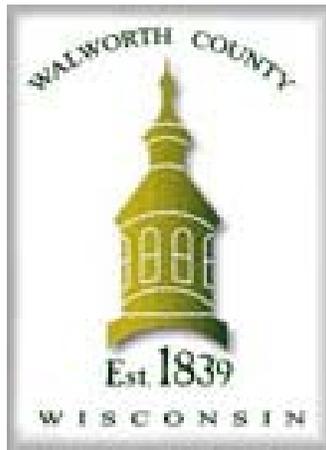


WALWORTH COUNTY, WISCONSIN

QUARTERLY INVESTMENT REPORT

June 30, 2009



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

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 two years. They have fallen each month of 2009 and are currently down to .39%.
- 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, currently forecast to be under the original budget amount by \$592,500 in the non-departmental budget.
- We have increased our investing in certificates of deposit by \$23,725,000 in fully collateralized instruments.
- We have diversified into a Mid America collateralized money market with a minimum yield of the prior month's LGIP plus .50%.
- We have diversified into an M&I Bank collateralized money market and a short-term investment portfolio with M&I Trust both expected to yield greater than the LGIP rate.
- We are currently investigating other portfolio management options with investment advisors.

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 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

ITEM	REQUIREMENTS	ACTUAL PORTFOLIO
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.	\$52.2, or 66%
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 rd Party

TOTAL PORTFOLIO

INVESTMENT CATEGORY	MAXIMUM MATURITY	QUALITY LIMITS S&P/MOODY'S	AUTHORIZED LIMIT	ACTUAL PORTFOLIO
LGIP	10 Years		No Limit	36.04%
Certificates of Deposit	3 Years		< 1 year Maximum 95%	31.91%
Certificates of Deposit	3 Years		1-3 years Maximum 50%	1.26%
Money Market Funds	N/A	AAA	No Limit	25.12%
U.S. Treasury	5 Years		No Limit	1.26%
Collateralized Mortgage Obligations	N/A	AAA/Aaa	Existing level	0.00%
Asset Backed Securities	N/A	AAA/Aaa	1-5 years Maximum 20%	0.00%
Depository Cash	N/A		4-100% Minimum Cash Balance	4.41%
			Total	100.00%

WALWORTH COUNTY, WISCONSIN**Quarterly Investment Report****NON-DEPARTMENTAL PERFORMANCE**

FIRST SIX MONTHS 2009				
INVESTMENT TYPE	INTEREST EARNED	BUDGETED INTEREST	VARIANCE	NOTES
LGIP	\$118,400	\$504,500	(386,100)	Interest budgeted at 3%, currently at .39%
Certificate's of Deposit	170,000	40,500	129,500	Budget based upon \$2.7 MM in CD's per month
U.S. Treasury Notes	17,200	40,000	(22,800)	No new securities, low rates
Depository Bank	1,100	15,000	(13,900)	Return on Treasuries was down to 0%, we have moved sweep funds to Repo
Money Markets	15,600	-	15,600	Not originally budgeted
TOTAL NON-DEPT	\$322,300	\$600,000	(\$277,700)	

FORECAST 2009				
INVESTMENT TYPE	FORECAST INTEREST	BUDGETED INTEREST	VARIANCE	NOTES
LGIP	\$171,000	\$1,009,000	(838,000)	Interest budgeted at 3%, actual forecast to be around 0.5%
Certificate's of Deposit	286,500	81,000	205,500	Significant increase in investments in CD's over budgeted amount
U.S. Treasury Notes	37,000	80,000	(43,000)	Did not purchase any new securities
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 Markets	110,000	-	110,000	Money market investments were not originally budgeted
TOTAL NON-DEPT	\$607,500	\$1,200,000	(\$592,500)	

- 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.
- Currently our CD's of record are averaging 2.01%, while the LGIP has decreased to .39%.
- If the County's initial portfolio had been maintained, the forecasted interest for the non-departmental accounts for 2009 would have approximated \$393,000, or only 33% of the budget.

WALWORTH COUNTY, WISCONSIN**Quarterly Investment Report****NON-DEPARTMENTAL PERFORMANCE (Continued)****INVESTMENT BENCHMARK**

The county has selected the Local Government Investment Pool rate as the benchmark for achievement for the non-departmental account. The following rates and amounts are based on the average for the first 6 months.

