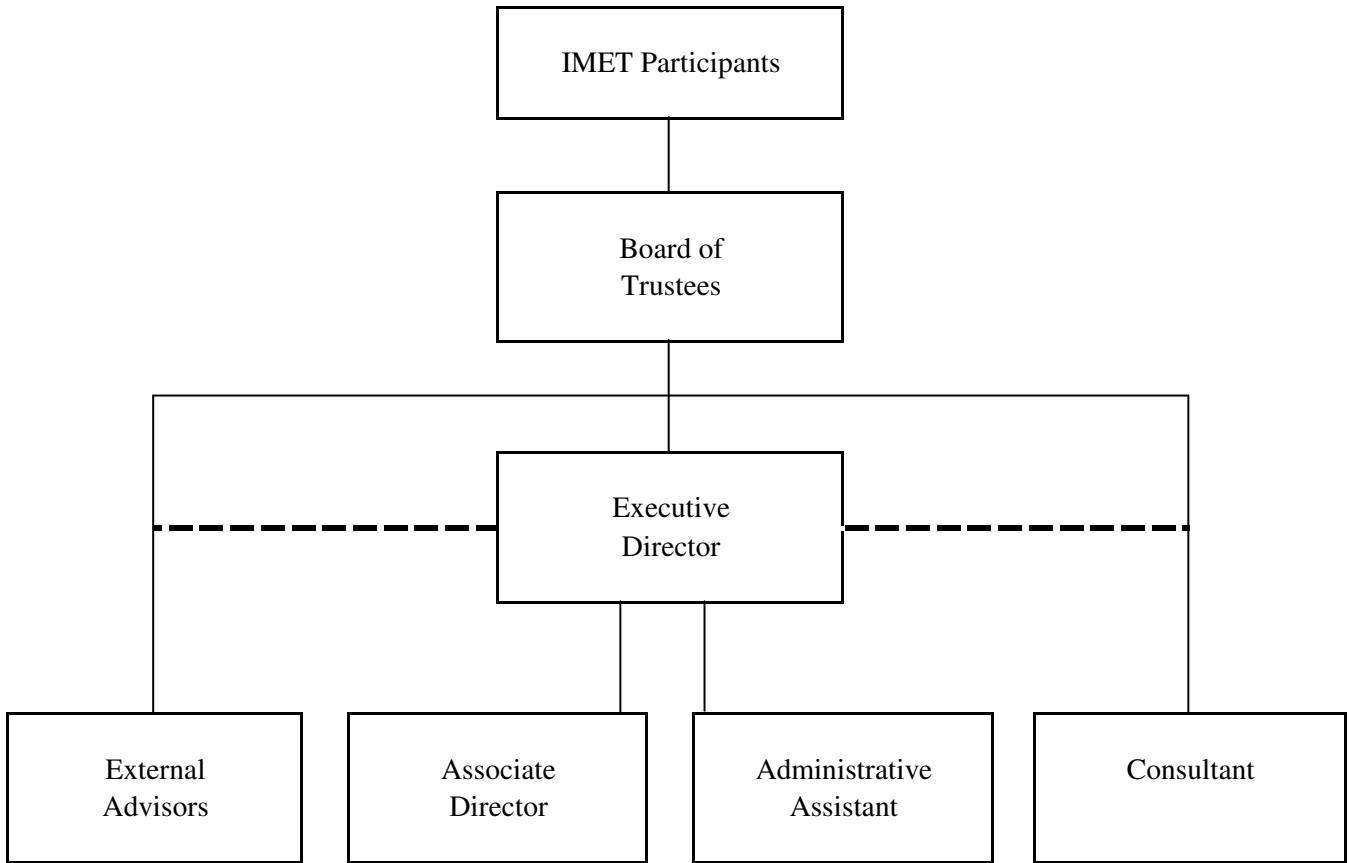
### **LEGAL COUNSEL**

Chapman and Cutler LLP  
Chicago, Illinois

# ILLINOIS METROPOLITAN INVESTMENT FUND

Organizational Chart  
September 30, 2006

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## **FINANCIAL SECTION**

# MILLER COOPER & Co., Ltd

ACCOUNTANTS AND CONSULTANTS

## INDEPENDENT AUDITORS' REPORT

The Board of Trustees  
Illinois Metropolitan Investment Fund  
Des Plaines, Illinois

We have audited the accompanying combining statement of net assets of the Illinois Metropolitan Investment Fund (IMET) as of September 30, 2006, and the related combining statement of changes in net assets for the year then ended. These financial statements are the responsibility of IMET's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Illinois Metropolitan Investment Fund as of September 30, 2006, and the changes in its net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 6 and the schedule of funding progress on page 17 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise IMET's basic financial statements. The accompanying schedule of investments, listed in the table of contents as supplementary information, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Board of Trustees  
Illinois Metropolitan Investment Fund  
Des Plaines, Illinois

(Continued)

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The accompanying introductory and statistical sections, as listed in the table of contents, are presented for the purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

MILLER, COOPER & CO., LTD.

*Miller, Cooper & Co., Ltd.*

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Certified Public Accountants

Northbrook, Illinois  
December 14, 2006

# ILLINOIS METROPOLITAN INVESTMENT FUND

## Management Discussion and Analysis

Year ended September 30, 2006

Management is pleased to provide this overview and analysis of the financial activities of the Illinois Metropolitan Investment Fund (IMET) for the years ended September 30, 2005 and September 30, 2006. This information is intended to supplement the financial statements, which begin on page seven of the report.

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### *Financial Highlights*

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Fiscal year of 2006, saw a strong increase in assets, as total assets in FY2006 increased by a strong \$57,192,268 to a balance of \$349,808,872 as of September 30, 2006. Total assets of the IMET 1-3 Year Series decreased by \$43,404,575 during fiscal year 2006, while total assets of the IMET Convenience Series increased by \$100,596,843 to a balance of \$219,009,463 as of September 30, 2006.

During fiscal year 2005, total assets of IMET (including the IMET 1-3 Year Series and the IMET Convenience Series) decreased by \$6,291,052 to a balance of \$292,616,604 as of September 30, 2005. Total assets of the IMET 1-3 Year Series decreased by \$112,369,231 to a balance of \$174,203,984, while total assets of the IMET Convenience Series increased by \$106,078,179 to a balance of \$118,412,620 as of September 30, 2005.

Participants' equity in IMET was \$289,041,148 (\$170,651,850 in the IMET 1-3 Year Series and \$118,389,298 in the IMET Convenience Series) as of September 30, 2005 and \$349,728,903 (\$130,764,704 in the IMET 1-3 Year Series and \$218,964,199 in the IMET Convenience Series) as of September 30, 2006.

During fiscal year 2005 as well as fiscal year 2006, IMET's 1-3 Year Series successfully accomplished its investment objective of meeting or exceeding the return on the benchmark Lehman 1-3 Year Government Bond Index on a gross-of-fees basis. Due to a rising interest rate environment, the IMET Convenience Series provided outstanding performance, outperforming both the IMET 1-3 Year Series as well as shorter-term Treasury Bills.

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### *Overview of the Financial Statements*

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The two basic financial statements of the Fund are the *Statement of Net Assets* and the *Statement of Changes in Net Assets*. The statements are prepared in conformity with accounting principles generally accepted in the United States of America.

The *Statements of Net Assets* are a measure of the Fund assets and liabilities at the close of the fiscal year. Total assets less liabilities equal net assets held in trust for IMET participants. The following table is a Condensed Statement of Net Assets for the years ended September 30, 2006 and September 30, 2005.

**Condensed Statement of Net Assets**

	IMET 1-3 Year Series 2006	IMET 1-3 Year Series 2005	IMET Convenience Series 2006	IMET Convenience Series 2005	Total 2006	Total 2005
Total assets	\$130,799,409	\$174,203,984	\$219,009,463	\$118,412,620	\$349,808,872	\$292,616,604
Total liabilities	\$34,705	\$3,552,134	\$45,264	\$23,322	\$79,969	\$3,575,456
Total net assets	\$130,764,704	\$170,651,850	\$218,964,199	\$118,389,298	\$349,728,903	\$289,041,148

The *Statements of Changes in Net Assets* show purchases to and redemptions (withdrawals) from the Fund, as well as additions and deductions due to operations during the fiscal year. The net increase (or decrease) is the change in net assets owned by participants since the end of the previous fiscal year. The following table is a Condensed Statement of Changes in Net Assets for the years ended September 30, 2006 and September 30, 2005.

