Investment Policy
2014-01

Purpose

The purpose of these investment guidelines is to formalize the framework for the Village's daily banking and investment activities. The guidelines are intended to be broad enough to allow the Investment Officials to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard the Village's accounts. The primary objectives of this policy, in order of priority, are safety, liquidity and yield.

This policy shall apply to all cash and investments of the Village, including all funds, excluding the investment of employees' retirement funds. Unless prohibited by law or contract, the Village may pool cash from several different funds to maximize returns. Funds subject to additional federal, state and/or contractual laws and regulations will be invested according to those laws and regulations. Investment income will be allocated to the various funds based on the percentage of their respective participation. For the purposes of financial statements, all cash and investments with an original maturity of three months or less will be considered cash and cash equivalents. Investments will be reported at fair values, based on quoted market values.

Application

The investment program shall be operated in conformance with federal, state, local, and other legal requirements as applicable. The Village Administrator/Clerk-Treasurer and Assistant Village Administrator are the Village's Investment Officials. The Investment Officials will establish internal control procedures over cash and investment accounts. All purchases and sales of investments will be authorized by the Village Administrator/Clerk-Treasurer, executed by the Assistant Village Administrator and reviewed during the annual Village Audit process.

The standard of prudence to be used by Village Investment Officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment Officials acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

The "prudent person" standard states that, "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 safety of their capital as well as the probable income to be derived."

Employees 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. All Investment Officials shall abide by the Village Policy #1.03 (Conflicts of Interest) and Chapter 6 (Code of Ethics) of Village Ordinances.

Safety, Credit Risk and Authorized Investments

Safety and preservation of principal in the overall portfolio is the foremost investment objective. To ensure the safety of the Village's deposits and investments, the Village's policy includes sections on what investments are suitable, on how balances are protected and provides guidelines for institutions to be used.

Credit risk is the risk that the Village would lose money due to the default of a bond or securities issuer. The Village reduces our exposure to this risk by restricting our allowed investments. The Village's investments are restricted in accordance with Wisconsin statutes section 66.0603 (see appendix A). The Village chooses to further limit our cash and investments to the following:

1. Checking and saving accounts;

2. Local government investment pools either state-administered or developed through joint powers statutes and other intergovernmental agreement legislation, such as the Local Government Investment Pool and Wisconsin Investment Series Cooperative;

3. Certificates of deposits (fully FDIC insured for principal and/or fully collateralized as described below) and certificates of deposit purchased through the Certificate of Deposit Account Registry Service (CDARS);

4. Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist of only of dollar-denominated securities;

5. Bonds and securities issued by the federal government or a commission, board or other instrumentality of the federal government;

6. Bonds of any county, city, drainage district, technical college, village, town or school district of this state;

7. Commercial paper if rated in the highest tier (e.g. A-1, P-1, AAA) by a nationally recognized rating agency; and

8. Overnight repurchase agreements with a public depository as defined in statute 34.01 (5), provided that the agreement is secured by bonds or securities issued or guaranteed as to principal and interest by the federal government and held

by a third party custodian. The Village shall be informed of the specific collateral and investments in the repurchase agreements and the agreement shall be collateralized at 102% of the value of the Village's investment.

9. Prohibited Investments - Village funds will not be invested in derivative type investments such as collateralized mortgage obligations, strips, floaters, etc. Certain types of such investments may qualify under state statute but are not deemed appropriate for use by the Village.

The Village will engage in diversification of investments (type, length of maturity and institution) to the extent practicable considering yield, collateralization, investment costs and available bidders. The Village will get quotes from Authorized Financial Institutions whenever seeking investment opportunities for funds as deemed necessary by the Investment Officials. Concentration of credit risk is the risk that losses become substantial due to the magnitude of the Village's investment in a single issuer. The Village shall make an effort to reduce this risk whenever possible.

Custodial Credit Risk

Custodial credit risk is the risk of default by the holding institution, i.e. the bank holding cash or securities. The Village shall reduce this risk by ensuring substantially all funds are either insured, collateralized or registered to the Village. The terms "substantially all funds" recognizes that there are times when minimal amounts may not be protected in this manner, such as with cash on hand or in cases where the market value exceeds the face value of an investment. This risk is also reduced through the Village's selection of authorized financial institutions.

1. Village deposits will be protected through insurance:

    a. The Federal Deposit Insurance Corporation (FDIC) currently protects deposits up to $250,000 for checking and $250,000 for savings accounts.

    b. The Wisconsin State Deposit Guarantee Fund protects public deposits under Statutes 20.144(1)(a) and 34.08(2) up to $400,000, after FDIC coverage, for any one public depositor in any individual public depository.

