

INVESTMENT ADVISORY AGREEMENT

RE: City of Lawrence, Kansas

The City of Lawrence, Kansas (“Client”) hereby employs PFM Asset Management LLC (“Adviser”) as investment Adviser for the Client with respect to Accounts referred to in Exhibit 1 hereto (the “Accounts”) on the following terms and conditions:

- 1. Appointment of Adviser.** By execution of this Agreement and effective as of the effective date set forth in this Agreement, the Adviser accepts appointment as investment Adviser for the Client with respect to the Accounts and will supervise and direct investments of the Accounts subject to such limitations as the Client may communicate in writing to the Adviser from time to time. The Adviser, as agent and attorney in fact with respect to the Accounts, unless otherwise instructed in writing by the Client and consistent with the investment objectives of the Client, may, (i) buy, sell, exchange, convert, and otherwise trade in any bonds or other securities allowed for municipalities under Kansas statutes or Federal law, and (ii) place orders for the execution of such securities transactions with or through such brokers, dealers or issuers as the Adviser may select.
- 2. Definition of Account and Custody of Account Assets.** Each Account shall consist of all cash, securities and other commingled assets of such Account which are held in a separately designed management account by U.S. Bank National Association or its successors (or such other bank serving as Custodian hereunder the “Custodian”) at the effective date of this Agreement, plus any proceeds therefrom or additions thereto, and less any losses thereon or withdrawals therefrom. The Adviser shall not act as Custodian for the Accounts or any portion thereof. All transactions will be consummated by payment to, or delivery by, the Custodian of all cash, securities and other assets due to or from the Accounts. The Custodian, and not the Adviser, shall be responsible for investing any daily cash balances in the Accounts. The Adviser shall notify the Custodian in writing as to those persons authorized to act on behalf of the Adviser and may issue such instructions to the Custodian as may be appropriate in connection with the settlement of the transactions initiated by the Adviser.
- 3. Standard of Care.** It is agreed that the sole standard of care imposed upon Adviser by this Agreement is to act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent *investment expert* acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, provided, however that this standard of care shall in no case be, or be interpreted to be, less stringent or less restrictive than any investment standard or standards, now in effect or included by amendment effective in the future, prescribed for investments by Kansas law. The federal securities laws impose penalties under certain circumstances on persons who are required to act in good faith. Nothing herein shall in any way constitute a waiver or limitation of any rights which the Client or the Adviser may have under any federal securities laws. The Adviser shall not act as a principal in sales and/or purchases of assets, unless

the Adviser shall have received prior written approval from an authorized representative of the Client for each such transaction. In maintaining its records, the Adviser does not assume responsibility for the accuracy of information furnished to the Client by any other party. However, the Adviser shall cooperate with the City of Lawrence and the Custodian to reconcile the Accounts each month.

4. **Investment Objectives and Restrictions.** Client has specified in Schedule A and Schedule B the investment objectives and any specific investment restrictions and limitations which govern the Accounts. It will be the Client's responsibility to inform the Adviser in writing of any changes or modifications in the investment objectives of the Accounts as well as any additional investment restrictions and limitations applicable thereto and to give the Adviser prompt written notice if the Client deems any investment made for the Accounts to be in violation of such objectives or restrictions and limitations. The Adviser agrees to communicate its investment strategy for the Accounts and any changes thereto, in writing, to the Client, and, if necessary, to meet with the Client to review the Accounts' investment activity or to advise of changes in the Adviser's investment strategy.
5. **Transaction Procedures.** Instructions of the Adviser to the Custodian shall be made in writing or, at the option of the Adviser, shall be made orally and confirmed in writing as soon as practical thereafter; provided, that all such instructions, written or oral, shall be issued only by persons designated from time to time by the Adviser in a written instrument delivered to the Custodian. Alternatively, if the Adviser notifies the Custodian that it will use the DTC ID system, the Custodian is authorized to act in accordance with, and shall be entitled to deliver and/or receive instructions from the Eligible Trade Report through the DTC ID system that contain the client bank account number in the defined "custodian/client account number" field, to the same extent, as if the information contained in such instruments was given in written form, signed by the Adviser. The Adviser shall instruct all brokers and dealers executing orders on behalf of the Account to forward to the Custodian and the Client copies of all confirmations promptly after execution of transactions, and that all transactions must be completed using delivery vs. payment (DVP). Prior to purchasing any securities, the Adviser will obtain quotes from at least three sources, if such quotes are required by the Client's policy or Federal law. The Client will provide, or instruct the Custodian to provide the Adviser with such periodic reports concerning the status of the Accounts as the Adviser may reasonably request. The Client hereby authorizes the Adviser to sign I.R.S. Form W-9 on behalf of the Client and to deliver such form to broker-dealers or others from time to time as required in connection with securities transactions pursuant to this Agreement.
6. **Arbitrage Rebate Services:**
 - a. The Client desires to have the Adviser perform arbitrage rebate calculation services in connection with the Adviser's management of proceeds of tax-exempt bonds (the "Bonds") under this Agreement (such services shall be provided without additional cost with respect to a series of the bonds only if 100% of the proceeds less amounts immediately payable such as legal and

