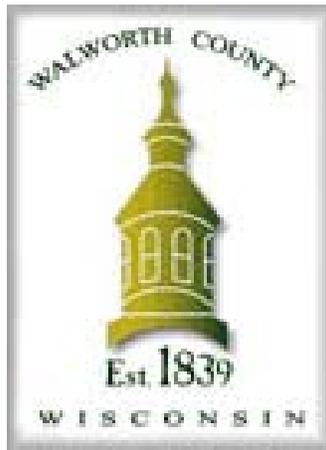


# **WALWORTH COUNTY, WISCONSIN**

## **QUARTERLY INVESTMENT REPORT**

**March 31, 2009**



**WALWORTH COUNTY FINANCE OFFICE  
100 W. WALWORTH  
ELKHORN, WI 53121**

**Prepared by Matthew R. Lemke, Financial Analyst**

**[www.co.walworth.wi.us/Finance/Website/Investments/Investments\\_main.htm](http://www.co.walworth.wi.us/Finance/Website/Investments/Investments_main.htm)**

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**EXECUTIVE SUMMARY**

The key objectives in managing the County's Total Investment Portfolio are to provide safety of principal, to ensure liquidity to meet operating requirements, to generate a market rate of return ("Yield") on the investments, and to manage the portfolio within applicable laws. Using cash flow projections to match revenues with expenditures ensures prudent investment principles that will enable the County to soundly meet its financial obligations. The Investment Portfolio shall be structured in relation to prevailing budgetary and economic environments, taking into account the County's investment risk constraints and cash flow characteristics.

- Walworth County's investment portfolio is in compliance with Wisconsin statutes, the Walworth County Code of Ordinances and the County's Administrative Procedures Manual.
- Walworth County's investment portfolio has not been subjected to unreasonable risk of loss and no securities were required to be sold short to meet cash flow needs.
  - All securities held are either backed by the U.S. Government or meet minimum ratings set by either Standard and Poor's or Moody's Investor Service.
  - Investments are beginning to be diversified into more investment vehicles.
- The Local Government Investment Pool (LGIP) yields have fallen drastically this past year.
- The Local Government Investment Pool has announced that effective February 15, 2009 their negotiable certificates of Deposit and commercial paper are no longer insured against credit loss.
- The result of the weakening economy has greatly affected the County's budgeted interest income.
- In an attempt to address this volatility, the Finance Department has begun to solicit bids from locally approved banks for certificate of deposit rates on a regular basis and to review money market options.
- The sweep account has been moved from U. S. Treasuries, which were not earning any yield into Repo agreements in an attempt to at least earn some interest on the sweep funds. The validity of the sweep versus a standard money market account is being analyzed.
- We have increased our investing in certificates of deposit by \$18,775,000 in fully collateralized instruments, mainly with M&I Marshall Isley and Mid America Banks.
- We have held meetings with all of the County approved banks representatives on a personal basis to discuss our investment strategy, review opportunities that the banks may have for us within our Investment Policy, and to discuss other changes within the banking industry.

**INVESTMENT OVERVIEW AND OBJECTIVES**

As is mentioned above, the main objectives in managing the County's Total Investment Portfolio are to provide safety of principal, to ensure liquidity to meet operating requirements, to generate a market rate of return ("Yield") on the investments, and to manage the portfolio with applicable laws. The County's Total Investment Portfolio currently has three separate investment portfolios. They are as follows:

**LOCAL GOVERNMENT INVESTMENT POOL** – The primary objective of the LGIP is to provide for the prudent management of public funds on behalf of the local government investor. The investment strategy of this fund is prioritized as: safety of the principal, liquidity, and the rate of return. The funds in LGIP may invest in obligations of the U.S. Treasury and its agencies, Commercial Paper, Bank Time Deposits/Certificates of Deposit, Bankers' Acceptances, Asset Backed Securities, and Repurchase Agreements (Repo) secured by the U.S. Government.