	Benchmark (LGIP)	Actual
Average rate	0.69%	0.95%
Average account balance	\$67,527,000	\$67,527,000
6 month income to date	\$233,000	\$322,300

The results show that the county is currently exceeding expectations in comparison to the benchmark. The county has begun to change its investment strategy and expects interest rates to continue to drop for the remainder of the year. The change in strategy should continue to increase the gap between the benchmark and actual investment returns.

TOTAL PORTFOLIO OVERVIEW**TOTAL COUNTY-WIDE BUDGET PERFORMANCE SUMMARY****FIRST SIX MONTHS 2009**

FUND/DEPT	INTEREST EARNED TO DATE	FORECAST INTEREST	BUDGETED INTEREST	VARIANCE
Non-Departmental	\$322,300	\$607,500	\$1,200,000	(\$592,500)
Health Insurance	25,300	43,500	102,500	(59,000)
Dental Insurance	1,300	1,900	10,100	(8,200)
Workers Compensation	7,400	11,100	60,000	(48,900)
Risk Management	17,500	29,100	95,000	(65,900)
Clerk of Courts	1,900	2,800	20,000	(17,200)
Human Services	1,900	2,800	17,000	(14,200)
Lakeland Hlth Care Ctr	300	500	3,000	(2,500)
Public Works	6,800	8,100	60,000	(51,900)
Sheriff	-	-	600	(600)
All Others*	1,300	2,300	-	2,300
TOTAL PORTFOLIO	386,000	709,600	1,568,200	(\$856,600)

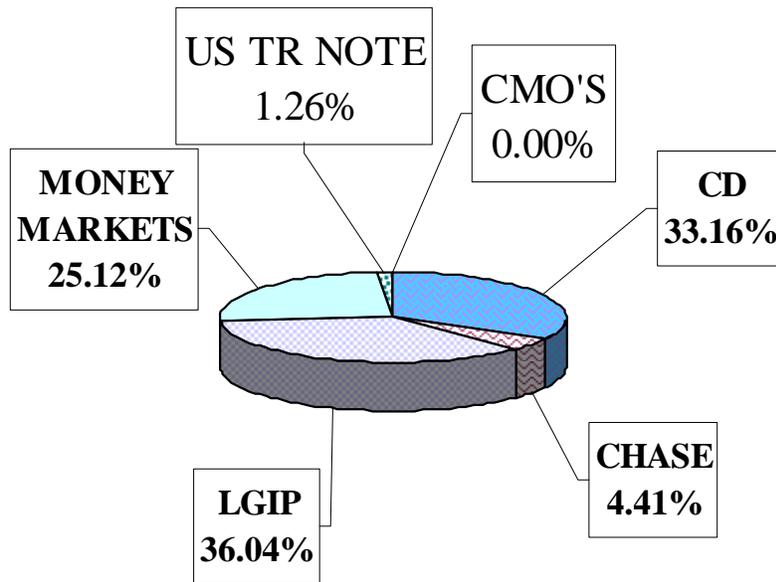
* The "All Others" category includes debt service and Children with Disabilities Education Board fund.

- Funds/departments besides non-departmental and clerk of courts receive interest income based on the LGIP interest rate. Non-departmental, clerk of courts, and risk management accounts held by fiscal agents receive actual interest income recorded based on investments held.