issuance costs and reimbursements for expenses previously incurred such as engineering and land acquisition costs of such series of bonds is invested pursuant to this Agreement; such services will be provided with additional fee with respect to a series of bonds if only part of the proceeds of such bonds is invested pursuant to this Agreement).

- b. The Adviser shall maintain appropriate records of all of its activities hereunder as may be required by the Internal Revenue Code or applicable U.S. Treasury regulations (collectively the “Code”) with regard to proceeds of the tax-exempt Bonds invested pursuant to this Agreement. The Advisor will calculate the amount of rebate liability with respect to the Bonds as of the end of each bond year (or other appropriate period) and as of the final maturity or redemption of the Bonds (each such date referred to herein as a “Calculation Date”) for as long as the Advisor is retained under this Agreement, applying regulations of the United States Department of the Treasury in effect on such Calculation Date. The Adviser will provide the following services: (i) calculation of the amount of rebate liability with respect to the Bonds as of each Calculation Date, and (ii) delivery of schedules reflecting such rebate liability calculation and the assumptions involved.
 - c. The Client undertakes to provide or cause to be provided to the Advisor all relevant data, as requested from time to time, with respect to each Calculation Date within 15 days after each such date and the Client agrees to cooperate with all reasonable requests in connection herewith. This information will be necessary in order to identify the amount of “gross proceeds” (as that term is used in the Code) of the Bonds subject to the rebate requirement, invest income thereon and applicable yields on the Bonds and on such investments in order to calculate the rebate liability of the Client with respect to the Bonds as of the Calculation Date. The Advisor is not being engaged to duplicate work performed by any prior rebate calculation agent, to independently determine whether there were “prohibited payments” or “imputed receipts” within the meaning of the Treasury Regulations or to perform an audit or review of the investments acquired with gross proceeds or the payment of debt service on the Bonds, and the Advisor will be entitled to rely entirely on information provided by or at the direction of the Client without independent verification. The Advisor is also not being engaged to audit or review the tax exempt status of interest on the Bonds or any other aspect of the Bond program except for the rebate liability to the extent set forth in this Agreement, and the Advisor shall be under no obligation to consider any information obtained by the Advisor pursuant to this engagement for any purpose other than determining such rebate liability.
7. **Services to Other Clients.** It is understood that the Adviser performs investment management services for other clients. The Client agrees that the Adviser may direct and take action with respect to any activity of its other clients which may differ from the direction or the timing or nature of action taken with respect to the Account so long as it is the Adviser’s policy, to the extent practical, to allocate investment opportunities to the Account over a reasonable period of time on a fair and equitable basis relative to other clients. It is understood that the Adviser shall

not have any obligations to purchase or sell the Account any security which the Adviser, its principals, affiliates or employees may purchase or sell for its or their own account or for the account of any other client, if in the Adviser's good faith opinion such transaction or investment appears unsuitable, impractical or undesirable for the Account.

8. **Allocation of Brokerage.** Where the Adviser places orders for the execution of portfolio transactions for the Accounts, the Adviser may allocate such transactions to such brokers and dealers for execution on such markets, at such prices and at such commission rates as in the good faith and judgment of the Adviser will be in the best interest of the Accounts. The Adviser shall receive no soft dollar benefit for any transaction placed on behalf of the client.
9. **Fees.** The compensation of the Adviser shall be calculated and paid in accordance with the Schedule of Fees, attached hereto as Schedule C. For the purposes of determining the Adviser's fees, each Account's assets shall be valued as computed by the Custodian bank in accordance with normal and customary industry standards. Certain securities or assets may need to be valued in a manner determined in good faith by the Custodian, the Adviser, or other appropriate pricing sources to reflect its market value or as may be prescribed by applicable law.
10. **Termination: Assignment.** Client reserves the right to terminate this agreement without cause at any time by giving Adviser written notice, by registered mail, at least thirty (30) calendar days prior to the date on which termination is to become effective.

