

Township of South Orange Village

Cash Management Plan

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Chief Financial Officer/Treasurer

I. Objective

The Township of South Orange Village Cash Management Plan is intended to act as a summary of cash management activities to be undertaken by the various municipal departments which handle cash in order to ensure maximum cash availability and maximum investment yield on idle Village cash.

This Cash Management Plan (the “Plan”) is prepared pursuant to the provisions of N.J.S.A. 40A: 5-14 in order to set forth the basis for the deposits (“Deposits”) and investment (“Permitted Investments”) of certain public funds of the Township of South Orange Village (“Village”) pending the use of such funds for the intended purposes. The Plan is intended to assure that all public funds identified herein are deposited in interest bearing Deposits or otherwise invested in Permitted Investments hereinafter referred to. The intent of the Plan is to provide that the decision made with regard to the Deposits and the Permitted Investments will be done to insure the safety, the liquidity (regarding its availability for the intended purposes), and the maximum investment return within such limits. The Plan is intended to insure that any Deposit or Permitted Investment matures within the time period that approximated the prospective need for the funds deposited or invested so that there is not a risk to the market value of such Deposits or Permitted Investments.

The Village wishes to manage cash efficiently from the time revenue is earned until the time an expenditure payment clears the bank. The overriding goals of the cash management system are to maximize availability and maximize yield. The first goal is met by decreasing time lags from the earning of revenue until it is converted to cash and by timing expenditures to be made on their due dates, not before or after. The second goal is achieved by maximizing investment yield on cash between its collection and disbursement.

The administrative staff of the Township of South Orange Village exists to provide services to its citizens for which it must collect tax and fee revenue. Effective cash management will operate within the constraints of the purpose of government. Cash should not be maximized at the expense of paying vendors late or alienating taxpayers with intimidating collection procedures. Similarly, yield should not be maximized at the expense of other goals. Where conflicts exist between the two primary goals of the cash management policy, the Village will put a higher priority on cash availability than yield as the cash management system shall ensure that cash is available to support municipal operations.

The Township of South Orange Village shall comply with all laws and regulations concerning municipal cash management. All municipal funds will be deposited in a manner by which they will be protected under Governmental Unit Deposit Protection Act (GUDPA) regulations. The Village will comply with directives from the New Jersey Department of Community Affairs, Division of Local Government Services and the Local Finance Board concerning cash management.

The Village will work to increase non-tax revenues when they are not needed for current obligations and keep idle funds in interest bearing accounts at all times. The Village Finance Department will monitor and project cash flows and schedule expenditure plans accordingly as well as maintaining familiarity with the short-term investment market.

II. Protection of Village Assets

Cash management is a form of risk management in that any time the Village earns revenue, makes an investment, or commits to expenditure; it incurs a certain amount of risk. The Chief Financial Officer/Treasurer must recognize and minimize the Village’s exposure to five distinct types of risk;

Default risk - Default risk applies mainly to investments, but could also apply to basic checking accounts. Default risk is the risk that some or the entire principal amount of an investment or account will not be available due to default by the issuer, securities dealer or broker, bank or other financial institution. Default

risk is best avoided by carefully screening investment dealers and banks for potential default problems and by limiting investments to those instruments which are least likely to default. Should a default occur, the Village will take all recourse actions available through deposit insurance, regulatory and legal systems.

Market Risk - Market risk is the risk that, while the Village holds an investment instrument, changes in the financial markets reduce the value of the investment. In extreme cases, the market value may fall below the principal amount invested by the Village. If the Village sells the investment before it matures, part of the principal will be lost. The Village's only recourse would be to hold the security until either the market rebounds or it matures, repaying both the face value and the interest. The Village can protect against market risk by avoiding instruments, which are subject to rapid market swings, and by investing with the intent to hold all instruments to maturity.