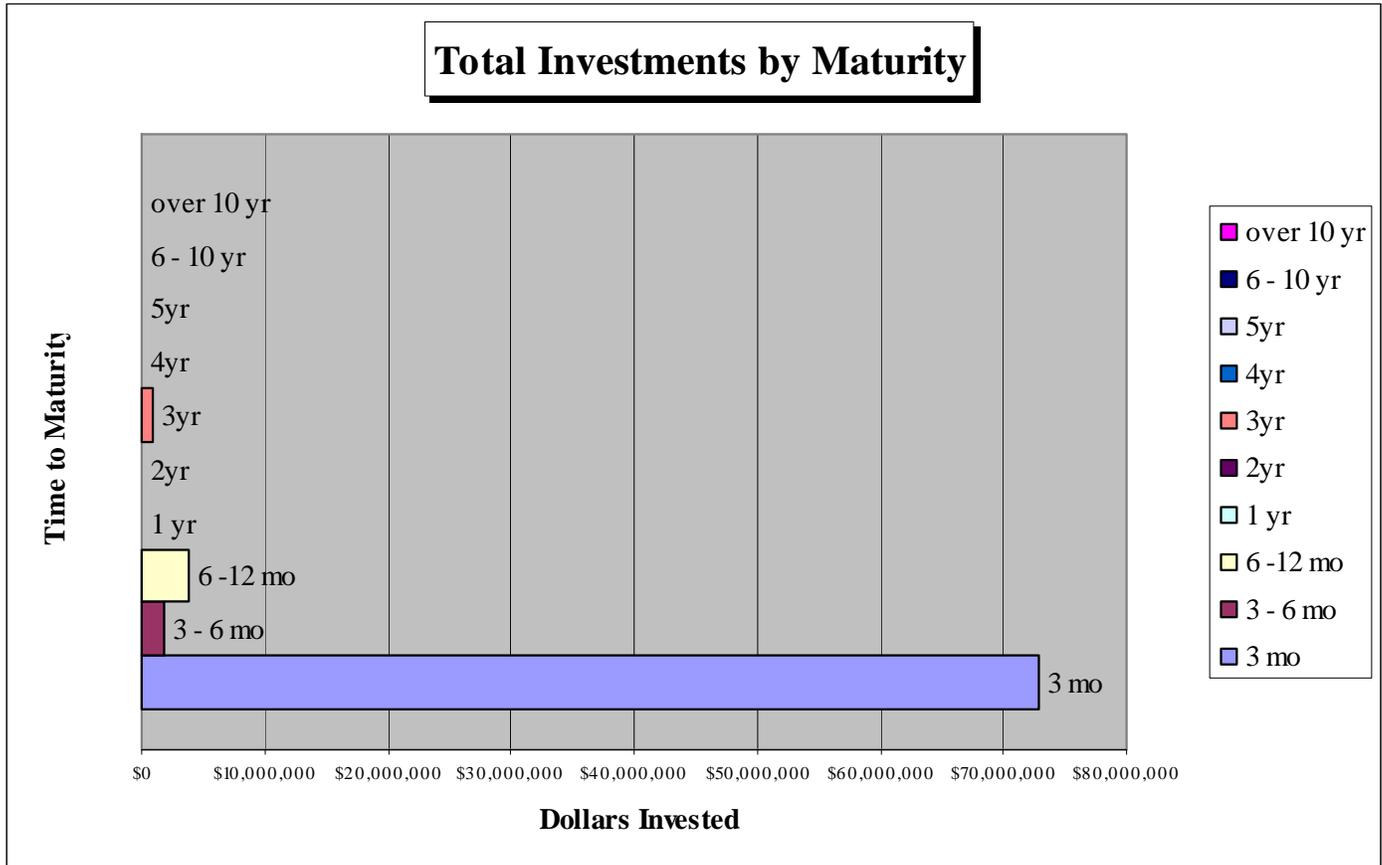
TOTAL PORTFOLIO OVERVIEW (Continued)

INVESTMENT TYPE	BOOK/MARKET VALUE
LGIP	\$28,717,000
Certificates of Deposit	26,425,000
Money Markets	20,015,000
U.S. Treasury Notes	1,006,000
Depository Bank	3,512,000
CMOs	3,000
Total	<u>79,678,000</u>

Total Investments by Type



TOTAL PORTFOLIO OVERVIEW (Continued)