**Condensed Statement of Changes in Net Assets**

	IMET 1-3 Year Series 2006	IMET 1-3 Year Series 2005	IMET Conv. Series 2006	IMET Conv. Series 2005	Total 2006	Total 2005
Total additions from operations	\$5,287,789	\$2,186,702	\$8,925,306	\$1,851,089	\$14,213,095	\$4,037,791
Total operating expenses	\$408,103	\$638,938	\$455,349	\$126,288	\$863,452	\$765,226
Net additions from operations	\$4,879,686	\$1,547,764	\$8,469,957	\$1,724,801	\$13,349,643	\$3,272,565
Total distributions	-	-	(\$8,469,957)	(\$1,724,801)	(\$8,469,957)	(\$1,724,801)
Net additions (deductions) from capital share and individual account transactions	(\$44,766,832)	(\$116,006,460)	\$100,574,901	\$106,064,220	\$55,808,069	(\$9,942,240)
Net increase (decrease)	(\$39,887,146)	(\$114,458,696)	\$100,574,901	\$106,064,220	\$60,687,755	(\$8,394,476)
Net assets held in trust for participants:						
Beginning of year	\$170,651,850	\$285,110,546	\$118,389,298	\$12,325,078	\$289,041,148	\$297,435,624
End of year	\$130,764,704	\$170,651,850	\$218,964,199	\$118,389,298	\$349,728,903	\$289,041,148

The *Notes to Financial Statements* are a fundamental part of the financial statements and provide important information to augment the figures in the financial statements. The notes describe accounting policies and other financial information.

A *Schedule of Investments* is included to detail the types and amount of investment instruments held by the IMET 1-3 Year Series.

## *Financial Statement Analysis*

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### *Net Assets*

During the year ended September 30, 2005, IMET's total net assets decreased by \$8,394,476, to a total balance of \$289,041,148. This decrease occurred as the Federal Reserve's policymaking Open Market Committee (FOMC) continued its tightening cycle and increased short-term interest rates eight times during the 2005 fiscal year. These rising rates provided downward price pressure on the bond market and corresponding pressures on IMET 1-3 year investments. Many of the redemption transactions were, in fact, transfers from the IMET 1-3 Year Series to the IMET Convenience Series, as the IMET Convenience Series benefited each time the Federal Reserve increased short-term rates.

The rising interest rate environment continued through most of fiscal year 2006, as rates were tightened six additional times from October 2005 through September 2006. Total net assets of IMET increased by \$60,687,755 during fiscal year 2006. This net increase in total assets, in large part, was the result of participants investing bond proceeds and available short-term funds in IMET's shorter-term investment alternative, the IMET Convenience Series. Participants made net redemptions from the IMET 1-3 Year Series of \$39,887,146 during fiscal year 2006, and participants made corresponding purchases in the IMET Convenience Series of \$100,574,901. The IMET Convenience Series was introduced in September 2003 in anticipation of a prolonged rising interest rate environment, and it provides participants with an additional investment alternative and greater predictability of returns.

### *Operations*

During the current fiscal year ended September 30, 2006, total additions from operations consisted of \$14,191,945 in interest income and, net appreciation in the fair value of investments of \$21,150. These amounts may be compared with \$8,275,204 of interest income offset by \$4,237,413 net depreciation in fair value of investments during the prior fiscal year, for total additions of \$14,213,095 in fiscal year 2006 compared to \$4,037,791 in fiscal year 2005.

Operating expenses of IMET were \$408,103 for the current fiscal year compared with \$765,226 for the prior fiscal year.

## *Summary of IMET Operations*

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During fiscal year 2006, IMET issued a Request for Proposals for custody, fund accounting, and transfer agent services. In accordance with evaluation of the proposals, the IMET Board of Trustees selected PMA Financial Network as the new provider of transfer agent and fund accounting services and selected Harris Bank as IMET's new custodial bank. IMET's previous partner, Fifth Third Bank, provided fund accounting, transfer agent, and custodial services to IMET from April 2002 through October of 2006.

As a result of the new partnerships, IMET members are now able to execute deposits, withdrawals, and fund transfers online. Previously, participants had online access to information but did not have transaction capabilities. Under the new contractual arrangements, participants

are now able to choose whether to receive transaction confirmations and account statements via U.S. mail, online access, or even via password protected email.

### *Investment Performance*

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Despite 17 consecutive rate increases by the Federal Open Market Committee since June 2004, IMET's 1-3 Year Series achieved its investment objective of meeting or exceeding the return on the Lehman 1-3 Year Government Bond Index on a gross-of-fees basis during the two most recent fiscal years. During fiscal year 2005, IMET delivered returns in excess of its performance benchmark, as IMET's gross one-year return for fiscal year 2005 was 1.19 percent, with a one-year return of 1.09 percent for the Lehman Index. During fiscal year 2006, IMET also achieved its investment objective of meeting or exceeding the return on the Lehman 1-3 Year Government Index on a gross-of-fees basis. IMET ended the fiscal year with a gross one-year return of 3.99 percent versus a one-year return of 3.82 percent for the Lehman Index.

Interest rate tightening by the Federal Reserve Bank resulted in 90-day Treasury bills outperforming the IMET 1-3 Year Series net return for both the 2005 and 2006 fiscal years. Negotiated enhancements to the IMET Convenience Series during fiscal year 2005, however, caused the IMET Convenience Series to outperform both the IMET 1-3 Year Series as well as 90-day Treasury Bills. Net of fees, the IMET 1-3 Year Series provided a net 12-month return of .91 percent in fiscal year 2005, versus a net 12-month return of 2.62 percent for 90-day Treasury bills, and a 12-month return of 2.64 percent for the IMET Convenience Series. During 2006, the IMET 1-3 Year Series provided a net return of 3.71 percent, versus 4.50 percent for 90 day Treasury bills, and 4.64 percent for IMET's Convenience Series.

For additional information regarding performance returns of IMET and asset allocation please refer to the Statistical Section on page 20 of this report.

#### *Requests for Information*

Questions about any information provided in this report should be addressed to:

The Illinois Metropolitan Investment Fund (IMET)  
ATTN: Executive Director  
1616 E. Golf Road  
Des Plaines, IL 60016

# Illinois Metropolitan Investment Fund

Combining Statement of Net Assets

September 30, 2006

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	<u>IMET 1 - 3 Year Series</u>	<u>IMET Convenience Series</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and short-term investments	\$ 367,877	\$ 219,009,463	\$ 219,377,340
Interest receivable	876,947	-	876,947
Securities sold receivable	49,422	-	49,422
Receivable for investment paydowns	14,580	-	14,580
Investments at fair value:			
U.S. Treasury obligations	65,827,538	-	65,827,538
U.S. Government agency obligations	55,744,216	-	55,744,216
Mortgage backed securities	5,069,871	-	5,069,871
Money market mutual funds	2,848,958	-	2,848,958
	<u>130,799,409</u>	<u>219,009,463</u>	<u>349,808,872</u>
Total assets			
<b>LIABILITIES</b>			
Payables:			
Management fee	28,896	-	28,896
Administrative and other	5,809	45,264	51,073
	<u>34,705</u>	<u>45,264</u>	<u>79,969</u>
Total liabilities			
<b>NET ASSETS</b>			
Net assets held in trust for participants (units outstanding: 8,213,887 and 218,964,199 at September 30, 2006 for IMET 1-3 Year Series and IMET Convenience Series, respectively; equivalent to \$15.92 and \$1.000 per unit outstanding at September 30, 2006 for IMET 1-3 Year Series and IMET Convenience Series, respectively)			
	<u>\$ 130,764,704</u>	<u>\$ 218,964,199</u>	<u>\$ 349,728,903</u>

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The accompanying notes are an integral part of this statement.



