



City of Lawrence, Kansas INVESTMENT AND CASH MANAGEMENT POLICY

1.0 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. The policy will be reviewed and approved at least annually by the City Commission or sooner when there are either changes to this policy or in Kansas State Statutes that relate to the City's investments.

2.0 SCOPE

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.

3.0 DELEGATION OF AUTHORITY

Responsibility for the management of the City's investment portfolio is delegated to the Director of Finance by the City Manager. 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.

4.0 OBJECTIVES

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, county and local laws.

4.1 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.

4.2 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, Kansas 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.

4.3 Liquidity

The City of Lawrence's investment portfolio shall remain sufficiently liquid to enable the City to meet all operating requirements and expenses. In a situation where an unforeseen event arises that creates the need for securities in the portfolio to be sold, the following procedure will be followed. The amount and timing of the cash requirements will first be determined. A compilation of anticipated revenue and maturing investments will be made. The net amount of any cash shortage can then be calculated. The City's portfolio will be reviewed and those investments that can be sold prior to maturity will be evaluated to determine the order that the investments should be sold. Consideration will be given to the size of the investment, interest rate on the investment, and maturity date. In most cases, the lower yielding investments will be sold first. In some cases, it may be necessary to negotiate the early liquidation of certificates of deposit. If those deposits are with more than one financial institution, the institution that requires the lowest penalty will be sold first. All such sales must be approved by the Director of Finance.

5.0 INTERNAL CONTROL

5.1 Written Process

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. No security will be purchased without the approval of the Director of Finance or their designee

5.2 Delivery vs. Payment

All securities purchased under this policy will be on a delivery versus payment basis.

5.2 Investment Staff

Investments will be made either by the Director of Finance or employees or third parties with experience and knowledge of investments by Kansas local governments. The quality and capability of the investment staff will be demonstrated by having prior experience in investing funds in accordance with K.S.A.12-1677b, prior employment with a broker-dealer that involved investing funds in United States Government Agencies or Sponsored Corporations, or participating in training sponsored by an agency such as the Government Finance Officers Association that is familiar with governmental investing.

6.0 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.

7.0 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:

7.1 Certificates of Deposit (CDs)

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.

7.2 Repurchase Agreements (REPOs)

Repurchase agreements are 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 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 or a broker-dealer registered in accordance with K.S.A.17-12a401.

7.3 United States 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.

7.4 United States Government Agency Securities

United States Government Agency securities include 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 United States Government Securities. Investment in these securities is limited to those that have no more interest rate risk than United States Government obligations of similar maturities.

7.5 Government Sponsored Corporations 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. Investment in these securities is limited to those that have no more interest rate risk than United States Government obligations of similar maturities and are not mortgage backed.

7.6 Kansas Municipal Investment Pool

A pool of investments consisting of CD's, United States Treasuries, United States Agencies, Commercial Paper, and Repurchase agreements. The pool is administered by the Pooled Money Investment Board.

7.7 Temporary Notes of the City

7.8 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.

8.0 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. Funds will be invested as required by federal regulations regarding arbitrage on tax-exempt bond proceeds.

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.

9.0 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.

9.1 Safekeeping of Securities

All securities will be perfected in the name of the City and held by the City or a third party custodian. A third party institution will hold securities pledged as collateral by the City's financial institutions. The City's preferred custodian is the Federal Reserve.

Safekeeping records of pledged securities may be mailed, faxed or emailed to the City in order to accommodate timely and legal investment transactions.

9.2 Collateralization

The City requires full collateralization of all City investments other than direct and indirect obligations of the United States Government, as required by Kansas State Statutes. The City does not include FDIC coverage when calculating full collateralization. The City will accept as collateral for certificates of deposit those securities listed in K.S.A. 9-1402. Collateral underlying repurchase agreements is limited to obligations of the United States Government and its agencies.

The Director of Finance 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.

10.0 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.

11.0 INVESTMENT PROCEDURES

As required by K.S.A. 12-1675, 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.

Investment bids may be solicited from broker-dealers who are eligible under K.S.A. 17-12a401.

Such bid requests may be made in writing and any required collateral forwarded to the City prior to the investment being purchased. 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 qualified 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 United States Treasury or Agency obligations.

12.0 INVESTMENT DIVERSIFICATION

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.

12.1 Investment Limitations 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 United States Treasury or Agency obligations held in safekeeping by an institution on behalf of the City. These obligations are backed by the United States 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 below 30%.

12.2 Investment Type

Investments in United States Treasury obligations may make up 100% of the portfolio. However, the City will limit its investment in repurchase agreements covering all eligible securities to no more than 30% of its portfolio. Investments in certificates of deposit may make up 100% of the portfolio. Investment in callable securities shall not exceed 20% of the portfolio. The City may investment no more than 50% of its portfolio with any one United States Government Sponsored Corporation.

12.3 Maturity

If the City maintains its expanded investment powers, the maximum maturity of an investment is four years; otherwise the maximum maturity is two years. Investment maturities shall be distributed to coincide with projected cash flow needs to meet the objectives of Section 4.3. Cash flow needs will be projected based upon the weekly amount of claims paid, the biweekly payroll and anticipated revenue.

13.0 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 this policy. Any violation of this section of this policy by any employee of the City may result in disciplinary action.

14.0 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. If the City maintains its expanded investment powers, reports will be generated annually to show the average portfolio size, anticipated maturity distribution, and expected yield to maturity on a monthly basis. In addition, the auditors will be provided a report on the City's investments that shows the investment type, rating, and maturity. The report will also discuss interest rate risk, credit risk, concentration of credit risk, and custodian credit risk.

15.0 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.

16.0 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.

17.0 GLOSSARY

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

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.

Certificate of Deposit--A time deposit with a specific maturity evidenced by a certificate.

Collateralization--Process by which a borrower pledges securities or deposits for the purpose of securing the repayment of a loan and/or security.

Cost--An amount paid or required in payment for a purchase of an investment.

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.

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.

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, referred to as "Freddie Mac."

Interest Rate--The interest rate is the annual rate of interest received by an investor from the issuer of fixed income securities. It is also the percentage of an amount of money which is paid for its use for a specified time.

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.

Investment--Commitment of money to gain profit or interest as by purchasing securities.

Investment Agreements--An agreement with a financial institution to borrow public funds subject to certain terms and conditions regarding collateralization, liquidity and interest rates.

Kansas Municipal Investment Pool (MIP)--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.

Kansas Statutes--A written law enacted by the Kansas State Legislature.

Liquidity--Refers to the ability of an instrument to be converted into cash rapidly without substantial loss of value.

Market Value--The price at which a security is trading and could be purchased or sold on a given day.

Portfolio--Collection of securities held by an investor.

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.

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.

Safekeeping--The holding of securities by a financial institution on behalf of the securities owners.

Safety--Freedom from risk.

Securities--Documents that can be traded for value; an instrument of ownership or debt used to finance government and corporate entities.

Time Deposits--Another term for a savings account or certificate of deposit in a commercial bank.

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.