Adviser reserves the right to terminate this Agreement without cause at any time by giving Client written notice, by registered mail, at least one hundred twenty (120) calendar days prior to the date on which termination is to become effective.

If there is just cause, the Client can terminate the agreement immediately.

Client shall honor any trades agreed to, but not settled before the date on which termination is to become effective.

The Adviser's fees will be pro-rated to the date of termination as specified in the notice of termination.

No Assignment, as that term is defined in the Investment Advisers Act of 1940, of the Agreement shall be made by the Adviser without the written consent of the Client. This Agreement shall automatically terminate in the event the Adviser's registration as an investment adviser under the Investment Advisers Act of 1940 is suspended or revoked, said termination to be effective with the date of such suspension or revocation.

11. **Notices.** Unless otherwise specified herein, all notices and instructions with respect to security transactions or any other matters contemplated by this Agreement shall be deemed duly given when received in writing by either party at the address set

forth below or to such other addresses as such parties shall notify the other in writing and to the Custodian at such address as if it may specify to the adviser in writing, or at such other address or addresses as shall be specified. The Adviser may rely upon any notice (written or faxed) that is signed by an authorized representative of the Client.

Client's Address: 6th East 6th Street, P.O. Box 708, Lawrence, KS 66044

Adviser's Address

PFM Asset Management LLC
77 West Port Plaza, Suite 220
Maryland Heights, MO 63146
Attn: William Sullivan

With copy to:

PFM Asset Management LLC
Two Logan Square, Suite 1600
18th & Arch Streets
Philadelphia, PA 19103-2770
Attn: Controller

12. **Representations by Clients.** The Client represents and confirms that the employment of the Adviser is authorized by the governing documents relating to the Account and that the terms hereof do not violate any obligation by which Client is bound, whether arising by contract, operation of law or otherwise, and that (a) this Agreement has been duly authorized by appropriate action and when executed and delivered will be binding upon Client in accordance with its terms, and (b) the Client will deliver to Adviser such evidence of such authority as Adviser may reasonably require, whether by way of a certified resolution or otherwise.
13. **Representation by Adviser.** By execution of this Agreement, Adviser represents and confirms that it is registered as an investment adviser under the Investment Advisers Act of 1940.

The personnel of the Adviser who will be responsible for carrying out this agreement are individuals experienced in the performance of the various functions contemplated by the Agreement and have not, within the last two years, been convicted of any crime or pleaded no contest or agreed to any consent decree with respect to any matter involving breach of trust or fiduciary duty or securities law violations.
14. **Construction and Severability.** The provisions of this Agreement are severable. If any part of this Agreement is held to be invalid or enforceable, such holding will not affect the validity or enforceability of any other part of this Agreement so long as the remainder of the Agreement is reasonably capable of completion.
15. **Applicable Law.** This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Kansas, and the laws, rules and regulations of the City of Lawrence.
16. **Record Retention and Inspection.** The Adviser is required to maintain all records and documents relating to the purchase, sale or exchange of the assets in the Accounts, or any payment made or received thereto for twenty-four months after termination of the agreement. The Client or its designated representative has the right to inspect the records of the Adviser during normal business hours.

17. **Prior Agreements.** This Agreement supersedes all prior understandings and agreements between the Client and the Adviser relating to the subject matter of the Agreement. Such prior understandings and agreements are canceled, and full payment by the Client to the Adviser for services rendered by the Adviser to the date of this Agreement shall be due and owing to the Adviser.
18. **Reports from the Adviser.** Adviser will provide reports to the client as deemed necessary. The Adviser shall also provide a written reconciliation to the custodian's records on a monthly basis.
19. **Confidential Relationship.** All information and advice furnished by either party to the other hereunder, including their respective agents and employees, shall be treated as confidential and shall not be disclosed to third parties except as required by law.
20. **Errors and Omissions Insurance.** The Adviser shall provide and maintain at its own expense during the term of this agreement Errors and Omissions Insurance or Professional Liability Insurance covering the negligent acts, errors or omissions in the performance of professional services, in an amount of not less than \$1,000,000.