## Illinois Metropolitan Investment Fund

Combining Statement of Changes in Net Assets

Year ended September 30, 2006

	IMET 1 - 3 Year Series	IMET Convenience Series	Total
<b>Additions from operations:</b>			
Investment income			
Interest	\$ 5,266,639	\$ 8,925,306	\$ 14,191,945
Net appreciation in fair value of investments	<u>21,150</u>	<u>-</u>	<u>21,150</u>
Total additions from operations	<u>5,287,789</u>	<u>8,925,306</u>	<u>14,213,095</u>
<b>Deductions from operations:</b>			
Operating expenses:			
Management and administrative services	402,435	455,349	857,784
Compensation and related expenses	210,777	-	210,777
Professional services	18,442	-	18,442
Insurance	32,542	-	32,542
Audit	15,900	-	15,900
Marketing	33,135	-	33,135
Administrative and other	58,399	-	58,399
Less reimbursements for operating expenses	<u>(363,527)</u>	<u>-</u>	<u>(363,527)</u>
Total operating expenses	<u>408,103</u>	<u>455,349</u>	<u>863,452</u>
Net additions from operations	<u>4,879,686</u>	<u>8,469,957</u>	<u>13,349,643</u>
<b>Distributions</b>			
Distributions of income to participants	<u>-</u>	<u>(8,469,957)</u>	<u>(8,469,957)</u>
Total distributions	<u>-</u>	<u>(8,469,957)</u>	<u>(8,469,957)</u>
<b>Capital share and individual account transactions:</b>			
Proceeds from sale of units to participants	15,678,873	133,578,647	149,257,520
Distributions reinvested by participants	-	8,469,957	8,469,957
Cost of units redeemed by participants	<u>(60,445,705)</u>	<u>(41,473,703)</u>	<u>(101,919,408)</u>
Net additions (deductions) from capital share and individual account transactions	<u>(44,766,832)</u>	<u>100,574,901</u>	<u>55,808,069</u>
Net increase (decrease)	(39,887,146)	100,574,901	60,687,755
<b>Net assets held in trust for participants:</b>			
Beginning of year	<u>170,651,850</u>	<u>118,389,298</u>	<u>289,041,148</u>
End of year	<u>\$ 130,764,704</u>	<u>\$ 218,964,199</u>	<u>\$ 349,728,903</u>

The accompanying notes are an integral part of this statement.

**Illinois Metropolitan Investment Fund**  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2006

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NOTE A - NATURE OF OPERATIONS

The Illinois Metropolitan Investment Fund (IMET) is a quasi-governmental investment fund created under the Illinois Municipal Code. IMET, which was formed on July 17, 1996, actively manages two investment funds for municipal treasurers, official custodians of municipal funds, and other public agencies in the state of Illinois. These funds are the IMET 1-3 Year Series and the IMET Convenience Series. IMET also offers arbitrage rebate calculation services for participants whose bond proceeds are subject to federal arbitrage restrictions.

The IMET 1-3 Year Series is designed as an investment vehicle for funds not required for immediate expenditure and which are available for investment in securities with average maturities and returns generally greater than those for money market instruments.

The objectives of the IMET 1-3 Year Series are to provide a high current yield while maintaining safety and liquidity and to offer participation in a diversified portfolio of high-quality fixed income instruments permitted for investment under the Public Funds Investment Act of the State of Illinois. The IMET 1-3 Year Series seeks to ensure the preservation of capital with the objective of obtaining an appropriate market rate of return in relation to the prevailing monetary environment as measured by the Lehman Brothers 1-3 year Government Bond Index.

The IMET Convenience Series was established on September 2, 2003 as an investment alternative exclusively for IMET participants. All IMET participants have immediate access to an IMET Convenience Series account; no additional application is needed. The IMET Convenience Series is a fully collateralized, short-term money market instrument with one-day liquidity. It currently provides a return that is pegged to the federal funds target interest rate. It is intended for use as a short-term investment for funds that may or may not be needed for near-term disbursement.

The objective of the IMET Convenience Series is to provide a high current return while maintaining the safety and liquidity of public funds. The IMET Convenience Series serves as a companion vehicle to the IMET 1-3 Year Series and Arbitrage Rebate Calculation service. It provides a money market vehicle for the convenient investment of bond proceeds, for the temporary investment of longer-term intermediate funds, and/or for cash management and liquidity purposes.

**Illinois Metropolitan Investment Fund**  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2006

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**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Illinois Metropolitan Investment Fund (IMET) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of IMET's accounting policies are described below.

1. **Reporting Entity**

As defined by generally accepted accounting principles established by the Governmental Accounting Standards Board (GASB), the financial reporting entity consists of a primary government as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Based upon the required criteria, IMET has no component units and is not a component unit of any other entity.

2. **Cash and Short-term Investments**

At September 30, 2006, the IMET 1-3 Year Series had \$367,877 segregated for administrative costs and future investment activity. These funds are invested in money market funds and included as cash and short-term investments on the statement of net assets.

3. **Security Valuation**

Investments of the IMET 1-3 Year Series are reported at fair value based on market quotations obtained from a third-party provider. Securities for which quotations are not available are stated at fair value determined by the board of trustees.

The IMET Convenience Series' investments are reported at cost, which approximates fair value based on the nature of the investment.

4. **Security Transactions and Income**

Security transactions are accounted for no later than one business day after the securities are purchased or sold. Gains and losses on investments are realized at the time of the sale and the cost of securities sold is determined on the first-in, first-out basis. Interest income from fixed income and money market investments is accrued on a daily basis. Discounts and premiums on all fixed income securities are amortized or accreted on a constant-yield basis.

**Illinois Metropolitan Investment Fund**  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2006

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NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Subscriptions and Redemptions

Participants may subscribe to either of the funds on any business day. Purchase instructions received by IMET before 12:00 noon are credited to accounts at the net asset value as of the close of business that day. Participants may redeem shares of the IMET 1-3 Year Series with five days' notice at the net asset value as of the close of business on the third business day following the day of notification. Participants may redeem from the IMET Convenience Series with one day notice at the net asset value as of the day following notification. Redemptions from the IMET Convenience Series that are requested by noon central time will be completed on the same day.

6. Use of Estimates

In preparing IMET's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE C - DEPOSITS AND INVESTMENTS

At September 30, 2006, the bank balance and carrying amount of the IMET 1-3 Year Series' deposits were \$349,901 and \$367,877, respectively, representing the balance of cash and short-term investments. The deposits of the IMET 1-3 Year Series are insured, registered, or collateralized by securities recorded in the IMET 1-3 Year Series' name and held by the IMET 1-3 Year Series' agent.

At September 30, 2006, the bank balance and carrying amount of the IMET Convenience Series' deposits was \$219,009,463. The deposits of the IMET Convenience Series are insured, registered, or collateralized by securities recorded in the IMET Convenience Series' name and held by the IMET Convenience Series' agent.

**Illinois Metropolitan Investment Fund**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2006

NOTE C - DEPOSITS AND INVESTMENTS (Continued)

The following table presents a summarization of the fair values and duration of the IMET 1-3 Year Series investments at September 30, 2006.

	Fair Value	Duration (in years)
U.S. Treasury obligations	\$ 65,827,538	1.68
U.S. Government agency obligations	55,744,216	1.27
Mortgage backed securities	5,069,871	2.55
Money market mutual funds	2,848,958	-
Total investments	\$ 129,490,583	1.50

1. Interest Rate Risk

Through its investment policy, IMET manages its exposure to fair value losses of the IMET 1-3 Year Series arising from increasing interest rates by limiting the duration of its investment portfolio to within 25% of that of the Lehman Brothers 1-3 Year Government Bond Fund under normal conditions. The duration for total investments represents the weighted average of the durations for the respective categories of investments. The duration for the Lehman Brothers 1-3 Year Government Bond Fund was 1.73 years as of September 30, 2006.

2. Credit Risk

The investments in U.S. Treasury and Agency obligations carry the explicit guarantee of the United States Government. The investments in mortgage-backed securities are rated in the top rating category issued by nationally recognized statistical rating organizations. The investment in the Fifth Third U.S. Treasury Money Market Fund is not subject to credit risk categorization.

