

Governing Body Policies

Article GB04-E

INVESTMENT POLICY

Effective Date: October 6, 2009

Sections:

- GB04-E-1 STATEMENT OF PURPOSE.**
- GB04-E-2 GENERAL OBJECTIVES.**
- GB04-E-3 DEFINITIONS.**
- GB04-E-4 STANDARDS OF CARE.**
- GB04-E-5 SAFEKEEPING AND CUSTODY.**
- GB04-E-6 SUITABLE AND AUTHORIZED INVESTMENTS.**
- GB04-E-7 INVESTMENT PARAMETERS.**
- GB04-E-8 REPORTING.**
- GB04-E-9 POLICY CONSIDERATIONS.**
- GB04-E-10 RESPONSIBILITY FOR ENFORCEMENT.**
- GB04-E-11 REFERENCES.**

Section GB04-E-1 STATEMENT OF PURPOSE.

The Governing Body of the City of Lenexa has authority to invest all funds of the City of Lenexa ("the City") pursuant to K.S.A. 12-1675. The purpose of this Investment Policy is to identify the investment objectives of the City and to establish procedures to achieve those objectives. The objectives of this investment policy are as follows: Safety of Principal; Maintenance of Adequate Liquidity; and Maximizing Earnings on the Investment Portfolio.

A. Policy Statement:

It is the policy of the Council that, giving due regard to the safety and risk of investment, all available funds shall be invested in conformance with legal and administrative guidelines and, to the maximum extent possible, at the highest rates obtainable at the time of investment. The City may utilize the services of a consultant/registered investment advisor to assist the City with proper cash and investment management procedures and for the purpose of training City personnel.

Effective cash management is recognized as essential to good fiscal management. A sound cash management approach will be pursued to take advantage of investment interest as a viable and material revenue source for all operating and capital funds. The City's portfolio shall be designed and managed in a manner responsive to the public trust and consistent with state and local law.

Earnings from investments will be used in a manner that will best serve the interest of the City and that will comply with applicable law.

B. Application of the Investment Policy:

The Investment Policy adopted by the Council shall apply uniformly to all employees, officials, departments, agencies, boards, commissions, representatives and authorized

Governing Body Policies

agents in the performance of their official duties and to the processing and management of all investment transactions on behalf of the Council. This policy shall apply to all funds eligible for investment by the City pursuant to K.S.A. 12-1675 or other applicable law. The City Pension Fund is expressly excluded from this policy and shall be subject to the investment objectives and policies adopted by the pension fund's board of trustees.

Section GB04-E-2 GENERAL OBJECTIVES.

The primary objectives of investment activities, in order of priority, shall be safety, liquidity, and yield:

A. Safety:

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to reduce credit risk and interest rate risk.

1. Credit Risk:

The City will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

- a. Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business; and
- b. Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

2. Interest Rate Risk:

The City will minimize the risk that the market value of securities in the portfolio will decline due to the changes in general interest rates by:

- a. Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby minimizing the need to sell securities on the open market prior to maturity;
- b. Investing the majority of cash funds in securities with maturities of one year or less, utilizing a sweep investment program of the main operating bank, and investing using the Kansas Municipal Investment Pool (MIP); and
- c. Limiting investments to a maximum stated maturity of four years.

B. Liquidity:

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This will be accomplished by structuring the portfolio so that securities mature concurrently with cash needs to meet

Governing Body Policies

anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the investment portfolio will contain securities with active secondary resale markets. A portion of the portfolio may be placed in investments which offer one-day liquidity for short-term funds, such as repurchase agreements, sweep investment arrangements, or the Kansas Municipal Investment Pool.

C. Yield:

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account investment risk constraints and liquidity needs. Return on investment is a lower priority than the safety and liquidity objectives described above.

D. Competitive Placement of Funds:

To the extent required by the City's Purchasing Policy or applicable law, all investments made pursuant to this policy should be bid to ensure competitive pricing. In accordance with K.S.A. 12-1675, funds will first be offered to banks and other eligible financial institutions located within the City. Annually, the City will send letters to banks and other eligible financial institutions located within the City to determine if any of these entities wish to bid on the City's investments during the upcoming 12 months. Those institutions which respond as willing to bid on the City's investments will be added to the City's authorized list of financial institutions (for certificates of deposit, the financial institutions must comply with the collateral and safekeeping requirements listed in later sections of this policy). For certificate of deposit transactions, the City will solicit bids from the authorized list of financial institutions. For other competitive investment transactions, the city will solicit bids from at least three (3) financial institutions and/or security broker/dealers.