Reputational Risk - An offshoot of the other forms of risk, reputational risk is the risk that the Village will lose stature by making a cash management mistake. Few events are more damaging to a government's prestige and potential than a well-publicized investment loss. While the most common cause is loss of principal due to default, the Village's reputation may also be damaged by overzealous collection processes or by late payment of expenditures. Reputational risk may cause long-term harm to the government as citizens question the management capability of both elected officials and the professional staff. A poor reputation may also discourage vendors and potential new businesses and residents from working with or locating in the Village.

Safekeeping Risk - The rise of electronic funds transfers and creative investment instruments has spawned a new process of investing in which the cash manager may never see the instrument in which they are investing. Many banks, brokers and dealers prefer to issue a safekeeping certificate or use another simple method to evidence receipt of the principal. The most common use of safekeeping certificates is in repurchase agreements, in which the Village purchases certain securities and the broker agrees to repurchase them with interest at a later date. The broker often issues a certificate that the securities are on hand and being held against the investment. The Village may protect itself against the external safekeeping risk by demanding collateral securities be physically delivered to the Village as a condition of making the investment. This practice may reduce yields, but provides an important form of protection. Practicing sound internal controls can reduce the internal safekeeping risks of lost monies.

Collection Risk - There can be a significant difference between revenue earned and revenue collected. Nonpayment of taxes, fees, and fines poses a risk that resources budgeted and treated in the accounting system as if they were received may never actually appear. There is also a strong "Word of mouth" factor. If individuals seem to "get away" without paying large amounts in fines, fees or taxes, many others will try this technique. The Village must protect itself against collection risk by utilizing aggressive collection procedures.

III. Liquidity

Idle cash is only idle and available to invest until it is needed to pay employees or invoices. An important objective of an effective cash management plan is to time investments so that they mature at the same time they are needed to meet these obligations. If they mature too early, the Village will lose interest earnings, if they mature too late, the Village risks a potential problem of liquidity. The Village must strive to guarantee liquidity by carefully forecasting expenditures; determining if each upcoming expenditure obligation is "covered" by cash on hand, incoming revenue, or maturing investments; and timing investments to meet the next "uncovered" obligation. A margin for unexpected expenditures is allowable and expected.

IV. Financial Reports

The Chief Financial Officer/Treasurer shall produce the following revenue, expenditure, investment and financial condition reports and circulate same amongst the elected officials of the Village;

- Annual Temporary Budget and Amendments
- Annual Budgets for Introduction
- Annual Budgets Amendments for Approval
- Annual Budgets for Approval
- Unaudited Annual Financial Report
- Audited Annual Financial Report
- Annual Debt Statement
- Monthly Cash Position Report
- Monthly Cash Receipts Analysis Report
- Monthly Cash Disbursement Analysis Report
- Monthly Anticipated Revenue Budget Report
- Monthly Budget Expenditure Reports
- Investment Analysis as necessary pursuant to Section XII

The Tax Collector will be responsible for preparing daily cash receipt reports and submitting same to the Chief Financial Officer/Treasurer for cash forecasting and tracking information. The Tax Collector will maintain a monthly analysis of taxes receivable and reports detailing all adjustments, tax sale information and assignments.

In order to insure the all budget expenditure reports accurately reflect the Village's outstanding obligations, the purchasing department shall utilize the encumbrance system as outlined in the Township of South Orange Village Purchasing Manual. The basis of said manual shall be to comply with all purchasing regulations governing the abilities of the Township of South Orange Village. The Village shall utilize Requisitions, Purchase Orders and Voucher forms with signatures required from Department Heads, Purchasing Agent, and Chief Financial Officer/Treasurer. The Village shall encumber funds for contracts and purchase orders once they are approved. The Village shall pay all invoices in accordance with terms of same. Payments are not to be made late or earlier than required by said terms. The Village shall utilize a centralized purchasing system and maintain a comprehensive fixed assets inventory.

The Village Cash Management Plan shall be provided to all elected officials of the Township of South Orange Village as well as all appointed officials whom are affected by same.