Failure on the part of the Adviser to produce or maintain the required insurance shall constitute a material breach of contract upon which the City of Lawrence may immediately terminate this Agreement.

21. **Waiver.** No waiver of a breach of any provision of this Agreement by either party shall constitute a waiver of any other breach of said provision or any other provision of this Agreement. Failure of either party to enforce at any time, or from time-to-time, any provision of this Agreement shall not be construed as a waiver thereof. The remedies herein reserved shall be cumulative and additional to any other remedies in law or equity. No waiver shall be enforceable unless set forth in writing and signed by the party granting the waiver.
22. **Changes and Amendments.** No provision of this Agreement may be changed, altered, amended, or waived except by written instrument executed by the parties.
23. **Changes to Adviser Key Personnel and Successor to Adviser.** The Adviser shall promptly notify Client, in writing, of any changes in key personnel within its organization. If Adviser is a partnership, Adviser shall promptly notify Client of changes in Adviser's partners. If Adviser is a corporation, Adviser shall promptly notify Client of all material changes in ownership.
24. **Assurance of Compliance with Civil Rights Laws.** The Adviser hereby agrees and represents that it is an equal opportunity employer and will comply with sub-chapter VI of the Civil Rights Act of 1964, 42 USC Section 2000(e) et. seq.
25. **Assurance of compliance with Appropriate Laws and Regulations at the Federal, State, and Local levels.** The Adviser hereby agrees and represents that

all investments that are purchased will be in compliance with Kansas state statutes and the Tax Code's "fair market value" or "safe harbor" rules and report information on all purchases to assist the Client in its compliance with GASB. All purchases will be made in compliance with City's investment policy and section K.S.A. 12-1675 of the Kansas Legislature.

26. **Assurance of Compliance with Ethics Rules.** The Adviser will provide the Client with verification of implementation of SEC Rule 204A-1 Adoption of a code of Ethics, and SEC Rule 206(4)-7, relating to adoption of internal policies and the role of the Chief Compliance Officer.
27. **Rescission.** The Adviser acknowledges that, notwithstanding the foregoing Paragraphs hereof, the Client shall have a unilateral right to rescind this Agreement without penalty by giving written notice of rescission to the Adviser in accordance with this Agreement in such a manner that the notice shall be received by the Adviser within five (5) business days Monday through Friday, excluding holidays. In the event the Client rescinds the Agreement in accordance with this Paragraph neither party shall have any obligation or liability to the other.
28. **Certification Adviser has Read and Understands the Government's Investment Policy.** The Adviser certifies that he has read and understands the City of Lawrence's Investment Policy (Schedule B).
29. **Suspensions; Complaints.** The Adviser shall promptly give notice to the Client if the Adviser shall have received written notice of the filing against it or any professional of the Adviser who has performed any service with respect to the Client's account in the 24 preceding months, of any complaints or disciplinary actions by the Securities and Exchange Commission or any other agency or department of the United States, any registered securities exchange, FINRA, any Attorney General or any regulatory agency or authority of any State based upon the performance of services as an investment adviser.
30. **Independent Contractor.** The Adviser, its employees, officers and representatives, shall not be deemed to be employees, agents (except as to the purchase or sale of securities described in Section 1), partners, servants, and/or joint ventures of the Client by virtue of this Agreement or any actions or services rendered under this Agreement.
31. **Disclosure Statement.** The Adviser warrants that it has delivered to the Client, at least five business days prior to the execution of this Agreement, the Adviser's current Securities and Exchange Commission Form ADV, Part II (disclosure statement). The Client acknowledges receipt of such disclosure statement at least five business days prior to the execution of this Agreement.
32. **Certification Signator Authorized to Enter Into Agreement.** Signatory has certified he has authority to enter into said Agreement.

33. **Effective Date.** The effective date of this Agreement is

_____.

CITY OF LAWRENCE, KANSAS

By: _____
(Signature)

(Printed Name)

(Title)

(Clients Address)

(City, State, Zip Code)

Date: _____

Agreed and Accepted this _____
day of _____, 2007

(Adviser): PFM ASSET MANAGEMENT LLC
(Address): _____
(City, State, Zip Code): _____

By: _____
(Signature)

WILLIAM SULLIVAN
(Printed Name)

MANAGING DIRECTOR
(Title)

Exhibit 1

Accounts

Bond Proceeds
Operating Funds

Additional Accounts may be added to this Agreement pursuant to a writing signed by both parties.