There are exceptions to the competitive bid policy. An example of an exception is when the City purchases new issue government agency securities where the price is the same through all brokers and the issuing agency pays the selling commission directly to the broker. In that case the City will rotate through the list of brokers when purchasing such securities. In addition, investments with the Kansas Municipal Investment Pool and sweep repurchase agreements with the main operating bank are not considered competitive biddable securities.

Section GB04-E-3 DEFINITIONS.

The following is a glossary of key investing terms which appear in the City of Lenexa's Investment Policy.

AGENCY SECURITIES: A debt security issued by a federal agency. Most federal agencies are not backed by the full faith and credit of the U. S. Government. GNMA is an example of an agency security backed by the U.S. Government, but FNMA, FHLB, FHLM and others are not backed. The City will use only agency securities that are backed by the U.S. Government or have an AAA credit rating.

APPRECIATION: The increase in value of an asset.

Governing Body Policies

BOND PROCEEDS: The money paid to the issuer by the purchaser or underwriter of a new issue of municipal securities. These monies are used to finance a project.

BROKER: A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides. In the money market, brokers are active in markets in which banks and others buy and sell securities.

CALLABLE BOND: A bond that the issuer has the right to redeem prior to stated maturity.

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 in a bank with a specific maturity evidenced by a certificate. Generally CD's are not marketable.

COLLATERALIZATION: A process by which a borrower pledges securities, deposits, letters of credit, or surety bonds for the purpose of securing the repayment of a loan and/or security. Agency securities pledged as collateral should be backed by the U.S. Government or have an AAA credit rating.

COLLUSION: A secret agreement between two or more persons for a fraudulent purpose.

COMMERCIAL BANK: A bank, the principal functions of which are to receive demand deposits and to make loans.

COMMERCIAL PAPER: An unsecured promissory note issued by a corporation, not a bank, with a fixed maturity of no more than 270 days which is normally sold at a discount.

CORPORATE SURETY BOND: A contractual arrangement between the surety, the depositor and depository institution, whereby the surety agrees to protect the depositor if the depository institution defaults in performing the depository institution's contractual obligations. The bond is the instrument which binds the surety.

COST: An amount paid, or required in payment, for a purchase of an investment.

CREDIT RISK: The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

CUSTODIAL AGENT: An entity that holds collateral for deposits with financial institutions, investment securities, or securities underlying repurchase agreements.

DEMAND DEPOSIT: A bank deposit that can be withdrawn by the depositor and without advance notice.

DEPOSITORY FINANCIAL INSTITUTION (Depository): The place where a deposit is placed and kept.

DEPOSITORY SECURITY: Collateral pledged by a financial institution to guarantee deposits on hand that exceeds depository insurance.

Governing Body Policies

DIVERSIFICATION: A process of investing assets among a range of security types by sector, maturity and quality rating.

DELIVERY VERSUS PAYMENT (DVP): A type of securities transaction in which the purchaser pays for the securities when they are delivered to either the purchaser or his/her custodian. Payment is made simultaneously with the delivery of securities so the purchaser is never without either cash or securities.

FANNIE MAE: Fannie Mae (the Federal National Mortgage Association (FNMA)) 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. This is an example of an agency security.

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 liquify the housing-related assets of its members who must purchase stock in their district Bank. This is an example of an agency security.

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." This is an example of an agency security.

GENERAL OBLIGATION (G.O.) BONDS OR NOTES: Bonds or notes secured by the "full faith and credit" of the issuing government and backed by revenues from its taxing power.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB): The authoritative accounting and financial reporting standard-setting body for government entities.

IDLE FUNDS: Money which is not immediately required for the purposes for which it was collected or received. These funds are likely to be invested in an overnight investment vehicle such as a sweep repurchase agreement.

INDUSTRIAL REVENUE BONDS: A specific type of revenue bond whose proceeds are used to finance the purchase or construction of facilities or equipment to be leased to a private corporation. The bonds are backed by the credit of the corporation.

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.

INTEREST RATE RISK: The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.

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

Governing Body Policies

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, such 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. It is a pooled investment vehicle, available to public entities in the state of Kansas, investing in US Treasury and Agency securities. Investments range from overnight to one year at the option of the investor.