V. Debt Management

The Chief Financial Officer/Treasurer shall maintain an analysis of all debt authorized but not issued, recommend cancellations of authorization balances no longer needed, recommend reappropriation of authorization balances no longer needed for their intended use, maintain an analysis of grants receivable for capital improvement projects, handle all facets of bond and bond anticipation note issuance, ensure that the Village remains in compliance with arbitrage regulations and that an annual analysis and report are compiled concerning arbitrage.

VI. Audit and Review

All employees will work with the Village auditing firm to ensure a thorough and accurate audit review. The Chief Financial Officer/Treasurer shall arrange an Audit Exit Conference with Village Auditor and prepare a Corrective Action Plan in response to any audit comments or recommendations. The Corrective Action Plan will be submitted to the Board of Trustees for approval and submitted to the Division of Local

Government Services in accordance with regulations concerning same.

VII. Operational Cash Management Objectives

1. Increase non-tax revenue when it is not needed for current obligations
 - A. Schedule due dates for licenses during the first three months of the calendar year.
 - B. Schedule contractual payments to be made monthly
2. Keep idle funds working even at a lower interest rate when necessary

Invest all available monies in overnight investments such as the New Jersey State Cash Management Fund or an interest bearing investment account such as the Village Clearing Account.
3. Understand present cash flow

Cash flow projections shall be updated monthly and project the following 3 months
4. Estimate pattern of future cash flows
 - A. The Village is aware that major cash flow periods occur within the General Account during the first ten days of each tax paying period.
 - B. The Village shall schedule payments and obligations in a manner as such as the majority of obligations that can be scheduled will be made payable after a period of increased collections as described above.
5. Identify and become familiar with the short-term money market.

The Village will maintain analysis of available investment terms at the point that each investment decision is made. Where practical, the Village shall invest in the product that is most beneficial to the Village both by yield and availability. The Village shall maintain a relationship with all of the brokers, dealers, bank officers and investment officials outlined in the cash management resolution adopted annually by the Board of Trustees.
6. Bidding specifications for banking relationships shall be adopted so as to compare banking practices.

The Chief Financial Officer/Treasurer shall maintain an analysis of banking proposals and information concerning the basis for which a banking relationship has been established.
7. The Township of South Orange Village shall project a knowledgeable image to the banking firms with which it established relationships. A knowledgeable cash manager will gain the respect of banking officers who will work harder to offer conditions desirable to the Village.

The Chief Financial Officer/Treasurer shall handle all relationships with bank

officers, with the exception of day to day transfers and routine banking methods.

8. The Village will not entertain political considerations in its cash management policies.

All banking relationships shall be established on the basis of what is best for the Village's cash management position.

9. The Village will select a lead bank with which it will deal with concerning day to day activity.

The lead bank will be determined based on its size and reputation, location convenience, ability to draw large payments and other considerations as detailed herein.

10. Profitability of bank accounts to be compared when selecting a bank.

The Village shall consider the amount required for compensating balances or bank fees and the "float".

11. This Cash Management Plan shall be adopted annually by Resolution of the Board of Trustees upon receipt of recommendations for the Chief Financial Officer/Treasurer.

12. Cash disbursements shall be scheduled to be released on a regular basis in order to provide for accurate investment policies.

A. It shall be the policy of the Township of South Orange Village to authorize payment of bills at its regular monthly Board of Trustees meeting held on the fourth Monday's of each month. Checks authorized for release at said meetings will become available after 3:00 PM of the Thursday proceeding said action. This policy will not limit the Board of Trustees from authorizing payments at any other Board of Trustees meeting, nor limit the Chief Financial Officer's ability to issue a disbursement between meetings to be confirmed by the Board of Trustees at a later date.

B. In order to comply with this policy, all department heads must ensure that completely executed vouchers with invoices are submitted to the Purchasing Department by 9:00 AM of the Tuesday preceding the meeting night on which they are intended to be paid. Department heads and the Purchasing Department should review all payments to ensure that they are paid as late as possible but within the terms set forth by the purchase order.