2. Village deposits in excess of insurance will be protected through collateral:

    a. With a market valued of at least 102% of the uninsured balances;

    b. Consisting of bonds or securities issued by the federal government, its agencies or instrumentalities or by any county, city, drainage district, technical college, village, town or school district; and

c. Held by an independent third party custodian with whom the Village has a current custodial agreement.

Collateral agreements are to prohibit the release of pledged assets without the Village's authorization, however substitution of like collateral (value and type) is allowed. The market value increases on FDIC insured certificates of deposit are exempt from this requirement.

3. Proof of Village ownership of securities will be protected by:

   a. Securities will be registered through the Direct Registration System in the Village's name.

   b. Securities Investor Protection Corporation (SIPC) protects investors by obtaining the securities registered in the Village's name in the event of a failed brokerage firm. After securities have been obtained by the SIPC, other balances are covered through SIPC protection up to $500,000 maximum per customer, including $250,000 in cash balances.

   c. Trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

Authorized Financial Institutions

The Village Administrator/Clerk-Treasurer shall select and maintain a list of financial institutions to be utilized by the Village. The list of qualified institutions shall be presented to the Village Board for approval on a periodic basis. As required under State Statutes, the Village will approve institutions as public depositories separately through a Village Board resolution. For a financial institution to be considered for use by the Village, they must have:

1. Provided proof of state registration;

2. Completed a signed certificate of having read, understood and agreeing to comply with the Village's investment policy (included in Appendix B)

3. Provide evidence of participation in FIDC and/or SIPC programs, such as FDIC certificate number and specific name of registration.

4. A Safe and Sound rating of 3 (performing) or better according to the site www.bankrate.com. Another industry used rating system may be substituted, by Investment Officials or by Village Board approval.

5. Meet the FDIC's threshold to be considered a well-capitalized bank:

   a. Total risk-based capital ratio of 10% or higher;

b. Has a Tier 1 risk-based capital ratio of 6% of greater; and

c. Has a leverage ratio of 5% or greater

6. Broker/dealers will provide their most recent Broker check report from the Financial Industry Regulatory Authority, Inc (FINRA) along with all Central Registration Depository (CRD) numbers.

7. Safekeeping institutions will also provide a copy of their report on internal controls as applicable to custody procedures.

The Village investment policy requires items 3-7 be reviewed by the Village Administrator/Clerk-Treasurer or designee annually for financial institutions doing more than $1.0 million in investment purchases, deposits or safekeeping balances. Items 3-7 will be reviewed by the Village Administrator/Clerk-Treasurer or designee at a minimum of every three years for all other authorized intuitions.

The Village may enter into a contract with one or more investment advisors only upon approval of the Village Board. If used, the selection of an investment advisor will be based on the utilization of request for proposal, interviews and reference reviews.

Liquidity
The Investment Officials shall ensure that we have adequate funds in usable form to be able to meet ongoing business needs that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity).

Interest rate risk is the risk that changes in the market interest rates will negatively affect the fair value of an investment. Generally, the fair value of longer maturity investments is more sensitive to changes in the market interest rate. The Village shall mitigate this risk by:

1. Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

2. Limiting the maturities of all investments when purchased to less than five (5) years.

3. Laddering investments to meet cash flow needs.

Yield
The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk

constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of the Village's investment strategy is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:

1. A security with declining credit may be sold early to minimize loss of principal.

2. A security sale would improve the quality, yield, or target duration in the portfolio.

3. Liquidity needs of the portfolio require that the security be sold.

Given the passive nature of the Village's investment strategy, appropriate benchmarks for comparison include: the average Federal Funds rate, local government investment pool rate, and average return on the U.S. Treasury Bills.

Policy Considerations

The Village Administrator/Clerk-Treasurer or designee shall provide a cash and investment report to the Village Board at least bi-annually. The report shall summarize investments held and transactions made. It shall also discuss the current portfolio in terms of maturity, rates of return, market values and other features. All bank and investment accounts will be reconciled monthly. All investments will be marked to market monthly and unrealized gains and/or losses will be included with the investment income and return calculations. Any investments currently held that do not meet the guidelines of this policy when it is adopted shall be exempted from the requirements of this policy. At maturity or liquidation such monies shall be reinvested only as provided in this policy.

Investment Policy #2014-01 will take effect immediately upon adoption by the Village Board for the Village of Cross Plains.