3. Concentration of Credit Risk

IMET's investment policy for the IMET 1-3 Year Series does not restrict the allowable concentration of total assets invested in the securities of the United States Government or its agencies.

**Illinois Metropolitan Investment Fund**  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2006

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NOTE D - FUND EXPENSES - IMET 1-3 YEAR SERIES

The total expenses, including consulting fees, for the IMET 1-3 Year Series were approximately 0.54% of the average daily net assets for the year ended September 30, 2006. The average daily net assets of the IMET 1-3 Year Series were approximately \$143.7 million for the year ended September 30, 2006. The contractually obligated expenses are described below.

1. Fund Management

IMET pays a management fee to JP Morgan Asset Management, which acts as the investment advisor.

In accordance with the amended advisory agreement effective January 1, 2005, the management fee is calculated each day and paid monthly based upon the average daily net assets of the fund as follows:

	<u>Fee Rate</u>
Average daily net assets:	
Until Fund reaches \$500 million	0.105%
After Fund reaches \$500 million	0.080%

Effective May 1, 2002, IMET also entered into an agreement with Fifth Third Bancorp to provide administrative services including fund accounting, transfer agent, and custody services. Effective April 1, 2003, the fee associated with these services is calculated at an annual rate of 0.04% for average daily net assets in excess of \$250 million and 0.05% of average daily net assets below \$250 million of average daily net assets.

For the year ended September 30, 2006, the IMET 1-3 Year Series incurred expenses of \$150,911 for services provided by JP Morgan Asset Management and \$71,865 for services provided by Fifth Third Bancorp. Fees for services provided by IMET's board, intended to reimburse operating expenses, totaled \$179,659.

For the year ended September 30, 2006, the IMET Convenience Series incurred expenses of \$91,822 for services provided by Fifth Third Bancorp. Fees for services provided by IMET's board, intended to reimburse operating expenses, totaled \$363,527 for the year ended September 30, 2006.

**Illinois Metropolitan Investment Fund**  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2006

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NOTE D - FUND EXPENSES - IMET 1-3 YEAR SERIES (Continued)

2. Consultant

The DuPage Mayors and Managers Conference, Northwest Municipal Conference, South Suburban Mayors and Managers Association, West Central Municipal Conference, and the Will County Governmental League act collectively as the IMET 1-3 Year Series' Consultant. Services provided by the Consultant typically include identification and solicitation of potential investors. The IMET 1-3 Year Series pays the Consultant an annual fee in arrears equal to 0.02% of the IMET 1-3 Year Series' average daily net assets for each fiscal year, not to exceed \$125,000 in any fiscal year. No annual fee shall be payable for any fiscal year unless the assets of the IMET 1-3 Year Series exceed \$100 million for at least 31 consecutive calendar days during such fiscal year and the total return to fund participants for such fiscal year equals or exceeds the average 90-day Treasury bill rate during such fiscal year. For fiscal year 2006, the IMET 1-3 Year Series' return did not exceed the average 90-day Treasury bill rate. Accordingly, the IMET 1-3 Year Series did not incur consulting fees expense for the year ended September 30, 2006.

3. Administrative and Other Expenses

In accordance with the various agreements, the IMET 1-3 Year Series calculates a daily accrual, at a rate of 0.125%, applied to the Series' net assets. The amounts accrued are deposited monthly in a money market fund and are withdrawn as needed to cover actual administrative expenses incurred to operate and market the IMET 1-3 Year Series, including the cost of the Executive Director and staff of IMET. To the extent that the accrued amounts exceed the actual expenses in any period, the IMET 1-3 Year Series may use these amounts to pay future expenses. Amounts remaining in the money market fund are included in net assets.

NOTE E - FUND EXPENSES - IMET CONVENIENCE SERIES

The IMET Convenience Series calculates a daily accrual, at contractual rates equivalent to 0.25%, applied to the IMET Convenience Series' net assets. The amounts accrued are to be deposited periodically in a separate account and withdrawn as needed to cover administrative expenses incurred by the Board of Trustees and Fifth Third Bancorp to operate and market the IMET Convenience Series. To the extent that the accrued amounts exceed the actual expenses in any period, the IMET Convenience Series may use these amounts to pay future expenses. For the year ended September 30, 2006, the IMET Convenience Series incurred expenses of \$455,349 for administrative expenses and services provided by Fifth Third Bancorp.

**Illinois Metropolitan Investment Fund**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2006

**NOTE F - UNIT TRANSACTIONS**

A summary of participants' unit transactions for the year ended September 30, 2006 is as follows:

	<u>IMET 1 - 3 Year Series</u>	<u>IMET Convenience Series</u>
Unit transactions:		
Issued	828,478	133,578,647
Distributions reinvested	-	8,469,957
Redeemed	<u>(3,733,030)</u>	<u>(41,473,703)</u>
Change in units	(2,904,552)	100,574,901
Unit outstanding:		
Beginning of year	<u>11,118,439</u>	<u>118,389,298</u>
End of year	<u><u>8,213,887</u></u>	<u><u>218,964,199</u></u>

**NOTE G - RETIREMENT FUND COMMITMENTS - ILLINOIS MUNICIPAL RETIREMENT FUND**

IMET's defined benefit pension plan, Illinois Municipal Retirement Fund (IMRF), provides retirement, disability, annual cost of living adjustments, and death benefits to plan members and beneficiaries. IMRF acts as a common investment and administrative agent for local governments and school districts in Illinois. The Illinois Pension Code establishes the benefit provisions of the plan that can only be amended by the Illinois General Assembly.

IMRF issues a financial report that includes financial statements and required supplementary information. The report may be obtained at [www.imrf.org/pubs/pubs\\_homepage.htm](http://www.imrf.org/pubs/pubs_homepage.htm) or by writing to the Illinois Municipal Retirement Fund, 2211 York Road, Suite 500, Oak Brook, Illinois 60523.

Employees participating in IMRF are required to contribute 4.50% of their annual covered salary. The member rate is established by state statute. IMET is required to contribute at an actuarially determined rate. The employer rate for calendar year 2005 was 12.35% of payroll. The employer contribution requirements are established and may be amended by the IMRF Board of Trustees. IMRF's unfunded actuarial liability is being amortized as a level percentage of projected payroll on a closed basis (overfunded liability amortized on open basis). The amortization period at December 31, 2005 was 32 years.



**Illinois Metropolitan Investment Fund**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2006

**NOTE G - RETIREMENT FUND COMMITMENTS - ILLINOIS MUNICIPAL RETIREMENT FUND**  
(Continued)

For December 31, 2005, IMET's annual pension cost of \$19,931 was equal to IMET's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) 7.50% investment rate of return (net of administrative expenses), (b) projected salary increases of 4.00% a year, attributable to inflation, (c) additional projected salary increases ranging from 0.40% to 11.60% per year depending on age and service, attributable to seniority/merit, and (d) postretirement benefit increases of 3.00% annually. The actuarial value of IMRF assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period with a 15% corridor. The assumptions used for the 2005 actuarial valuation were based on the 2002-2004 experience study.

1. Trend Information

<u>Actuarial Valuation Date</u>	<u>Annual Pension Cost</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/2005	\$ 19,931	100%	\$ -
12/31/2004	20,870	100%	-
12/31/2003	8,082	100%	-

IMET began participating in the Illinois Municipal Retirement Fund during the calendar year ended December 31, 2003. Accordingly, only three years of trend information has been presented.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Illinois Metropolitan Investment Fund**  
Required Supplementary Information - Schedule of Funding Progress  
Illinois Municipal Retirement Fund  
September 30, 2006

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) - Entry Age	(2) - (1) Unfunded AAL (UAAL)	(1) / (2) Funded Ratio	(3) Covered Payroll	UAAL as a Percentage of Covered Payroll ((2-1)/3)
12/31/2005	\$ 88,603	\$ 207,086	\$ 118,483	42.79%	\$ 161,387	73.42%
12/31/2004	49,367	135,388	86,021	36.46%	162,665	52.88%
12/31/2003	12,072	57,025	44,953	21.17%	62,993	71.36%

IMET began participating in the Illinois Municipal Retirement Fund during the calendar year ended December 31, 2003. Accordingly, only three years of information has been presented in the schedule of funding progress.