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 traded and could be purchased or sold on a given day.

MARKING TO MARKET: The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

MATURITY: The length of time an investment is offered.

MATURITY DATE: The date on which payment of a financial obligation is due. The final stated maturity date is the date on which the issuer must retire an investment instrument and pay the face value to the investor.

MONEY MARKET FUND: Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, repurchase agreements, agency securities, and federal funds).

MUNICIPAL NOTE: Short-term notes issued by municipalities in anticipation of tax receipts, proceeds from a bond issue, or other revenues.

PAR VALUE: The amount of principal which must be paid at maturity, also referred to as the face amount of a bond.

PORTFOLIO: Collection of securities held by an investor.

PRINCIPAL: (1) The face amount or par value of a debt security. (2) One who acts as a dealer buying and selling for his own account.

REALIZED GAIN OR LOSS: The amount of realized gain from the sale or other disposition

Governing Body Policies

of property is the excess of the amount realized over the adjusted basis of the property. The amount of realized loss is the excess of the property's adjusted basis over the amount realized.

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.

REVENUE BONDS: A municipal bond secured by revenue from tolls, user charges, or rents derived from the facility financed.

SAFEKEEPING: The holding of securities by a financial institution on behalf of the securities owners.

SAFETY: Freedom from risk.

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

SECURITIES SWAP: Trading one asset for another.

TIME DEPOSIT: Another term for a savings account or certificate of deposit in a commercial bank.

TRUST DEPARTMENT: A department of a bank, which is authorized to serve in a fiduciary capacity.

UNITED STATES GOVERNMENT SECURITIES (Treasuries): Bonds, notes, treasury bills or other securities constituting direct obligations of the United States of America, or obligations that principal of and interest on which are fully and unconditionally guaranteed as to the full and timely payment by, the United States of America.

UNREALIZED GAIN OR LOSS: A profit or loss that has not yet materialized. An example of an unrealized gain would be an appreciated stock in which the price has increased but, if the stock is not sold, the profit is considered an unrealized gain.

WEIGHTED AVERAGE MATURITY (WAM): The average maturity of all the securities that comprise a portfolio that is typically expressed in days or years.

YIELD: The current rate of return on an investment security generally expressed as a percentage of the security's current price.

Section GB04-E-4 STANDARDS OF CARE.

A. Prudence:

Investment officials acting pursuant to this policy shall be subject to the "prudent investor rule," as set forth in the Uniform Prudent Investors Act, K.S.A. 58-24a01 *et seq.* and amendments thereto. Except as provided by the Kansas Tort Claims Act, K.S.A. 75-6101 *et seq.* and amendments thereto, investment officers acting in accordance with written

Governing Body Policies

procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

B. Ethics and Conflicts of Interest:

Officers and employees involved in the investment process shall refrain from personal business activity that could be perceived as a conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. Employees and officers shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of the City. Employees and public officials shall also be subject to the City's Code of Ethics (Article 1-6-H), and employees shall be subject to the Code of Ethics as set forth in the City's Personnel Policies and Procedures (PR2-E-2).

C. Delegation of Authority:

Responsibility for the operation of the investment program is delegated to the Finance Director, who shall establish written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director. The Finance Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

Section GB04-E-5 SAFEKEEPING AND CUSTODY.

A. Authorized Financial Dealers and Institutions:

The Finance Director shall maintain a list of financial institutions authorized to provide investment services. In addition, a list also will be maintained of approved security broker/dealers who provide services to institutions, not retail dealers, selected by creditworthiness. The Finance Director shall approve these lists annually. It is the intent of the City to have no more than six (6) qualified institutional oriented dealers/banks with which it will transact investment business (excluding investments in bank certificates of deposit), because of the size of the investment portfolio.

All financial institutions and broker/dealers who desire to become qualified for investment transactions (excluding bank certificates of deposit) shall provide the following:

1. Their most recent audited financial statements;
2. Proof of National Association of Securities Dealer (NASD) certification, and/or

Governing Body Policies

proof of registration with a bank regulatory organization to provide broker/dealer services if a bank;

3. Proof of state registration with the Kansas Securities Commission;
4. Documentation showing qualifications of individuals who will provide services to the City; and
5. Certification that the financial institution and/or broker/dealer has read, understands, and agrees to comply with this policy.