13. Cash flow shall be estimated for a twelve month period, as detailed in the budget document, with more formal and accurate analyses provided for lesser periods as described herein.

A. Estimation of revenues shall include anticipated receipts from: Municipal Revenues, Federal Revenue, State Revenues, and Bond Issues.

B. Estimation of expenditures should include; salaries and wages, payroll taxes, debt service, capital expenditures, employee benefit plans, and

operating budgets.

14. Investments will be timed and calculated based on the projections and analyses detailed herein.
15. The Chief Financial Officer/Treasurer shall remain informed concerning the legal implications involved in the investment of municipal funds.
 - A. The Village may invest in Repurchase Agreements that are fully collateralized, Certificates of Deposit, United States Treasury Bills, Saving Accounts and other tools which are properly protected by GUDPA and other state and federal regulations.
16. Internal controls shall be utilized to ensure maximum availability of funds.
 - A. Tax bills and delinquent notices shall be mailed promptly.
 - B. The Village will remain aggressive in its strategies to collect delinquent charges.
 - C. All funds collected by the Tax Collector's Office before 2:30 PM will be deposited by 11:00 AM on the following business day.
 - D. A police officer shall be made available to transport all municipal funds to the proper depository.
17. Discretion of Chief Financial Officer/Treasurer will be permitted in allowing some variance in the policies outlined herein, when, said variances are caused by unforeseen circumstances, emergency situations and other situations where the Chief Financial Officer/Treasurer feels that conformance with the policy would be detrimental to the financial operation of the municipality. Such variances shall be recorded and reported monthly to the Board of Trustees Finance Committee Meeting.

VIII. DESIGNATION OF DEPOSITORIES.

The following banks and financial institutions are hereby designated as official depositories for the Deposit of all public funds referred to in the Plan, including any certificates of Deposit which are not otherwise invested in Permitted Investments as provided for in Section X of this Plan:

PNC National Bank, PNC Bank, Bank of America, State of New Jersey Cash Management Plan, Valley National Bank, MBIA Class Cash Management Fund, Allegiance Community Bank, Chase Bank, Wells Fargo Bank, Investors Savings Bank

All such depositories shall acknowledge in writing receipt of this Plan by sending a copy of such acknowledgment to the Chief Financial Officer/Treasurer.

IX. DESIGNATION OF BROKERAGE FIRMS AND DEALERS WITH WHOM THE CHIEF FINANCIAL OFFICER/TREASURER MAY DEAL.

The following brokerage firms and/or dealers and other institutions are hereby designated as firms with whom the Chief Financial Officer/Treasurer of the Village may deal for purposes of buying and selling securities identified in this plan as Permitted Investments or otherwise providing for the Deposits. All such

brokerage firms and/or dealers shall acknowledge in writing receipt of this plan by sending a copy of such acknowledgment to the Chief Financial Officer.

MBIA, PNC National Bank

X. AUTHORIZED INVESTMENTS.

Except as otherwise specifically provided for herein, the Chief Financial Officer/Treasurer is hereby authorized to invest the public funds covered by this Plan, to the extent not otherwise held in Deposits, in the following Permitted Investments:

1. Bonds or other obligations of the United States of America or Obligations guaranteed by the United States of America;
2. Government money market mutual funds;
 - A. which is registered with the Securities and Exchange Commission under The "Investment Company Act of 1940," 15 U.S.C. sec. 80a-1 et seq., and operated in accordance with 17 C.F.R. sec. 270.2a-7.
 - B. the portfolio of which is limited to U.S. Government securities that meets The definition of any eligible security pursuant to 17 C.F.R. sec. 270.2a-7 and repurchase agreements that are collateralized by such U.S. Government securities; and
 - C. which has:
 - (1) attained the highest ranking or the highest letter and numerical rating of a nationally recognized statistical rating organization; or
 - (2) retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission Pursuant to the "Investment Advisors Act of 1940," 15 U.S.C. sec. 80b-1 et seq., with experience investing in U.S. Government securities for at least the most recent past 60 months and with assets under management in excess of \$500 million.
3. Any obligation that a federal agency or a federal instrumentality has issued in accordance with any act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligation bears a fixed rate of interest not dependent on any index or other external factor;
4. Bonds or other obligations of the Local Unit or bonds or other obligations of school districts of which the Local Unit is a part or within which the school district is located;
5. Bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, approved by the Division of Investment of the Department of the Treasury for investment by Local Units;