On a market value basis, the actuarial value of assets as of December 31, 2005 is \$89,342. On a market basis, the funded ratio would be 43.14%.

The actuarial assumptions used to determine the actuarial accrued liability for 2005 are based on the 2002 - 2004 Experience Study.

The principal changes were

- The 1994 Group Annuity Mortality was implemented.
- For regular members, fewer normal and more early retirements are expected to occur.

## **SUPPLEMENTARY INFORMATION**

## Illinois Metropolitan Investment Fund

Schedule of Investments

IMET 1-3 Year Series

September 30, 2006

Units/ par value	Description	Rate	Maturity	Market value
U.S. Treasury Obligations: 50.8%				
\$ 3,000,000	U.S. Treasury Bond	4.750%	11/15/2008	\$ 3,004,101
3,000,000	U.S. Treasury Note	6.125%	8/15/2007	3,029,883
3,000,000	U.S. Treasury Note	5.625%	5/15/2008	3,040,899
5,000,000	U.S. Treasury Bond	4.875%	5/15/2009	5,028,905
5,000,000	U.S. Treasury Note	3.125%	10/15/2008	4,850,000
4,500,000	U.S. Treasury Note	3.125%	9/15/2008	4,369,923
3,000,000	U.S. Treasury Note	3.375%	10/15/2009	2,895,468
3,000,000	U.S. Treasury Note	3.625%	1/15/2010	2,911,056
12,500,000	U.S. Treasury Note	3.375%	2/15/2008	12,264,163
2,500,000	U.S. Treasury Note	4.000%	9/30/2007	2,477,443
10,000,000	U.S. Treasury Note	2.750%	8/15/2007	9,812,500
5,000,000	U.S. Treasury Note	3.000%	11/15/2007	4,898,440
5,000,000	U.S. Treasury Note	3.250%	1/15/2009	4,849,220
2,500,000	U.S. Treasury Note	6.125%	8/15/2007	2,395,537
				65,827,538
U.S. Government Agency Obligations: 43.0%				
\$ 3,000,000	Federal Farm Credit Bank	3.625%	10/24/2008	2,920,323
500,000	Federal Home Loan Bank	2.250%	6/26/2007	489,379
1,265,000	Federal Home Loan Bank	3.080%	10/24/2008	1,218,001
4,000,000	Federal Home Loan Bank	4.250%	9/12/2008	3,944,896
3,500,000	Federal Home Loan Bank	4.250%	4/16/2007	3,480,670
5,000,000	Federal Home Loan Bank	3.375%	9/14/2007	4,922,255
5,000,000	Federal Home Loan Bank	3.125%	8/15/2007	4,913,350
2,000,000	Federal Home Loan Bank	4.000%	5/15/2008	1,968,024
5,000,000	Federal Home Loan Mortgage Corp.	3.750%	3/15/2007	4,965,420
1,000,000	Federal Home Loan Mortgage Corp.	3.450%	12/28/2007	980,716
2,000,000	Federal Home Loan Mortgage Corp.	4.625%	12/19/2008	1,985,702
2,000,000	Federal Home Loan Mortgage Corp.	3.875%	6/15/2008	1,963,860
3,000,000	Federal Home Loan Mortgage Corp.	2.700%	3/16/2007	2,964,624
5,800,000	Federal Home Loan Mortgage Corp.	2.850%	2/23/2007	5,745,115
5,000,000	Federal Home Loan Mortgage Corp.	6.625%	9/15/2009	5,227,295
4,200,000	Federal Home Loan Mortgage Corp.	2.375%	2/15/2007	4,155,236
3,000,000	Federal Home Loan Mortgage Corp.	3.375%	11/15/2008	2,921,484
1,000,000	Federal Home Loan Mortgage Corp.	3.750%	8/15/2008	977,866
				55,744,216

(Continued)

## Illinois Metropolitan Investment Fund

Schedule of Investments (Continued)

IMET 1-3 Year Series

September 30, 2006

Units/ par value	Description	Rate	Maturity	Market value
Mortgage Backed Securities: 3.9%				
\$ 396,031	Federal Home Loan Mortgage Corp. Pool 645242	6.019%	8/1/2022	\$ 402,160
351,636	Federal Home Loan Mortgage Corp. Pool 846774	6.500%	4/1/2023	356,070
1,516,438	Federal Home Loan Mortgage Corp. Pool IB2661	4.308%	12/1/2034	1,479,517
992,906	Federal Home Loan Mortgage Corp. Pool 1B2844	4.691%	3/1/2035	982,648
302,832	FHLM Co. (Gold) Pool E00667	5.000%	11/1/2013	299,311
69,584	FHLM Co. (Gold) Pool E62448	7.500%	7/1/2008	70,378
121,050	FHLM Co. (Gold) Pool E77591	6.500%	12/1/2013	123,672
49,110	FHLM Co. (Gold) Pool E82002	7.500%	1/1/2010	49,975
126,414	FHLM Co. (Gold) Pool G10740	7.500%	3/1/2009	127,857
467,079	FHLM Co. (Gold) Pool P60089	7.000%	1/1/2013	483,427
434,876	FHLM Co. (Gold) Pool P60090	7.000%	1/1/2013	449,281
39,471	Govern. National Mortgage Assoc. Pool 2006	8.500%	5/1/2023	42,518
16,862	Govern. National Mortgage Assoc. Pool 2324	8.000%	7/1/2025	17,794
73,551	Govern. National Mortgage Assoc. Pool 2512	8.000%	5/1/2026	77,607
4,150	Govern. National Mortgage Assoc. Pool 2566	8.000%	2/1/2027	4,380
7,725	Govern. National Mortgage Assoc. Pool 2633	8.000%	9/1/2026	8,154
13,237	Govern. National Mortgage Assoc. Pool 2647	8.000%	10/1/2026	13,973
7,473	Govern. National Mortgage Assoc. Pool 2677	8.000%	10/1/2027	7,889
66,624	Govern. National Mortgage Assoc. Pool 780831	9.500%	10/1/2022	73,260
				5,069,871
Mutual Funds: 2.3%				
5,936,478	Fifth Third U.S. Treasury Money Market Fund	5.060%	None	2,848,958
				\$ 129,490,583

(Concluded)

**STATISTICAL SECTION (UNAUDITED)**

**Illinois Metropolitan Investment Fund**  
 Select Comparative Data - IMET 1-3 Year Series  
September 30, 2006

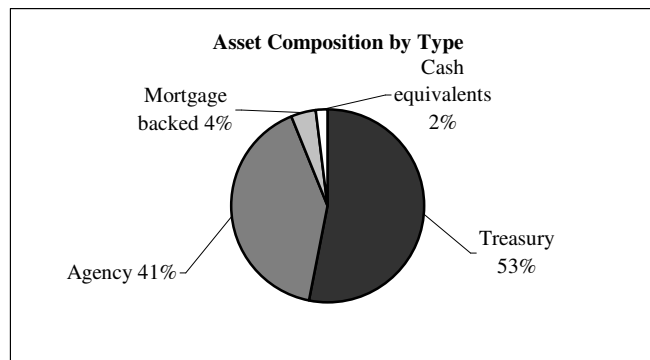
	One Year *	Three Year *	Since Inception July 17, 1996
IMET 1-3 Year Series Net Return	3.71%	1.86%	4.66%
IMET 1-3 Year Series Gross Return **	3.99%	2.13%	5.02%
Lehman Brothers 1-3 Year Government Bond Index	3.82%	2.02%	4.94%
Merrill Lynch 3-Month Treasury Bill Index	4.50%	2.73%	3.84%