An annual review of the financial condition and registration of qualified financial institutions and broker/dealers will be conducted by the Finance Director.

B. Internal Controls:

The Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure that the investments of the City are protected from loss, theft or misuse. The internal control structure shall be 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.

The investment program shall be subject to an annual independent review by an external auditor to assure adequate internal controls. The internal controls should address the following points:

1. Control of collusion;
2. Separation of transaction authority from accounting and record keeping;
3. Custodial safekeeping;
4. Avoidance of physical delivery securities other than certificates of deposit;
5. Clear delegation of authority to subordinate staff members;
6. Written confirmation of transactions for investments and wire transfers; and
7. Development of a wire transfer agreement with the main operating bank and third-party custodian.

C. Delivery vs. Payment:

All trades will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution simultaneously with the release of funds. Securities will be held by a third-party custodian, as evidenced by safekeeping receipts, held in the City's name.

Governing Body Policies

D. Safekeeping of Securities:

1. To protect against potential fraud or embezzlement, the investments of the City shall be secured through third-party custody and safekeeping procedures. Ownership shall be protected through third-party custodial safekeeping. The City's external auditor shall review safekeeping procedures annually.
2. The City shall contract with a single financial institution for custodial and safekeeping services for the City's investment portfolio.
3. All securities owned by the City shall be held by a single safekeeping agent in the name of the City of Lenexa, Kansas. The exception to this may be when participating in tri-party repurchase agreements by which the broker and the City jointly select a safekeeping agent.
4. Security for deposits with financial institutions will be held in a third-party entity and registered jointly to the City and to the depository financial institution as required by Kansas law. Securities purchased on or after the effective date of this policy are to be held in the City's tri-party sub-custodial safekeeping account by the City's primary safekeeping agent.
5. Securities which serve as security for repurchase agreements must be delivered to a third-party custodian with whom the City has established a third-party safekeeping agreement.
6. The authorization to release City securities and transfer City funds will be accomplished by authorized City finance staff.
7. Verification of securities and collateral will be part of the City's annual independent audit.

Section GB04-E-6 SUITABLE AND AUTHORIZED INVESTMENTS.

A. Cash Funds:

The investments authorized for cash funds under this policy shall be in conformance with K.S.A. 12-1675, K.S.A. 12-1677b, and any other applicable statutes and amendments thereto.

B. Bond Proceeds:

The investments authorized for the proceeds of bonds (other than industrial revenue bonds for which the City is merely a conduit issuer) or temporary notes under this policy shall be in conformance with K.S.A. 10-131 and amendments thereto.

C. Collateral Requirements:

To qualify as a depository, a bank, trust company, savings and loan association, or

Governing Body Policies

savings bank must collateralize City deposits (the amount of money on deposit with an institution at any given time) with any combination of securities, Federal Home Loan Bank letters of credit, or corporate surety bonds at the cost to the depository.

1. Securities:

The financial institution may pledge or assign for the City's benefit sufficient securities, the market value of which is at least 105% of the total deposits. Peak period collateral agreements permitted under K.S.A. 9-1403 and mortgages as contemplated by K.S.A. 9-1402 are not to be accepted by the City. The allowable securities acceptable to the City are limited to:

- a. Direct obligations of, or obligations insured by, the U.S. Government or any agency thereof.
- b. Obligations and securities of U. S. government-sponsored corporations, which, under federal law, may be accepted as security for public funds.

2. Corporate Surety Bond:

The financial institution may provide a corporate surety bond of a surety corporation with an AAA investment grade rating authorized to do business in Kansas in an amount equal to the amount on deposit including interest accrued.

3. Federal Home Loan Bank Letters of Credit:

The financial institution may provide a letter of credit from the Federal Home Loan Bank in Topeka, Kansas, in an amount equal to the funds on deposit including interest accrued.

Section GB04-E-7 INVESTMENT PARAMETERS.