6. Local government investment pools;
 - (a). which is managed in accordance with 17 C.F.R. sec. 270,2a-7;
 - (b.) which is rated in the highest category by a nationally recognized statistical rating organization;
 - (c.) which is limited to U.S. Government securities that meet the definition of an eligible security pursuant to 17 C.F.R. sec 270,2a-7 and repurchase agreements that are collateralized by such U.S. Government securities;
 - (d.) which is in compliance with rules adopted pursuant to the “Administrative” Procedure Act, “ P.L. 1968,c .410 (c.52:14B-1 et seq.) by the Local Finance Board of the Division of Local Government services in the Department of Community Affairs, which rules shall provide for disclosure and reporting requirements, and other provisions deemed necessary by the board to provide for the safety, liquidity and Yield of the investments;
 - (e.) which does not permit investment in instruments that: are subject to high price volatility with changing market conditions; cannot reasonably be expected, at the time of interest rate adjustment, to have a market value that approximates their par value; or utilizes an index that does not support a stable net asset value; and
 - (f.) which purchases and redeems investments directly from the issuer, government money market mutual fund, or the State of New Jersey Cash Management Fund, or through the use of a national or State bank located within this State, or through a broker-dealer which, at the time of purchase or redemption, has been registered continuously for a period of at least two years pursuant to section 9 of P.L. 1967 c.9 (C.49:3-56) and has at least \$25 million in capital stock (or equivalent capitalization if not a corporation), surplus reserves for contingencies and undivided profits, or through a securities dealer who makes primary markets in U.S. Government securities and reports daily to the Federal Reserve Bank of New York its position in and borrowing on such U.S. Government securities.
7. Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c. 281 (C. 52:18 A-90.4):

XI. SAFEKEEPING CUSTODY

To the extent that any Deposit of Permitted Investment involves a document or security which is not physically held by the Village, then such instrument or security shall be covered by a custodial agreement with an independent third party, which shall be a bank or financial institution in the State of New Jersey. Such institution shall provide for the designation of such investments in the name of the Village. To assure that there is no unauthorized use of the funds of the Permitted Investments or Deposits. Purchase of any Permitted Investments that involve securities shall be executed by a “delivery versus payment” method to insure that such Permitted Investments are either received by the Village or by a third party custodian prior to or upon the release of the Village’s funds.

XII. AUTHORIZED INVESTMENT REPORTING REQUIREMENTS.

Any Deposits of Permitted Investments made pursuant to Section X of this plan, shall be reported in writing by the Chief Financial Officer/Treasurer to the Governing Body of the Village by the 10th of the following month for such investments made or carried during the previous month, during which this plan is in effect, which shall include, at a minimum, the following information:

- A. The name of any institution holding funds of the Village as a Deposit of a Permitted Investment.
- B. The amount of securities or Deposits purchased or sold during the immediately preceding month.
- C. The class or type of securities purchased or Deposits made.
- D. The book value of such Deposits or Permitted Investments.
- E. The earned income on such Deposits or Permitted Investments. To the extent that such amounts are actually earned at maturity, this report shall provide and accrual of such earnings during the immediately preceding month.
- F. The fees incurred to undertake such Deposits or Permitted Investments.
- G. The market value of all Deposits or Permitted Investments as of the end of the immediately preceding month.
- H. All other information which may be deemed reasonable from time to time by the governing body of the Village.

IX. AUTHORIZED SIGNATURES

The following persons are authorized, and their signature is required, to withdraw funds from the below listed, existing bank accounts. Facsimile signatures of the Village President and Village Clerk or Deputy Village Clerk may be applied by the Finance Office upon checks of the Village for the disbursement of funds as authorized by resolution or for payroll.