\* Annualized return

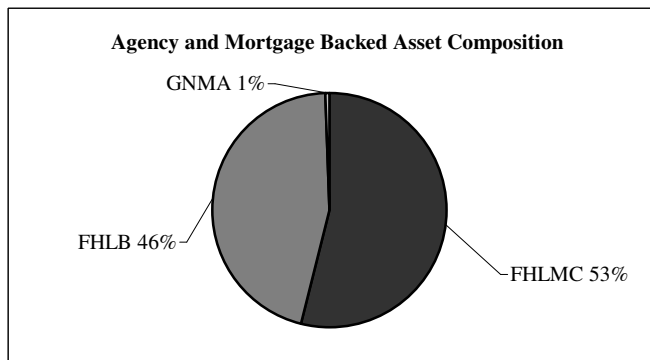
\*\* Returns exclude expenses of the fund

	Fund Profile	Index Profile
Gross yield to maturity	4.97%	4.84%
Duration	1.39 years	1.73 years
Average maturity	1.50 years	1.90 years

Sectors	Fund Profile	Index Profile
Treasury	53%	63%
Agency	41%	37%
Mortgage backed	4%	-
Cash equivalents	2%	-



Quality	Fund Profile	Index Profile
AAA	100%	100%





## **INVESTMENT POLICIES**

# Illinois Metropolitan Investment Fund

Investment Policy - IMET 1-3 Year Series

September 30, 2006

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The Illinois Metropolitan Investment Fund (“*IMET*” or “*Fund*”) is an actively managed investment fund for Illinois local governments. The IMET 1-3 Year Fund has a fluctuating net asset value and an average maturity of one-to-three years. Designed for public funds that may be invested for more than one year, IMET invests exclusively in US government-backed securities (Treasuries and agencies).

## 1.0 Policy

It is the policy of IMET to invest public funds of Illinois governments in a manner which seeks to provide the best return while pursuing the preservation of capital. IMET is designed as an investment vehicle for funds not required to be spent immediately and available for investment in securities with maturities and returns generally greater than those for money market instruments. IMET will conform to Illinois state statutes governing the investment of public funds.

## 2.0 Funds

Monies invested in this Fund will be those of participating Illinois governments whose treasurers become members of the Fund. Any funds that an Illinois government can invest in under Illinois state statutes are eligible for investment in IMET. This is an intermediate investment fund, however, and short-term cash monies which are needed for immediate liquidity demands will not be encouraged to be invested in this Fund.

## 3.0 Prudence

The standard of prudence to be used for all investment activities shall be the following “prudent person” standards, as stated below, and shall be applied while conducting all investment transactions.

"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 preservation of their capital as well as the probable income to be derived."

## 4.0 Objective

This actively managed portfolio will be invested in certain fixed income securities and cash equivalents. In summary, the investment objectives of IMET are:

- A. Preservation of Principal: Preservation of principal is the foremost objective of IMET. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

(Continued)

**Illinois Metropolitan Investment Fund**  
Investment Policy - IMET 1-3 Year Series (Continued)  
September 30, 2006

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4.0 Objective (Continued)

- B. Liquidity: IMET will seek to remain sufficiently liquid to allow for withdrawals by Fund members with five business days' notice of that withdrawal to the Fund, and will otherwise remain sufficiently liquid in accordance with prudent fund management.
- C. Return on Investment: IMET's assets will be invested with the objective of obtaining an appropriate market rate of return in relation to the prevailing monetary environment. See also "Performance Standards" herein.

5.0 Delegation of Authority

The Board of Trustees of IMET (the "*Board*") seeks to employ an investment advisor who possesses superior capabilities in the management of assets of the Council of Governments' governmental bodies. The Board further requires the investment advisor selected and working on its behalf to meet the following set of conditions.

- A. To take, in its discretion, actions which in its best professional judgment are in the best interests of IMET, in accordance with this Investment Policy and the Investment Circular distributed by the Fund, to meet IMET investment objectives. Such actions include but are not limited to (A) the allocation of funds among alternative types of investments; (B) specific investment opportunities regarding the acquisition, retention, or disposition of investments; and (C) the recommendation of the addition, deletion, or modification of authorized investments.
- B. To execute all investment transactions on behalf of the Fund at the best net price, utilizing such brokers and dealers as they deem appropriate to obtain the best execution capabilities and/or valuable information with respect to the economy and the affairs of corporations at the lowest cost to the Fund.
- C. Additional responsibilities as detailed in each investment advisor's agreement with the Board.

6.0 Ethics and Conflicts of Interest

Officers and employees of the Fund involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the IMET chairperson any material financial interests in financial institutions that conduct business with IMET, and they shall further disclose any large personal financial/investment positions that could be related to the performance of IMET, particularly with regard to the time of purchases and sales.

(Continued)

**Illinois Metropolitan Investment Fund**  
Investment Policy - IMET 1-3 Year Series (Continued)  
September 30, 2006

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7.0 Authorized Financial Dealers and Institutions

The Board will maintain a list of financial institutions authorized to provide investment advisor, administrative, and distributive investment services. The advisor will make investments only in those investments specifically authorized in the Public Investment Act of the State of Illinois (30 ILCS 235/1) (the “*Investment Act*”). The administrator shall perform its duties in conformance with the Declaration of Trust, By-Laws, and Investment Circular of the Fund. The distributor shall be competent and fully qualified under federal and state securities laws and the rules and regulations of the Comptroller of the Currency or the National Association of Securities Dealers, as applicable, to engage in marketing and sales efforts.

A current audited financial statement is required to be on file for each financial institution which provides the above mentioned services.

8.0 Authorized and Suitable Investments

All investments shall be made in compliance with the Investment Act, including, without limitation, the definition of “agency” contained therein. In seeking to achieve its investment objective, the Fund intends to invest under normal market conditions at least fifty percent (50%) in (i) obligations issued or secured by the U.S. Government and/or its agencies and/or (ii) money market mutual funds that are permitted investments under the Investment Act. In extraordinary circumstances, such as when the investment advisor believes that market conditions indicate that the Fund should adopt a temporary defensive position, the Fund may invest up to one hundred percent (100%) in cash and/or such money market mutual funds.

The Fund portfolio is restricted to a maximum dollar weighted-average maturity of five years or less, under normal conditions. The net asset value will fluctuate on a daily basis according to the change in market value of its underlying portfolio obligations.

The following are additional investment restrictions:

- (i) All fixed income securities (other than obligations of the U.S. or its agencies) at the time of purchase shall be rated at the highest rating classification established by at least two standard rating services (without regard to any refinement or gradation of rating category by numerical modifier or otherwise). However, issues that are reclassified after purchase so that they are no longer at the highest classifications established by at least two standard rating services may be sold by the advisor to the Fund after the date of the security’s reclassification or held to maturity, in either case based on the investment advisor’s discretion.

(Continued)

**Illinois Metropolitan Investment Fund**  
Investment Policy - IMET 1-3 Year Series (Continued)  
September 30, 2006

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8.0 Authorized and Suitable Investments (Continued)

- (ii) Mortgage pass-through securities must be issued by an agency of the United States government. There are three major types of such agency pass-throughs, guaranteed by three organizations: Government National Mortgage Association (“*Ginnie Mae*”), Federal Home Loan Mortgage Corporation (“*Freddie Mac*”), and Federal National Mortgage Association (“*Fannie Mae*”). Pass-through securities or collateralized mortgage obligations of Fannie Mae are not permitted investments under Illinois law. In addition, privately structured and issued mortgage pass-through securities or collateralized mortgage obligations are not permitted investments.
  
- (iii) All investments are required to be made in compliance with the Investment Act, including, without limitation, the definition of “agency” contained therein.

The following transactions are prohibited in the portfolio managed by the investment advisor.

- 1) Reverse repurchase agreements.
- 2) Common or preferred stocks.
- 3) Futures and options.
- 4) Margin purchases or intentional use of leverage.
- 5) Private or direct placements.
- 6) Commodities.
- 7) Direct ownership of real estate or mortgages.
- 8) Non-U.S. dollar-denominated securities.
- 9) Stripped mortgage-backed securities (*i.e.*, interest-only (IO) and principal-only (PO) securities).
- 10) Convertible notes or bonds.