**CERTIFICATES OF DEPOSIT/CDARS** – Certificates of deposit and other evidences of deposits from county board approved financial institutions which are authorized to transact business in the state, which time deposits mature in not more than three years.

**THE CERTIFICATE OF DEPOSIT ACCOUNT REGISTRY SERVICES, (CDARS)** - Financial institutions can offer CDARS because they are members of a special network. When a large deposit is placed with a network member, that institution uses CDARS to place the funds into certificates of deposit issued by banks in the network. This occurs in increments of less than the standard FDIC insurance maximum to ensure that both principal and interest are eligible for full FDIC insurance.

With the help of a sophisticated matching system, network members exchange funds. This exchange occurs on a dollar-for-dollar basis, so that the equivalent of the original deposit comes back to the respective institution and effectively stays local (meaning the full amount can support lending initiatives that build a stronger local community). The full amount of the original deposit becomes eligible for complete FDIC protection, and the institution receives just one regular statement detailing all your holdings.

**U.S. GOVERNMENT/TREASURY SECURITIES** – Obligations of the United States of America, its agencies and instrumentalities, provided that the payment of the principal and interest is fully guaranteed by the issuer.

In addition to the aforementioned investment portfolios, the County has also approved by resolution Public Funds money markets that are secured by Letters of Credit. We are planning on investing in these investments in the short-term to diversify further and to increase the current yields.

**PUBLIC FUNDS MONEY MARKET ACCOUNT** - Any amounts above the \$650,000 FDIC coverage will have a "Letter of Credit (LOC)" to protect those deposits over the FDIC and State of Wisconsin coverage. LOC's can be used when a member institution's public unit deposit exceeds the amount of insurance coverage provided by the FDIC or to insure the public depositor is adequately secured. LOC's can serve to provide an Aaa/AA+ rating to the issuance of debt in any form of certain taxable and tax-exempt bonds.

**FINANCE CERTIFICATION**

I, Nicki Andersen, Deputy County Administrator – Finance, Walworth County, certify the investments and related activity herein reported comply with Wisconsin Revised Statutes, Walworth County Ordinances, and the Walworth County Investment Policy.

Nicki Andersen – Deputy County Administrator – Finance

**REQUIREMENTS AND COMPLIANCE**

<b>ITEM</b>	<b>REQUIREMENTS</b>	<b>ACTUAL PORTFOLIO</b>
Liquidity Risk	At a minimum, liquid cash shall be maintained at a level between \$5 and \$10 million. Generally, liquid cash is considered to be held in overnight instruments at the LGIP, or as marketable securities which can be sold in one day’s notice.	\$58 mm, or 70%
Collateral Policy	Investments other than U.S. Treasury backed securities or investments not under the FDIC or WI guarantee shall be collateralized for a minimum of 102-110% of the deposits	100% of CD’s collateralized via FDIC or 3 <sup>rd</sup> Party

**TOTAL PORTFOLIO**

<b>INVESTMENT CATEGORY</b>	<b>MAXIMUM MATURITY</b>	<b>QUALITY LIMITS S&amp;P/MOODY’S</b>	<b>AUTHORIZED LIMIT</b>	<b>ACTUAL PORTFOLIO</b>
LGIP	10 Years		No Limit	65.49%
Certificates of Deposit	3 Years		< 1 year Maximum 95%	26.85%
Certificates of Deposit	3 Years		1-3 years Maximum 50%	0.00%
Money Market Funds	N/A	AAA	No Limit	0.00%
U.S. Treasury	5 Years		No Limit	3.62%
Collateralized Mortgage Obligations	N/A	AAA/Aaa	Existing level	0.01%
Asset Backed Securities	N/A	AAA/Aaa	1-5 years Maximum 20%	0.00%
Depository Cash	N/A		4-100% Minimum Cash Balance	4.03%
			<b>Total</b>	<b>100.00%</b>