Schedule A

Specific services per our RFP response dated August 17, 2007, although not all-inclusive, are to be performed as follows:

- Assist the Client with cash flow/maturity analysis
- Provide credit analysis of investment instruments in Accounts
- Give timely responses to inquiries and offer the ability to discuss concerns by telephone during normal business hours
- Evaluate market risk and develop strategies that minimize the impact on the Accounts
- Provide assurance of compliance of the Accounts with applicable policies and laws
- Impose necessary yield restrictions required by IRS arbitrage regulations
- Establish an appropriate performance benchmark
- Ensure structure of the Accounts matches the Client's objectives
- Recommend an investment strategy for idle and core Client funds that may include different approaches depending upon the interest climate

Investment practices and procedures must comply with Federal regulations, Kansas state law and the Client's written investment policy.

Under this contract the Client's objectives are:

- Maximize incremental income from the Client's Accounts while avoiding arbitrage penalties
- Provide for operational efficiency and information flow on the Accounts
- Improve the Client's investment capabilities
- Match maturities with cash flow requirements

Schedule B

Investment and Cash Management Policy

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I. POLICY

It is the policy of the City of Lawrence to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City of Lawrence and conforming to all state, county, and local statutes governing the investment of public funds.

II. SCOPE

This policy applies to the cash management and investment activities of the City of Lawrence, Kansas, except for the debt service funds, reserve funds and other financial assets held by various fiscal agents and trustees as provided by the appropriate bond ordinance. The financial assets of all other funds shall be administered in accordance with the provisions of this policy.

III. DELEGATION OF AUTHORITY

Responsibility for the management of the City's investment portfolio is delegated to the director of Finance by the City Manager. The director of Finance will establish and maintain written procedures for the operation of the cash management and investment program consistent with this policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the director of Finance.

IV. PERFORMANCE STANDARDS

The City of Lawrence recognizes that effective cash management is an integral component of good financial management. Therefore, it is the policy of the City that funds deemed idle, based on projected cash flow, be invested in a manner that seeks to maximize their productivity until such time as they are needed for the operations of the City. Investments shall be at the highest rates obtainable at the time of investment, within the limitations of the law and our prudent investment policy. The City's investment portfolio shall be designed and managed in accordance with the responsibility of ensuring the public's trust and consistent with state and local laws.

1. Safety – The primary tenet of the City of Lawrence investment strategy is ensuring the safety of principal. Cash investments of the City of Lawrence shall be undertaken in a manner that seeks to maximize investment income while ensuring the preservation of capital in the portfolio.
2. Return on Investment – The investment portfolio shall be designed to attain, at a minimum, a market-average rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints, State statutes and the cash flow needs of the City's operations. Investments will be made at the highest rates obtainable at the time of investment, within the limitations of the law and the City's prudent investment policy.

3. Liquidity – The City of Lawrence’s investment portfolio shall remain sufficiently liquid to enable the City to meet all operating requirements and expenses.

Other types of investments may be added to this list as changes to the statutes governing such investments are revised. The above instruments may be purchased from eligible banks, savings and loans, primary dealers and the State Treasurer’s Office.

V. INTERNAL CONTROLS

The director of Finance shall establish a system of written internal controls, which shall be reviewed annually by the independent auditor. These controls shall be designed to prevent loss of public funds due to fraud, error, misrepresentation, or imprudent actions.

VI. PRUDENCE

All participants in the investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction that might impair public confidence in the effectiveness of the government of the City of Lawrence.

The standard of prudence to be used by investment officials shall be the "prudent investor" rule, which states, "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."

The rule shall be applied in the context of managing the entire portfolio.

Investment officers acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for a specific security’s credit risk or market price changes, providing deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

VII. LEGAL AUTHORITY AND LIMITATIONS OF INVESTMENT INSTRUMENTS

All investments purchased under this policy shall be governed by K.S.A. 12-1675, *et. seq.* and all revisions thereto, as may be made by the Kansas Legislature.

Investments are limited to a maximum of two years unless the City’s investment policy is approved by the State of Kansas Pooled Money Investment Board, in which case investments could be for up to four years. Below is a summary of acceptable investments under the current law:

1. Certificates of Deposit (CD’s) – Instruments issued by banks or savings and loans that state specified sums have been deposited for specified periods of time and at specified rates of interest.