(Continued)

**Illinois Metropolitan Investment Fund**  
Investment Policy - IMET 1-3 Year Series (Continued)  
September 30, 2006

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8.0 Authorized and Suitable Investments (Continued)

- 11) Purchase, participation, or other direct interest in gas, oil, or other mineral exploration or development programs.
- 12) Collateralized mortgage obligations.
- 13) Lending of Fund securities.
- 14) Structured notes—however, the Portfolio may invest in federal government agency securities whose coupon rates are scheduled to “step up” (*i.e.* increase) one or more times before they mature.
- 15) Investments not allowed under the Investment Act.

The advisor shall indemnify and make whole the Fund and its shareholders for any losses incurred by the Fund as a result of the advisor’s own or any subadvisor’s gross negligence or its failure to comply with the provisions of the Investment Act as those provisions are communicated to the investment advisor in writing by IMET or by IMET’s legal counsel.

9.0 Safekeeping and Custody

Securities purchased for IMET, as well as collateral for repurchase agreements, shall be delivered against payment and held in a custodial safekeeping account with the trust department of a bank acting as custodian. The bank will be designated by the Board and all transactions will be evidenced by safekeeping receipts or confirmations.

10.0 Diversification

Fixed income securities in the Fund will have the following characteristics:

- A) United States Treasury, agency, and agency mortgage pass-through securities may be used without limitation. Under normal market conditions, such obligations, along with money market mutual funds that are permitted investments under the Investment Act, will constitute at least 50% of the portfolio.
- B) Commercial paper investment, pursuant to Illinois law, must mature within 180 days from the date of purchase and cannot exceed 10% of the corporation’s total commercial paper. The Fund will have no more than one-third of its monies invested in commercial paper.

(Continued)

**Illinois Metropolitan Investment Fund**  
Investment Policy - IMET 1-3 Year Series (Continued)  
September 30, 2006

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10.0 Diversification (Continued)

- C) At no time may the portfolio own more than 5% of the outstanding amount of any one fixed income issue (other than securities of the United States Government or its agencies) or have more than 7% of its total assets invested in the securities (including cash equivalents) of any permissible fixed income issuer (other than securities of the United States government or its agencies) without prior notification and approval of the Board.

11.0 Maturities

Portfolio duration is to be maintained within 25% of that of the Lehman Brothers 1-3 Year Government Bond Index under normal conditions; *provided, however*, that the portfolio's dollar weighted-average maturity will not exceed five years under normal conditions. Individual securities may have remaining maturities of greater than five years, but in any event not greater than ten years from the date of the Fund's purchase thereof. The remaining life of any agency mortgage pass-through security will be determined based on the weighted-average life of the security.

12.0 Internal Control

The advisor shall establish a system of internal controls, which shall be documented in writing. The controls shall be annually reviewed by their auditor and shall be designed to prevent losses of public funds arising from failure to comply with the provisions of the Investment Act, fraud, employee error, misrepresentation by third parties, or imprudent actions by employees and officers of the firm. The advisor shall at all times have in place a fidelity bond or bonds covering the actions of its employees and officers relating to fraud, theft, dishonesty, and other willful acts which may result in the loss of Fund assets. Such bond or bonds shall be maintained in amounts not less than \$5,000,000 per occurrence and \$10,000,000 in the annual aggregate, covering its duties. The advisor will also maintain a fidelity bond against employee theft, dishonesty, and related risk, and cover its duties in an amount not less than \$10,000,000 in the annual aggregate.

13.0 Performance Standards

IMET's investment strategy is targeted active management. The performance objective for this portfolio is to meet or exceed the Lehman Brothers 1-3 Year Government Bond Index (the benchmark) prior to payment of Fund expenses.

(Continued)

**Illinois Metropolitan Investment Fund**  
Investment Policy - IMET 1-3 Year Series (Continued)  
September 30, 2006

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14.0 Reporting

The advisor shall report to the Board at least quarterly on:

- A) Performance as compared to the benchmark.
- B) Asset allocation and duration as compared to the benchmark.
- C) Any deviation from the guidelines herein established.
- D) Significant changes in the portfolio under their management during the quarter.
- E) Economic and investment outlook for the near and long term.
- F) Monthly purchase and sale transactions.
- G) Any change in key personnel.

15.0 Investment Policy Adoption

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

(Concluded)



# Illinois Metropolitan Investment Fund

Investment Policy - IMET Convenience Series

September 30, 2006

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The Illinois Metropolitan Investment Fund (“*IMET*” or “*Fund*”) is an actively managed investment fund for Illinois local governments. IMET’s Convenience Series (“Convenience Series”) is a short-term vehicle for use exclusively by members of IMET. This policy applies to the investment of Convenience Series funds. The Convenience Series is designed as an investment vehicle for: a) near-term investment of funds intended for eventual placement into the IMET 1-3 Year Series, b) the investment of bond proceeds, and c) any purpose deemed necessary and beneficial by Fund participants.

## 1.0 Governing Authority

It is the policy of IMET to invest public funds of Illinois governments in a manner which seeks to provide the best return while pursuing the preservation of capital. The Convenience Series will conform to Illinois state statutes governing the investment of public funds.

## 2.0 Funds

Monies invested in this Convenience Series will be those of participating Illinois governments whose treasurers are members of the IMET. Any funds that an Illinois government can invest in under Illinois state statutes are eligible for investment in the Convenience Series.

## 3.0 Prudence

The standard of prudence to be used for all investment activities shall be the following “prudent person” standards, as stated below, and shall be applied while conducting all investment transactions.

"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 preservation of their capital as well as the probable income to be derived."

## 4.0 Objective

This portfolio will be invested in certain fixed income securities and cash equivalents. In summary, the investment objectives of the Convenience Series are:

- A. Preservation of Principal: Preservation of principal is the foremost objective of the Convenience Series. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

(Continued)

**Illinois Metropolitan Investment Fund**  
Investment Policy - IMET Convenience Series (Continued)  
September 30, 2006

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4.0 Objective (Continued)

- B. Liquidity: The Convenience Series will seek to remain sufficiently liquid to accommodate Convenience Series members and will otherwise remain sufficiently liquid in accordance with prudent fund management.
- C. Return on Investment: The Convenience Series' assets will be invested with the objective of obtaining an appropriate market rate of return in relation to the prevailing monetary environment. See also "Performance Standards" herein.

5.0 Delegation of Authority

The Board of Trustees of IMET and of the Convenience Series (the "*Board*") seeks to employ financial institutions possessing established capabilities in the management of assets of the Council of Governments' governmental bodies. The Board further requires the financial institution(s) selected and working on its behalf to meet the following set of conditions.

- A. To take, in its discretion, to the extent allowed by the financial institution's agreement with IMET, actions which in its best professional judgment are in the best interests of the Convenience Series, in accordance with this Investment Policy distributed by IMET, to meet Convenience Series investment objectives. Such actions include but are not limited to (A) the allocation of funds among alternative types of investments; (B) specific investment opportunities regarding the acquisition, retention, or disposition of investments; and (C) the recommendation of the addition, deletion, or modification of authorized investments.
- B. To execute all investment transactions on behalf of the Convenience Series at the best net price, utilizing such brokers and dealers as deemed appropriate to obtain the best execution capabilities and/or valuable information with respect to the economy and the affairs of corporations at the lowest cost to the Convenience Series.
- C. Additional responsibilities as detailed in each financial institution's agreement with the Board.

(Continued)

**Illinois Metropolitan Investment Fund**  
Investment Policy - IMET Convenience Series (Continued)  
September 30, 2006

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6.0 Ethics and Conflicts of Interest

Officers and employees of the Convenience Series involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Board chairperson any material financial interests in financial institutions that conduct business with IMET and the Convenience Series, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the Convenience Series, particularly with regard to the time of purchases and sales.

7.0 Authorized Financial Dealers and Institutions

The Board will maintain a list of financial institutions authorized to provide investment advisor, administrative, and distributive investment services. The financial institution(s) will make investments only in those investments specifically authorized by the Public Investment Act of the State of Illinois (30 ILCS 235/1) (the "Investment Act") and by this Investment Policy. The financial institution(s) shall perform its duties in conformance with the IMET Declaration of Trust, the IMET By-Laws, and the Convenience Series Investment Policy. The distributor shall be competent and fully qualified under federal and state securities laws and the rules and regulations of the Comptroller of the Currency or the National Association of Securities Dealers, as applicable, to engage in marketing and sales efforts.