<u>Bank</u>	<u>Account Name</u>	<u>Account #</u>	<u>Signatures</u>
PNC	Current Fund CMA(1)	80-1068-1424	Village President and Clerk or Deputy Clerk and Chief Financial Officer/Treasurer
PNC	Current Fund (Disbursements)(1)	81-0359-6165	Village President and Clerk or Deputy Clerk and Chief Financial Officer/Treasurer
PNC	Current Fund (Revenues)(1)	81-0122-7796	Village President and Clerk or Deputy Clerk and Chief Financial Officer/Treasurer
PNC	C.D.B.G(18)	81-0122-7868	Village President and Clerk or Deputy

			Clerk and Chief Financial Officer/Treasurer
PNC	Dog License Acct(10)	81-0122-7761	Village President and Clerk or Deputy Clerk and Chief Financial Officer/Treasurer
PNC	General Capital (Receipts)(2)	80-0460-8079	Village President and Clerk or Deputy Clerk and Chief Financial Officer/Treasurer
PNC	General Capital (Disbursements)(2)	81-0122-7745	Village President and Clerk or Deputy Clerk and Chief Financial Officer/Treasurer
PNC	Grant(7)	81-0122-7745	Village President and Clerk or Deputy Clerk and Chief Financial Officer/Treasurer
PNC	Payroll(13)	81-0122-7809	Village President and Clerk or Deputy Clerk and Chief Financial Officer/Treasurer
PNC	Water Capital Fund (Receipts)(4)	80-0460-8044	Village President and Clerk or Deputy Clerk and Chief Financial Officer/Treasurer
PNC	Water Capital Fund (Disbursements)(4)	81-0122-7833	Village President and Clerk or Deputy Clerk and Chief Financial Officer/Treasurer
PNC	Water Operating Fund (Receipts)(3)	80-0460-8052	Village President and Clerk or Deputy Clerk and Chief Financial Officer/Treasurer
PNC	Water Operating Fund (Disbursements)(3)	81-0122-7825	Village President and Clerk or Deputy Clerk and Chief Financial Officer/Treasurer
PNC	PATF I(9)	81-0122-7753	Village President and Clerk or Deputy Clerk and Chief Financial Officer/Treasurer
PNC	PATF II(9)	81-0283-2963	Village President and Clerk or Deputy Clerk and Chief Financial Officer/Treasurer
Bank of Of America	Developer Escrow(16)	9990-026739	Village President and Clerk or Deputy Clerk and Chief Financial Officer/Treasurer

PNC	Confidential(15) Informant Fund	80-3548-2026	Village President and Clerk or Deputy Clerk and Chief Financial Officer/Treasurer or Treasurer
PNC	General Trust(11)	81-3086-4452	Village President and Clerk or Deputy Clerk and Chief Financial Officer/Treasurer
PNC	Open Space(12)	80-1694-0853	Village President and Clerk or Deputy Clerk and Chief Financial Officer/Treasurer
PNC	Forfeiture Fund(14)	80-2613-4556	Village President and Clerk or Deputy Clerk and Chief Financial Officer/Treasurer
Allegiance Community Bank	COAH(17)	3000000855	Village President and Clerk or Deputy Clerk and Chief Financial Officer/Treasurer
All Other Accounts			Village President and Clerk or Deputy Clerk and Chief Financial Officer/Treasurer

X. TERM OF PLAN.

This Plan shall be in effect from February 28, 2011 to December 31, 2011. Attached to this Plan is a resolution of the governing body of the Township of South Orange Village, approving this plan for such period of time. The Plan may be amended from time to time. To the extent that any amendment is adopted by the Committee, the Chief Financial Officer/Treasurer is directed to supply copies of the amendments to all of the parties who otherwise have received that copy of the originally approved Plan, which amendment shall be acknowledged in writing in the same manner as the original Plan was so acknowledged.