Dated this 28th day of April, 2014.

Village of Cross Plains:

By: J. Patrick Andreoni

J. Patrick Andreoni
Village President

Attest:

By: Matt Schuenke

Matthew G. Schuenke
Village Administrator/Clerk-Treasurer

Appendix B

Investment Policy Compliance Certificate

All financial institutions, broker/dealers, and/or investment advisors the Village conducts banking and investment activities with are required to have completed this certificate, prior to receiving Village funds or within 90 days of approval of this policy.

Please read the following statements and initial each individual item and sign below to indicate receipt, acknowledgment, understanding and agreement to comply with the statements and overall investment policy.

______ I have received a copy of the cash and investment policy for the Village of Cross Plains.

______ I have actually read the entire cash and investment policy for the Village of Cross Plains.

______ I understand the rules, regulations and procedures set forth in the cash and investment policy.

______ I agree to abide by the rules, regulations and procedures set forth in the cash and investment policy.

______ I agree to notify all investment officials of the Village if I believe the Village is not in compliance with the rules, regulations and procedures established in the cash and investment policy.

______ I understand that my signature below indicates that I have read, understood and I agree to comply with the Village's written policy.

____________ ______________________________

Date Bank Name

______________________________ ______________________________

Bank Representative Name (Printed) Bank Representative Title

____

Bank Representative Signature

Appendix C

List of Authorized Financial Institutions

The following financial institutions are considered to be authorized financial institutions that the Village may utilize for cash and investment activity:

Anchor Bank
Cross Plains Community Bank (a branch of Middleton Community Bank)
Guaranty Bank
JP Morgan Chase
The Park Bank
The Peoples Community Bank
State Bank of Cross Plains
U.S. Bank
BMO Harris
Wisconsin Local Government Investment Pool

The Village's Cash and Investment policy requires that each institution being used provide certain annual or periodic information to the Village. Financial institutions currently being used by the Village will have 90 days from the date of the Cash and Investment policy adoption to provide the required information in order to remain authorized.

While the Village will consider the institutions listed above as authorized, only those institutions actually in use will be required to supply the information required within the policy. The presence of a financial institution's name on the list above is not intended to imply, require or guarantee that the Village will do business with a specific institution listed.

Appendix D

Definitions

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large- denomination CD's are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property that a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposit of public monies.

COMMERCIAL PAPER: An unsecured promissory note issued primarily by corporations for a specific amount and maturing on a specific day. The maximum maturity for commercial paper is 270 days.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to $250,000 per deposit.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks) which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit institutions and insurance companies. The mission of FHLB is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FUNDS: A fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residuals or equities, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. Examples of some of the funds used by the Village include the General Fund (main operating fund), Capital Fund, TID Fund, Water Utility, or Sewer Funds.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase – reverse repurchase agreements that establish each party's rights in the transactions. A master agreement will often specify among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

PRUDENT PERSON RULE: An investment standard that states the trustee may invest in a security if it is one that would be bought by a prudent person of discretion and intelligence who is seeking preservation of capital and a reasonable income.

PUBLIC DEPOSITORY: Wisconsin State Statute 34.01(5) states the governing board of each public depositor shall, by resolution, designate one or more public depositories, organized and doing business under the laws of this state or federal law and located in this state, in which the treasurer of the governing board shall deposit all public moneys received by him or her and specify whether the moneys shall be maintained in time deposits subject to the limitations of s. 66.0603(1m), demand deposits, or savings deposits and whether a surety bond or other security shall be required to be furnished under s. 34.07 by the public depository to secure the repayment of such deposits. "Public depository" means a federal or state credit union, federal or state savings and loan association, state bank, savings and trust company, federal or state savings bank, or national bank in this state which receives or holds any public deposits or the local government pooled- investment fund.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

<u>REPURCHASE AGREEMENT (RP OR REPO):</u> A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money, that is, increasing bank reserves.

<u>SAFEKEEPING:</u> A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

<u>TREASURY BILLS:</u> A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

<u>TREASURY BONDS:</u> Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

<u>TREASURY NOTES:</u> Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

<u>U.S. INSTRUMENTALITIES:</u> An organization that serves a public purpose and is closely tied to federal government, but is not a government agency. Many instrumentalities are private companies, and some are charted directly by the federal government. Fannie Mae, Freddie Mac and Sallie Mae are all examples of federal instrumentalities and carry an implicit guarantee from the U.S. Treasury, not an explicit guarantee.