**WALWORTH COUNTY, WISCONSIN****Quarterly Investment Report****TOTAL PORTFOLIO PERFORMANCE**

<b>FIRST QUARTER 2009</b>				
<b>INVESTMENT TYPE</b>	<b>INTEREST EARNED</b>	<b>BUDGETED INTEREST</b>	<b>VARIANCE</b>	<b>NOTES</b>
LGIP	\$125,600	\$252,250	(\$126,650)	Interest budgeted at 3%
Certificate's of Deposit	54,000	20,250	33,750	Budget based upon \$2.7 MM in CD's per month
U.S. Treasury Notes	24,500	20,000	4,500	Semi-annual interest budgeted evenly
Depository Bank	0	7,500	(7,500)	Return on Treasuries was down to 0%, we have moved sweep funds to Repo
<b>TOTAL PORTFOLIO</b>	<b>\$204,100</b>	<b>\$300,000</b>	<b>(\$95,900)</b>	

- The actual yield earned for the first quarter of 2009 on the County's funds in the LGIP was only 0.88%.

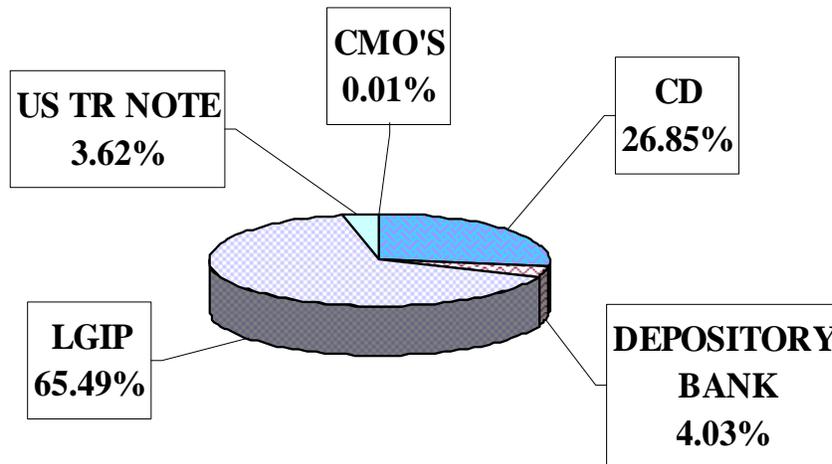
<b>FORECAST 2009</b>				
<b>INVESTMENT TYPE</b>	<b>FORECAST INTEREST</b>	<b>BUDGETED INTEREST</b>	<b>VARIANCE</b>	<b>NOTES</b>
LGIP	\$398,000	\$1,009,000	(\$611,000)	Interest budgeted at 3%, actual forecast to be around 1%
Certificate's of Deposit	433,000	81,000	352,000	Significant increase in investments in CD's over budgeted amount
U.S. Treasury Notes	80,000	80,000	0	
Depository Bank	3,000	30,000	(27,000)	Return on Treasuries was down to 0%, we have moved sweep funds to Repo's, currently earning .15%
Money Market – Letter's of Credit	138,000	0	138,000	Letter of Credit secured investments were not originally budgeted
<b>TOTAL PORTFOLIO</b>	<b>\$1,052,000</b>	<b>\$1,200,000</b>	<b>(\$148,000)</b>	

- By diversifying into additional certificates of deposit, we have been able increase the County's yields by over three times as much as the LGIP returns are forecasted.
- Our \$225,000 CD's currently of record are averaging 3.7%, while the LGIP has decreased to less than 1%.
- If the County's initial portfolio had been maintained, the forecasted interest for 2009 would have approximated \$764,000, or only 64% of budget.
- Upon approval, Finance will immediately move \$15 million into Money Market backed investments to minimally earn at least ½ percent above the LGIP return. This will increase the County's yield, further diversify our funds and provide greater security than the LGIP.