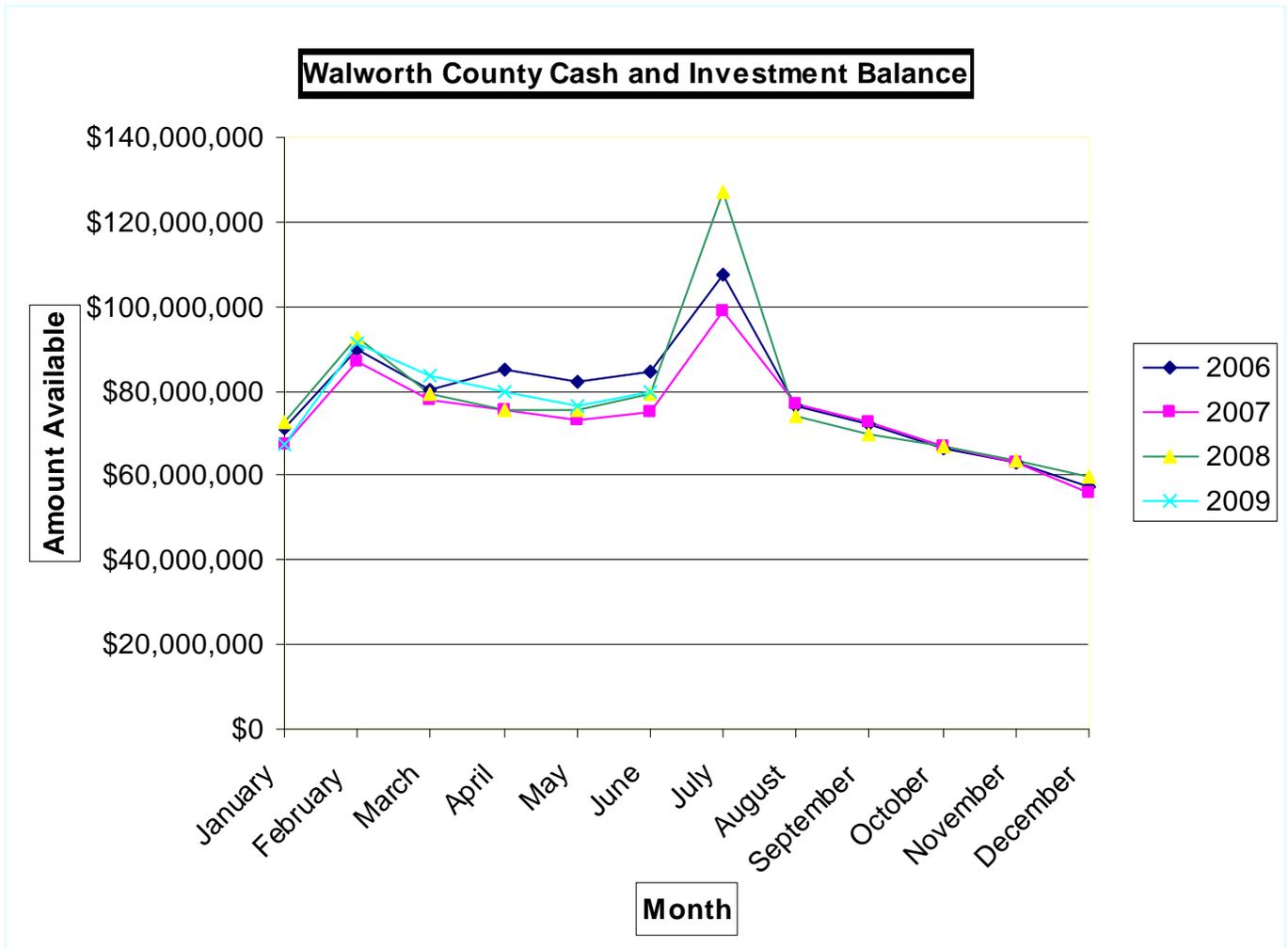


TOTAL PORTFOLIO OVERVIEW – Historical Balances

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	\$79,665,000
Average Cumulative Cash Balance		\$76,067,144	\$76,702,299	\$77,125,000

* 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.