Certificates of deposit are required to be backed by acceptable collateral securities as dictated by Kansas Statutes. The maximum maturity is two years unless the City's investment policy is approved by the State of Kansas Pooled Money Investment Board (PMIB), in which case the maturity may be up to four years.

2. Repurchase Agreements (REPOs) – Contractual agreements between the City and commercial banks, trust companies, state or federally chartered savings and loan associations or federally chartered savings banks. The repurchase agreement (repo) issuer receives cash and, in turn, sells securities to the City. The City agrees to resell the securities to the issuer on a specific future date at the original purchase price plus a negotiated interest payment. Repurchase agreements are required to be backed by acceptable collateral securities as dictated by Kansas Statutes. If the City's investment policy is approved by the PMIB, a repurchase agreement may be executed with a primary dealer. Prior to entertaining bids for repurchase agreements, the City will require that a Master Repurchase Agreement with the vendor and a Custodial Agreement with a third party trustee be executed.
3. U.S. Treasury Obligations – These obligations must mature within two years from date of purchase and are guaranteed as to principal by the United States government. If the City's investment policy is approved by the PMIB, the maximum maturity may be four years.
4. U.S. Government Agency Securities – Indirect obligations of the federal government, issued by the Government National Mortgage Association and the Small Business Administration. These securities are backed by the full faith and credit of the United States government. The maximum maturity is four years. The City's investment policy must be approved by the PMIB prior to the purchase of U.S. Government Securities.
5. U.S. Government Sponsored Corporation's Instruments – Obligations of enterprises sponsored by the United States government, such as Federal Farm Credit System, Federal Home Loan Mortgage Association, Federal National Mortgage Association and the Student Loan Marketing Association. To participate, the City's investment policy must be approved by the PMIB.
6. Kansas Municipal Investment Pool – A pool of investments consisting of CD's, U. S. Treasuries, U.S. Agencies, Commercial Paper, and Repurchase agreements. The pool is administered by the Pooled Money Investment Board.
7. Temporary notes of the City of Lawrence.

8. Commercial bank savings accounts.

Other types of investments may be added to this list as changes to the statutes governing such investments are revised. The above instruments may be purchased from eligible banks, savings and loans, primary dealers and the State Treasurer's Office.

VIII. BOND AND TEMPORARY NOTE PROCEEDS

The City of Lawrence may invest any bond or temporary note proceeds which are not immediately needed, in accordance with Kansas Statute 10-131 and the specific bond or note resolution.

The interest received on the investment of bond and note proceeds shall be used for the purpose of paying interest on the bonds or notes issued, or for paying the cost of the project for which the bonds or notes were issued.

IX. CONTRACTS WITH FINANCIAL INSTITUTIONS

The City of Lawrence may invest funds with depositories having offices located in the City of Lawrence as provided by K.S.A. 9-1401. All depositories of the City of Lawrence shall execute a contract with the City of Lawrence which shall designate the requirements of serving as a depository for the City, including collateralization of City funds invested at such depository and the related safekeeping requirements of the pledged securities. The City shall have a separate contract with the "operating bank" which will execute a contract once every three years in accordance with the practice of bidding banking services every three years. Any financial institution in which the City has funds shall provide such financial data to the director of Finance as may be required by the City to evaluate the financial condition of the institution. Such data will be in the form of audited financial statements, Federal Deposit Insurance Corporation regulatory reports, and shall be provided at least annually by the financial institutions to the director of Finance. Any refusal to provide such information to the City may be cause for termination of the depository contract with such institution.

1. Safekeeping of Securities – Collateral for certificates of deposit and repurchase agreements will be registered in the City's name. The Finance director will hold all safekeeping receipts of pledged securities used as collateral for certificates of deposit and repurchase agreements. A third party institution will hold pledged securities in trust on behalf of the City's financial institution. Safekeeping receipts of pledged securities may be faxed to the City in order to accommodate timely and legal investment transactions. The financial institution will mail the original safekeeping receipt of pledged securities on the day the fax is sent.
2. Collateralization – The City requires full collateralization of all City investments other than direct and indirect obligations of the

United States government, as stated in the State statute. The City will not allow FDIC coverage to be considered in calculating full collateralization. The City will accept as collateral for certificates of deposit securities as listed in K.S.A. 9-1402. Collateral underlying repurchase agreements is limited to obligations of the U.S. government and its agencies. The Finance Director will monitor the adequacy of collateralization monthly. The City requires monthly reports with market values of pledged securities from all financial institutions with which the City has certificates of deposit or repurchase agreements.