A current audited financial statement is required to be on file for each financial institution which provides the above mentioned services.

8.0 Authorized and Suitable Investments

The investments permitted by this policy are those defined by the Investment Act, including, without limitation, the definition of "agency" contained therein. In seeking to achieve its investment objective, the Convenience Series intends to invest under normal market conditions at least fifty percent (50%) in (i) interest-bearing savings accounts, interest-bearing certificates of deposit, or interest-bearing time deposits, or any other investments constituting direct obligations of any bank as defined by the Illinois Banking Act, or (ii) money market mutual funds that are permitted investments under the Investment Act, or (iii) securities now or hereafter issued that constitute direct obligations of the U.S. Treasury which are guaranteed by the full faith and credit of the United States of America as to principal and interest, or (iv) other similar obligations of the United States of America or its agencies. In circumstances when the investment advisor believes that market conditions indicate that the Convenience Series should adopt a defensive position, the Convenience Series may invest up to one hundred percent (100%) in bank obligations and/or such money market mutual funds.

(Continued)

**Illinois Metropolitan Investment Fund**  
Investment Policy - IMET Convenience Series (Continued)  
September 30, 2006

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8.0 Authorized and Suitable Investments (Continued)

The Convenience Series portfolio is restricted to a maximum dollar weighted-average maturity of one year or less, under normal conditions. The Convenience Series will be managed so as to maintain a stable \$1.00 share price, although there is no guarantee that it will do so.

The following are additional investment restrictions:

- (i) All fixed income securities (other than obligations of the U.S. or its agencies) at the time of purchase shall be rated at the highest rating classification established by at least two standard rating services (without regard to any refinement or gradation of rating category by numerical modifier or otherwise). However, issues that are reclassified after purchase so that they are no longer at the highest classifications established by at least two standard rating services may be sold by the financial institution(s) maintaining the Convenience Series after the date of the security's reclassification or held to maturity, in either case based on the financial institutions' discretion.
- (ii) Mortgage pass-through securities must be issued by an agency of the United States government and must have a liquid market with a readily determinable market value. There are three major types of such agency pass-throughs, guaranteed by three organizations: Government National Mortgage Association ("Ginnie Mae"), Federal Home Loan Mortgage Corporation ("Freddie Mac"), and Federal National Mortgage Association ("Fannie Mae"). Pass-through securities or collateralized mortgage obligations of Fannie Mae are not permitted investments under Illinois law. In addition, privately structured and issued mortgage pass-through securities or collateralized mortgage obligations are not permitted investments.
- (iii) All investments are required to be made in compliance with the Investment Act, including, without limitation, the definition of "agency" contained therein.

The following transactions are prohibited in the portfolio:

- 1) Reverse repurchase agreements.
- 2) Common or preferred stocks.
- 3) Futures and options.
- 4) Margin purchases or intentional use of leverage.
- 5) Private or direct placements.

(Continued)

**Illinois Metropolitan Investment Fund**  
Investment Policy - IMET Convenience Series (Continued)  
September 30, 2006

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8.0 Authorized and Suitable Investments (Continued)

- 6) Commodities.
- 7) Direct ownership of real estate or mortgages.
- 8) Non-U.S. dollar-denominated securities.
- 9) Stripped mortgage-backed securities (*i.e.*, interest-only (IO) and principal-only (PO) securities).
- 10) Convertible notes or bonds.
- 11) Purchase, participation, or other direct interest in gas, oil, or other mineral exploration or development programs.
- 12) Collateralized mortgage obligations.
- 13) Lending of Convenience Series securities.
- 14) Structured notes—however, the Portfolio may invest in federal government agency securities whose coupon rates are scheduled to “step up” (*i.e.* increase) one or more times before they mature.
- 15) Investments not allowed under the Investment Act.

The advisor shall indemnify and make whole the Convenience Series and its shareholders for any losses incurred by the Convenience Series as a result of the advisor’s own or any subadvisor’s gross negligence or its failure to comply with the provisions of the Investment Act as those provisions are communicated to the investment advisor in writing by the Convenience Series or by the Convenience Series’ legal counsel.

9.0 Collateralization

Collateral will be pledged to the Convenience Fund with a market value equal to at least 105% of the obligations of the financial institution to the Convenience Fund’s deposits which exceed the sum of the Federal Deposit Insurance Corporation’s insurance limitation. The financial institution will monitor the market value of pledged securities on at least a daily basis, and make adjustments as necessary.

(Continued)

**Illinois Metropolitan Investment Fund**  
Investment Policy - IMET Convenience Series (Continued)  
September 30, 2006

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10.0 Safekeeping and Custody

Securities purchased for the Convenience Series, as well as collateral for repurchase agreements, shall be delivered against payment and held in a custodial safekeeping account with the trust department of a bank acting as custodian. The bank will be designated by the Board and all transactions will be evidenced by safekeeping receipts or confirmations.

11.0 Diversification

Fixed income securities in the Convenience Series will have the following characteristics:

- a) No more than 50 percent of the portfolio may be invested beyond 12 months, and the weighted-average maturity of the portfolio generally shall not exceed one year.
- b) The following instruments may be used without limitation:
  - i) Interest-bearing savings accounts, interest-bearing certificates of deposit or interest-bearing time deposits, or any other investments constituting direct obligations of any bank as defined by the Illinois Banking Act.
  - ii) Money market mutual funds registered under the Investment Company Act of 1940, provided that the portfolio of any such money market mutual fund is limited to obligations of the U.S. Treasury and its agencies as defined by Illinois law.

12.0 Maturities

At least 50 percent of the Fund's investments are expected to mature in the short-term (397 days or less), and the dollar-weighted average portfolio maturity of the Convenience Series will not exceed one year under normal conditions. Individual securities may have remaining maturities of greater than one year, but in any event not greater than five years from the date of the Convenience Series' purchase thereof. The remaining life of any agency mortgage pass-through security will be determined based on the weighted-average life of the security.

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**Illinois Metropolitan Investment Fund**  
Investment Policy - IMET Convenience Series (Continued)  
September 30, 2006

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13.0 Internal Control

The financial institution(s) shall establish a system of internal controls, which shall be documented in writing. The controls shall be annually reviewed by their auditor and shall be designed to prevent losses of public funds arising from failure to comply with the provisions of the Investment Act, fraud, employee error, misrepresentation by third parties, or imprudent actions by employees and officers of the firm. The financial institution(s) shall at all times have in place a fidelity bond or bonds covering the actions of its employees and officers relating to fraud, theft, dishonesty, and other willful acts which may result in the loss of Convenience Series assets. Such bond or bonds shall be maintained in amounts not less than \$5,000,000 per occurrence and \$10,000,000 in the annual aggregate, covering its duties. The financial institution(s) will also maintain a fidelity bond against employee theft, dishonesty, and related risk, and cover its duties in an amount not less than \$10,000,000 in the annual aggregate.

14.0 Performance Standards

The Convenience Series' investment strategy is designed so that the Convenience Series may maintain a stable \$1.00 per share price, although there is no guarantee that it will do so. The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio shall be designed with the objective of regularly meeting or exceeding the selected performance benchmark of Fed Funds gross of fees. This index is considered a benchmark for lower risk investment transactions and, therefore, comprises an appropriate standard for the portfolio's rate of return.

15.0 Reporting

The financial institution(s) shall report to the Board at least quarterly on:

- a. Performance as compared to the benchmark.
- b. Asset allocation and duration as compared to the benchmark.
- c. Any deviation from the guidelines herein established.
- d. Significant changes in the portfolio under their management during the quarter.
- e. Economic and investment outlook for the near and long term.
- f. Monthly purchase and sale transactions.
- g. Any change in key personnel.

(Continued)

**Illinois Metropolitan Investment Fund**  
Investment Policy - IMET Convenience Series (Continued)  
September 30, 2006

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16.0 Investment Policy Adoption

The Convenience Series' investment policy shall be adopted by resolution of the Board. The policy shall be reviewed annually by the Board and any modifications made thereto must be approved by the Board.