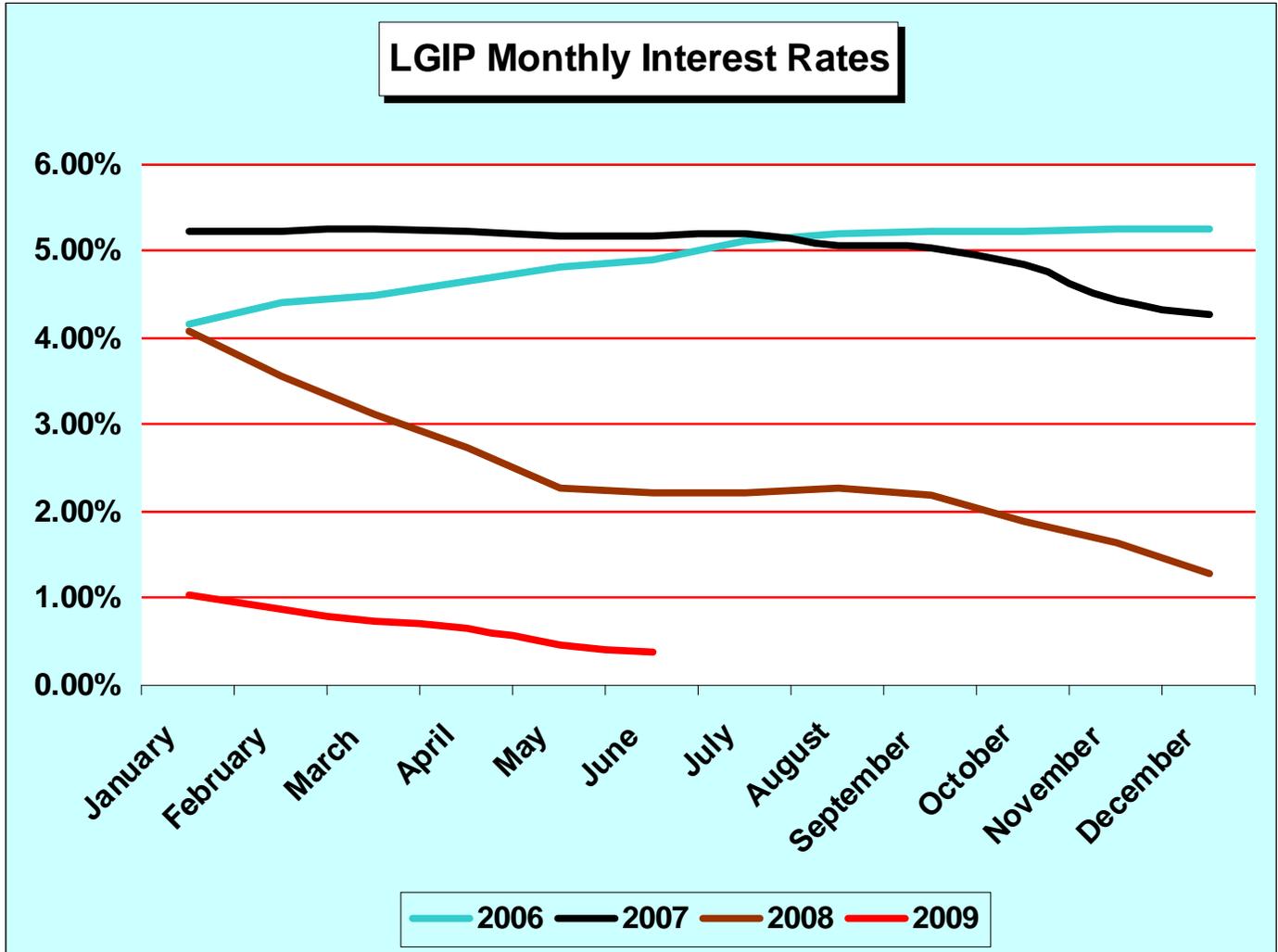
Over the past twelve months, the LGIP balance has averaged \$59 million. The spikes in February and July are the result of the temporary investment of property tax receipts. Most of these receipts are reinvested into securities within a month and no securities were required to be sold short in order 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 2009 INTEREST
JP Morgan Chase Bank	225,000	3.86%	07/07/08	07/07/09	8,691
M & I Bank	10,000,000	1.58%	03/09/09	08/06/09	63,633
Mid America Bank	3,000,000	1.81%	03/09/09	08/06/09	21,748
PNC/National Cty/St.Francis	225,000	4.05%	08/08/08	08/07/09	8,963
Mid America Bank	1,000,000	1.46%	01/27/09	08/16/09	7,866
M & I Bank	5,000,000	1.85%	01/28/09	08/17/09	50,432
PNC/National Cty/St.Francis	225,000	4.33%	09/10/08	09/10/09	9,609
People's Bank	225,000	4.06%	10/09/08	10/09/09	9,010
Commercial Bank, WW	225,000	1.41%	5/08/09	11/06/09	1,547
Mid America Bank	225,000	4.06%	11/10/08	11/10/09	9,010
Citizens Bk of Mukwonago	225,000	3.50%	12/06/08	12/07/09	7,767
M & I Bank	1,000,000	1.52%	5/11/09	12/11/09	8,704
Community Bank of Delavan	225,000	3.00%	01/09/09	01/08/10	6,444
Citizens Bk of Mukwonago	225,000	3.05%	02/06/09	02/06/10	6,030
Associated Bank	225,000	1.70%	03/27/09	03/27/10	2,871
M & I Bank	500,000	1.79%	03/27/09	03/29/10	6,719
M & I Bank	225,000	1.79%	03/27/09	03/29/10	3,023
M & I Bank	500,000	1.73%	04/13/09	04/13/10	6,079
Mid America Bank	500,000	1.91%	4/13/09	04/13/10	6,715
M & I Bank	1,000,000	1.76%	5/11/09	05/11/10	11,090
First Banking Center	225,000	2.000%	6/8/09	06/08/10	2,503
Citizens Bank, WW	225,000	2.00%	6/8/09	06/08/10	2,503
M & I Bank	1,000,000	2.66%	6/8/09	06/07/12	14,794
TOTAL CERTIFICATES OF DEPOSIT	\$26,425,000				\$275,751