X. INVESTMENT RETURN OBJECTIVES

Consistent with State law, the City shall seek to optimize return on investments, while minimizing risk to the principal, within the constraints of this policy.

XI. INVESTMENT PROCEDURES

As required by state statute, the City of Lawrence gives preference to local financial institutions when investing idle funds. Before investing any funds, the City shall conduct a competitive bid process. Investment bids will be taken by the director of Finance, or the person designated by the director of Finance, at times when investment of idle funds would be in the best interest of the City. Funds will also be invested as required by federal regulations regarding arbitrage rebate on bond proceeds. Such bid requests will be made orally and related collateral forwarded to the City no later than 24 hours after bids are taken. All of the financial institutions within the City limits will be notified annually of the City's investment policy, and requirements for investing if they wish to participate in the bid process. If a financial institution meets or exceeds the state calculated benchmark investment rate for a given maturity, the City will not invest in the State Municipal Investment Pool or any U.S. Treasury or Agency obligations.

XII. INVESTMENT LIMITATION PER INSTITUTION

In order to protect the City from the failure of any one financial institution, the City shall not invest more than 30% of idle funds with any one financial institution. The 30% limitation does not apply to U.S. Treasury or Agency obligations held in safekeeping by an institution on behalf of the City. These obligations are backed by the U.S. Government and do not require collateral as described in Section VI (B) of this policy. The 30% limitation shall be determined prior to the solicitation of bids. If an institution exceeds the 30% limitation after the bids have been awarded, no further bids will be accepted from the financial institution until sufficient maturities have occurred to reduce their share of the portfolio to under 30%. At no time, however, will the City invest more than 10% of its portfolio in Mortgage Backed Securities.

XIII. INVESTMENT DIVERSIFICATION AND MATURITIES

The City will limit its investment in repurchase agreements to no more than 50% of its portfolio. All other eligible investments may make up 100% of the portfolio. Investment maturities shall be scheduled to coincide with projected cash flow needs. Cash flow needs will be projected based upon the weekly amount of claims paid, the biweekly payroll and anticipated revenue.

XIV. DAILY CASH MANAGEMENT PRACTICES AND POLICIES

The City of Lawrence Finance Department requires that all departments collecting cash receipts, whether in cash or other forms of payment, must turn in such receipts to the Finance Department on a daily basis together with records required to verify the accuracy of such collections. No receipts will be held overnight at any location for any reason. All receipts shall be deposited daily by the Finance Department. Investment of any idle funds will be made in accordance with section VI of this policy. Any violation of this section of this policy by any employee of the City may result in disciplinary action.

XV. REPORTING REQUIREMENTS

The investment officer shall generate quarterly reports for management purposes. The reports will be made available to the Lawrence City Commission as part of the quarterly financial report.

XVI. ETHICS AND CONFLICTS OF INTEREST

Officers and 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. Employees and investment officials shall disclose to the City Manager any material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City of Lawrence.

XVII. SEPARATE PROVISIONS OF POLICY AND CONFLICTS WITH KANSAS LAW

The above policies shall remain in full force and effect until revoked by the City Commission. If, after adoption of this policy, there is any conflict of this policy with Kansas laws and/or statutes, current law shall dictate.

XVIII. INVESTMENT POLICY ADOPTION

The above policies have been adopted by resolution of the City Commission and shall be available for review annually by the Commission.

XIX. GLOSSARY

The following is a glossary of key investing terms that appear in The City of Lawrence's Investment Policy.

1. Cash Flow – Cash receipts minus disbursements from a given asset, or group of assets, for a given period. An analysis of the movement of cash through a venture as contrasted with the earnings of the venture.
2. Certificate of Deposit – A time deposit with a specific maturity evidenced by a certificate.
3. Collateralization – Process by which a borrower pledges securities or deposits for the purpose of securing the repayment of a loan and/or security.
4. Cost – An amount paid or required in payment for a purchase of an investment.
5. Fannie Mae – Fannie Mae (formerly the Federal National Mortgage Association) is a private stockholder-owned 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. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. Fannie Mae's securities are also highly liquid and are widely accepted. Fannie Mae assumes and guarantees that all security holders will receive timely payment of principal and interest.
6. Federal Home Loan Bank (FHLB) – Government-sponsored wholesale banks which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLB is to liquefy the housing-related assets of its members who must purchase stock in their district Bank.
7. Federal Home Loan Mortgage Corporation (FHLMC) – A federal agency which purchases first mortgages from members of the Federal Reserve System and the Federal Home Loan Bank System. Commonly called "Freddie Mac."
8. Interest Rate – The annual rate of interest received by an investor from the issuer of fixed-income securities. The percentage of an amount of money which is paid for its use for a specified time.