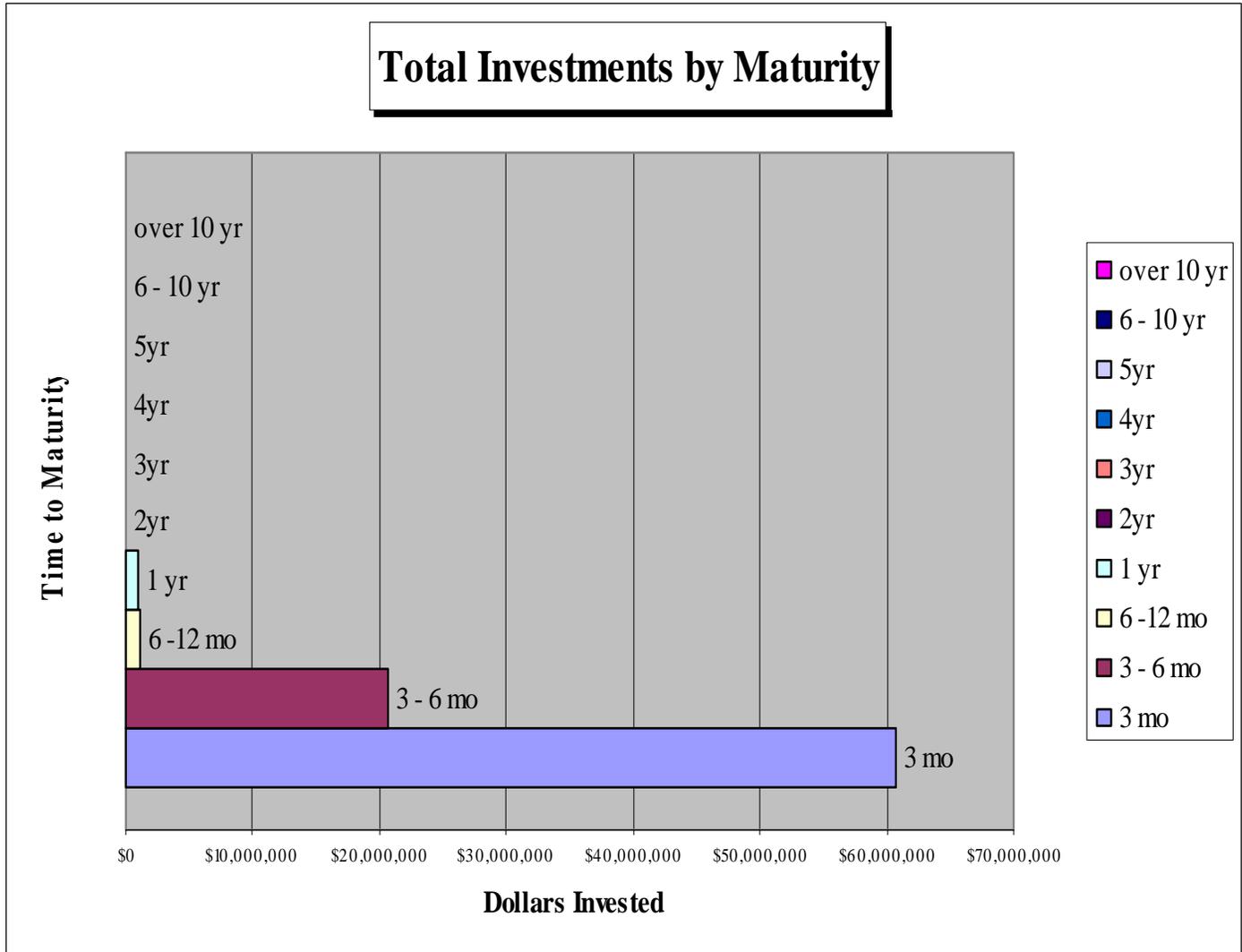
**TOTAL PORTFOLIO OVERVIEW**

<b>INVESTMENT TYPE</b>	<b>BOOK/MARKET VALUE</b>
LGIP	\$54,691,000
Certificate's of Deposit	\$22,425,000
U.S. Treasury Notes	\$3,020,000
Depository Bank	\$3,376,000
CMO's	\$4,000