WALWORTH COUNTY, WISCONSIN**Quarterly Investment Report****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 and will be maturing in 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	1,000,000	8/02/2006	8/15/2009	MOODY Aaa S&P AAA	\$1,005,740	4.79%
	1,000,000				\$1,005,740	

EDWARD JONES – BONDS & CMO'S

DESCRIPTION	QUANTITY	MATURITY	INTEREST RATE	CURRENT VALUE
GNMA #106329	100,000	11/15/2013	12.50%	\$137
GNMA #259921	25,000	07/15/2014	12.00%	129
GNMA #221664	25,000	07/15/2017	9.00%	88
GNMA #221043	25,000	08/15/2017	8.50%	965
GNMA II #001074	40,000	10/20/2018	10.00%	153
GNMA #228571	25,000	12/15/2019	9.00%	128
GNMA #285137	25,000	01/15/2020	9.00%	1,276
Federal National Mortgage Association	9,000	02/25/2022	7.00%	79
Federal National Mortgage Association	37,000	12/25/2023	6.55%	489
	356,000			\$3,444

WALWORTH COUNTY, WISCONSIN**Quarterly Investment Report****MONEY MARKET/INVESTMENT PORTFOLIO OVERVIEW**

The county has begun to invest with investment managers and collateralized money markets. The following is a summary of the current investment portfolios and money market accounts and their current investment amounts.

Financial Institution/Manager	Type of Account	Amount
M&I Trust	Short-term Investment Portfolio	\$5,000,000
Mid-America	Collateralized Money Market	10,012,000
M&I Bank	Collateralized Money Market	5,003,000
	Total	\$20,015,000

General Investment Portfolio Information

Further research and potential ordinance changes may be required to allow for additional investment types as well as safeguards on funds managed by non-county investment managers. Additional investment managers will also be researched to allow for diversification of fund management.

M& I Trust Short Term Investment Portfolio

Currently this portfolio is in process of being established and will be maintained within the current ordinance guidelines with the purchase of agency and treasury securities at an average of 2 to 4 years maturity. M&I Trust, separate from M&I Bank, does not charge commission fees per trade transaction. The cost is 20 basis points annually with a minimum balance of \$5 million. This account is expected to yield about 1.75% net return in the current market conditions. The funds can be sold upon a day's notice, however the more advance notice that can be given, the less chance of market volatility during the sale of the funds.

General Money Market Information

Money markets allow for liquid investments similar to the local government investment pool that may be drawn upon with less than one week advance notice. Open money markets are restricted to investments within the Wisconsin Statutes Section 66.063(1m) and limited to an average maturity of one hundred twenty days or less. The county also allows for collateralized public investment money markets with allowable investment types.

Mid-America Money Market

Rates are established by Mid-America Bank at the end of each month based on the LGIP rate. Mid-America has guaranteed to be at least .5% higher than the LGIP rate. These funds are collateralized and available with one week notice.

M&I Bank Business Money Market

Rates are established by M&I Bank and may be changed several times a month based on the market. Current rate is at 1% for holdings of at least \$5 million. Investment is collateralized at a cost of 10 basis points leaving a net of 0.9% for the current return. This account can be withdrawn with one day's notice.