9. Internal Controls – An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.
10. Investment – Commitment of money to gain profit or interest as by purchasing securities.
11. Investment Agreements – An agreement with a financial institution to borrow public funds subject to certain terms and conditions regarding collateralization, liquidity and interest rates.
12. Kansas Municipal Investment Pool (KMIP) – The State of Kansas offers a Local Government Investment Pool (LGIP) entitled “State of Kansas Municipal Investment Pool,” which is governed by the State of Kansas Pooled Money Investment Board. The KMIP offers a pool of investments for local governments consisting of CD’s, U. S. Treasuries, U.S. Agencies, Commercial Paper, and Repurchase agreements.
13. Kansas Statutes – A written law enacted by the Kansas State Legislature.
14. Liquidity – Refers to the ability of an instrument to be converted into cash rapidly without substantial loss of value.
15. Market Value – The price at which a security is trading and could be purchased or sold on a given day.
16. Portfolio – Collection of securities held by an investor.
17. Principal – The face amount or par value of a debt security. (2) One who acts as a dealer buying and selling for his own account.
18. Repurchase agreement (Repo) – An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price at a specified later date.
19. Safekeeping – The holding of securities by a financial institution on behalf of the securities owners.

20. Safety – Freedom from risk.
21. Securities – Documents that can be traded for value; an instrument of ownership or debt used to finance government and corporate entities.
22. Time Deposits – Another term for a savings account or certificate of deposit in a commercial bank.
23. United States Government Securities (Treasuries) – Bonds, notes, treasury bills or other securities constituting direct obligations of, or obligations the principal of and interest on which are fully and unconditionally guaranteed as to the full and timely payment by the United States of America.

Other types of investments may be added to this list as changes to the statutes governing such investments are revised. The above instruments may be purchased from eligible banks, savings and loans, primary dealers and the State Treasurer's Office.

Schedule C

Fees are based on assets under management. There is no per trade fee or commission that could lead to account churning or biased recommendation.

Operating Funds: for management of operating cash flows, fees for the investment advisory and custodial services as described in the Request for Proposal would be 9 basis points. The annual rate for these types of securities will be applied to average daily balance of assets under management and will be invoiced and payable on a monthly basis. The Client shall pay to the Adviser the amount payable pursuant to this Agreement not later than on the 15th day of the monthly following the month during which the Adviser's statement was rendered.

The asset-based fee is all-inclusive and would cover all investment management services and reporting described in the Request for Proposal. As part of PFM's standard investment advisory services, PFM will provide the Client with a review of the investment policy. Other services include monthly and quarterly reports, cash flow analyses, and portfolio investment sensitivity analyses. There would be no extra travel or expense charges.

Bond Proceeds: for the management of bond proceeds, fees for the investment advisory and custodial services as described in the Request for Proposal will be 8 basis points. The annual rate for these types of securities would be applied to average daily balance of assets under management and will be invoiced and payable on a monthly basis. The Client shall pay to the Adviser the amount payable pursuant to this Agreement not later than on the 15th day of the monthly following the month during which the Adviser's statement was rendered.

Additional Services: Repurchase agreements and Guaranteed Investment Certificates (GIC) will be at a separate flat fee of approximately \$33,000 per agreement (subject to an inflation adjustment by the IRS) to be negotiated for the structuring and the competitive bidding of the proposed investment agreement.

The Client has the option of using U.S. Bank National Association as its custodian bank or can use an existing custodial arrangement that it already maintains with a qualified bank. However it should be noted that the Adviser is not responsible for any security custody, safekeeping services, or custodial fees that may be incurred by the Client if it chooses to use its own custodian bank instead of U.S. Bank National Association.

If and to the extent that the Client shall request the Adviser to render services other than those to be rendered by the Adviser hereunder, such additional services shall be compensated separately on terms to be agreed upon between the Adviser and the Client.