**Total Investments by Type**



TOTAL PORTFOLIO OVERVIEW (Continued)

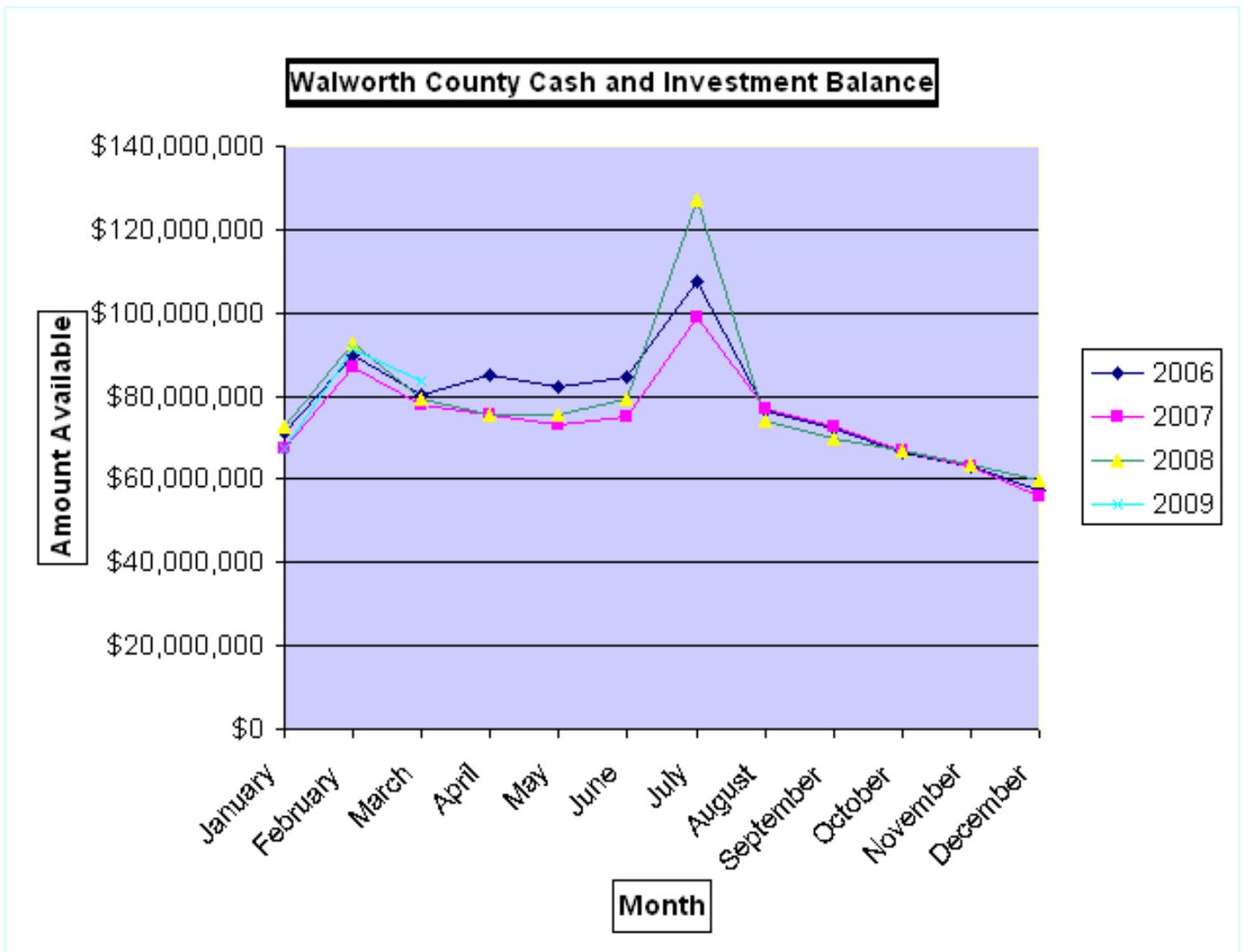


**TOTAL PORTFOLIO OVERVIEW – Historical Balances**

Given the volatility in the market place and the dramatically decreasing yields, particularly with the LGIP portfolio, we have been diversifying the County’s funds throughout the approved investments. As the charts below illustrate, the majority of the County’s funds were limited to LGIP which is no longer insured or producing the budgeted returns.

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Average Cash Balance	\$77,982,000	\$74,152,000	\$77,973,000	\$80,685,333
Average Cumulative Cash Balance		\$76,067,144	\$76,702,299	\$77,008,681

\* Excludes Trust Funds



**LOCAL GOVERNMENT INVESTMENT POOL (LGIP\*) OVERVIEW****Overview of Fund**

The Wisconsin Local Government Investment Pool (LGIP) was created in 1975 to give local governments the opportunity to combine their idle cash to make short-term investments equal to those afforded to state government or large local governments. The LGIP has been designed to consistently maintain the integrity of local funds within a diversified and safe portfolio, provide liquidity, and offer rates of return competitive with comparable investments. The funds from the LGIP are combined with the cash balances of the State of Wisconsin and its agencies, the excess cash of the retirement funds invested by the State of Wisconsin Investment Board (SWIB) and managed as one fund called the State Investment Fund (SIF).

**Investment Objectives**

The primary objective of the LGIP is to provide for the prudent management of public funds on behalf of the local government investor. The strategy for meeting this objective is to apply the prudent investor standard and insure that the investment of pool assets is prioritized as follows: safety of principal, liquidity, and rate of return.

**Liquidity Considerations**

The investment portfolio needs to remain liquid to meet the daily operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands.

Walworth County expends approximately \$9 million per month. In order to keep cash in our checking account low and still pay bills on time, the County has invested largely with the LGIP as it offers same day liquidity.

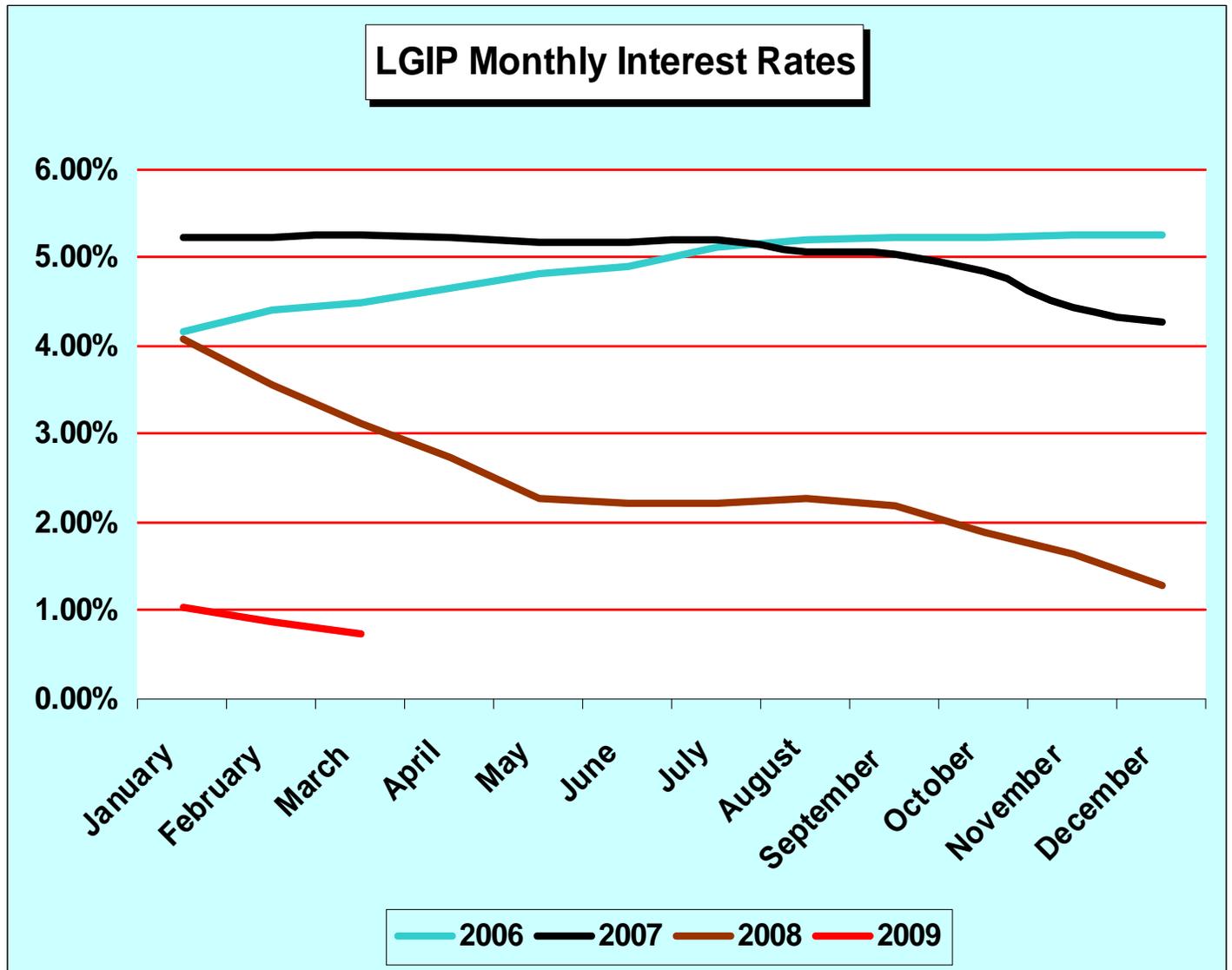
Over the past twelve months, the LGIP balance has averaged \$68 million. The spikes in February and July are the result of the temporary investment of property tax receipts. Most of these receipts are reinvested into securities within a month and no securities were required to be sold short in order to meet cash flow requirements.

**Other Considerations**

During the past year the investment yield of the LGIP has dropped significantly similarly to most major market returns. This coupled with the LGIP losing their insurance and the transfer of investment responsibilities within the county, resulted in the County looking at other investment vehicles, in order to diversify the portfolio.

\* LGIP data provided from the Office of the State Treasurer

LOCAL GOVERNMENT INVESTMENT POOL (LGIP\*) OVERVIEW (Continued)



## CERTIFICATES OF DEPOSIT OVERVIEW

**CERTIFICATES OF DEPOSIT** are short or medium-term, interest-bearing, FDIC-insured debt instrument offered by banks and savings and loans. CDs offer higher rates of return than most comparable investments, in exchange for tying up invested money for the duration of the certificate's maturity. Money removed before maturity is subject to a penalty. CDs are low risk, low return investments, and are also known as "time deposits", because the account holder has agreed to keep the money in the account for a specified amount of time, anywhere from three months to six years.

Due to the decreased yield with the LGIP, the County has been going out to bid with approved banks on at least a monthly basis in an attempt to increase return during this volatile time. This has increased our return dramatically on these dollars without affecting our ability to be liquid to meet operating needs.

INSTITUTION	AMOUNT	YIELD	PURCHASE DATE	MATURITY DATE	PROJECTED INTEREST
Mid America Bank	225,000	3.15%	04/09/08	04/09/09	\$7,088
M & I Bank	225,000	3.04%	05/08/08	05/08/09	6,840
M & I Bank	225,000	3.17%	06/06/08	06/05/09	7,133
JP Morgan Chase Bank	225,000	3.86%	07/07/08	07/07/09	8,685
M & I Bank	10,000,000	1.58%	03/09/09	08/06/09	64,932
Mid America Bank	3,000,000	1.80%	03/09/09	08/06/09	22,192
PNC/National City f/k/a St. Francis Bank	225,000	4.05%	08/08/08	08/07/09	9,113
Mid America Bank	1,000,000	1.45%	01/27/09	08/15/09	7,945
M & I Bank	5,000,000	1.85%	01/28/09	08/17/09	50,938
PNC/National City f/k/a St. Francis Bank	225,000	4.33%	09/10/08	09/10/09	9,743
People's Bank	225,000	4.06%	10/09/08	10/09/09	9,135
Mid America Bank	225,000	4.06%	11/10/08	11/10/09	9,135
Citizens Bank of Mukwonago	225,000	3.50%	12/06/08	12/06/09	7,875
Community Bank of Delavan	225,000	2.97%	01/09/09	01/08/10	6,682
Citizens Bank of Mukwonago	225,000	3.01%	02/06/09	02/06/10	6,773
Associated Bank	225,000	1.70%	03/27/09	03/27/10	3,825
M & I Bank	500,000	1.79%	03/27/09	03/29/10	8,999
M & I Bank	225,000	1.79%	03/27/09	03/29/10	4,050
<b>TOTAL CERTIFICATES OF DEPOSIT</b>	<b>\$22,425,000</b>				<b>\$251,083</b>

**U.S. GOVERNMENT/TREASURY SECURITIES**

**U.S. Treasury Securities** - such as bill, notes and bonds are debt obligations of the U.S. government. When you buy a treasury security, you are lending money to the federal government for a specific period of time. Because these debt obligations are backed by the “full faith and credit” of the government, they are considered the safest of all investments. The primary advantage of the Treasury securities is safety, however, in addition Treasuries generally do not have a “call” provision.

Currently the County has Treasuries with Piper Jaffray and bonds and collateral backed mortgage obligations with Edward Jones. The Piper Jaffray securities are U.S. States Treasury Notes rated Aaa & AAA and will be maturing in April and August of 2009. The Edward Jones investments are immaterial in regards to the total portfolio, however, do not mature for four to fourteen years.

**PIPER JAFFRAY – U.S. GOVERNMENT SECURITIES**

DESCRIPTION	QUANTITY	PURCHASE DATE	MATURITY DATE	RATINGS	MARKET VALUE	YIELD
U. S. Treasury Note	2,000,000	4/01/2004	4/15/2009	MOODY Aaa S&P AAA	\$2,002,180	3.12%
U. S. Treasury Note	1,000,000	8/02/2006	8/15/2009	MOODY Aaa S&P AAA	\$1,017,070	4.79%
	<b>3,000,000</b>				<b>\$3,019,250</b>	

**EDWARD JONES – BONDS & CMO'S**

DESCRIPTION	QUANTITY	MATURITY	INTEREST RATE	CURRENT VALUE
GNMA #106329	100,000	11/15/2013	12.50%	\$142
GNMA #259921	25,000	07/15/2014	12.00%	144
GNMA #221664	25,000	07/15/2017	9.00%	88
GNMA #221043	25,000	08/15/2017	8.50%	964
GNMA II #001074	40,000	10/20/2018	10.00%	149
GNMA #228571	25,000	12/15/2019	9.00%	124
GNMA #285137	25,000	01/15/2020	9.00%	1,238
GNMA #153024	45,000	02/15/2020	9.00%	203
Federal National Mortgage Association	9,000	02/25/2022	7.00%	107
Federal National Mortgage Association	37,000	12/25/2023	6.55%	1,102
	<b>356,000</b>			<b>\$4,261</b>