A. Diversification:

The investments should be diversified by:

1. Limiting investments to avoid over-concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities);
2. Limiting investment in securities that have higher credit risks;
3. Investing in securities with varying maturities; and
4. Continuously investing a portion of the portfolio in readily available funds such as the Kansas Municipal Investment Pool or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

Governing Body Policies

5. No single financial institution should hold demand or time deposits which will constitute more than 10% of the City's portfolio value. No more than 33% of the total portfolio value in any investment type of the City should be placed with a single issuer other than the United States Treasury.
6. The following maximum limits, by instrument, are established for the City's total investment portfolio:

<u>Investment Type</u>	<u>Maximum Percentage of Portfolio</u>
Repurchase Agreements	30%
Collateralized Time and Demand Deposits	100%
U. S. Treasury Notes and Bills	100%
U. S. Government Agency Obligations	90%
Kansas Municipal Investment Pool Fund (MIP)	30%
Bank Trust Department Municipal Pools	10%
Temporary Notes or No-Fund Warrants	10%

Notwithstanding the foregoing, the limit on repurchase agreements and Kansas MIP deposits may exceed 60%, but not more than 75%, of the portfolio for a maximum of forty-five (45) days during each of the June and December tax seasons, and prior to debt service payments on March 1st and September 1st.

7. Additional investments established for Bond Proceeds until spent are as follows: Maximum limits are listed by instrument as a percentage of the City's total portfolio value. Invested amounts are not to exceed 20% for money market mutual funds and 15% for financial institution paper. Flexible Repurchase Agreements for bond issues related to construction projects can be up to 100% of the issue.

B. Portfolios:

The City's funds shall be separated into three portfolios for efficient investment management. The ultra-short portfolio is defined as maturities less than one week and is primarily overnight, and over weekend sweep investments and investments in the Kansas MIP. The short-term portfolio is defined as maturities greater than the ultra-short and less than 1 year. The long-term portfolio has maturities 1 year or greater and would be considered "core" investments that the City would have for a long time. Funds will be allocated based on the cash flow needs of the City.

C. Maturities:

The City shall attempt to match its investments with anticipated cash flow requirements. The City will not directly invest in securities with stated maturities of more than four (4) years from the date of purchase, in accordance with the Kansas law.

The sale of securities before maturity shall require the prior approval of the Finance Director, who may approve the sale based on the following reasons:

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

Governing Body Policies

2. A security swap would improve the quality, yield, or target maturity of the portfolio; or
3. Liquidity needs require that the security be sold.

Section GB04-E-8 REPORTING.

A. Methods:

The City finance staff shall prepare a monthly investment report summarizing the month's investment activities. This report shall be provided to the Finance Director.

The City finance staff shall also prepare a detailed quarterly report, including a management summary and analysis of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner which will allow the City to ascertain whether investment activities during the reporting period have conformed to this Investment Policy. The report will be provided to the City Administrator and the Governing Body. The report will include the following at a minimum:

1. Listing of individual securities held at the end of the reporting period.
2. Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year maturity that are not intended to be held until maturity (in accordance with Governmental Accounting Standards Board (GASB) requirements).
3. Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.
4. Percentage of the total portfolio which each type of investment represents.
5. Percentage of the total portfolio which each institution holds.

B. Performance Standards:

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. The investment objective is for the ultra-short and short-term portfolio combined to exceed the 91-day U.S. Treasury Bill rate and for the long-term portfolio to exceed the 1-year U.S. Treasury Note average rate of return, both of which are benchmarks for risk-free investment transactions.

C. Marking to Market:

The market value of the portfolio shall be calculated at least monthly, and a statement of the market value of the portfolio shall be issued at least monthly. The market values of all securities in the portfolio will be obtained from the safekeeping agent which is a

Governing Body Policies

reputable and independent source. The report will include the market value, book value and unrealized gains or losses of securities in the portfolio.

D. Safekeeping/Custodian Reports:

The safekeeping agent shall prepare a holdings report and a transaction summary report monthly. In addition, the safekeeping agent shall value collateral securities on a monthly basis and report values for each bank sub-custodial account.

Section GB04-E-9 POLICY CONSIDERATIONS.

A. Exemption:

Any investment currently held as of the first date of approval of this Investment Policy, that does not meet the guidelines of this policy shall be exempted from the requirements of this policy, but at maturity or liquidation, such monies shall be reinvested only as provided by this policy.

B. Amendments:

This policy shall be reviewed on an annual basis. The Governing Body must approve any changes.

Section GB04-E-10 RESPONSIBILITY FOR ENFORCEMENT.

The Finance Director shall have primary responsibility for the Investment Policy.

Section GB04-E-11 REFERENCES.

K.S.A. 12-1675; K.S.A. 12-1677b; K.S.A. 10-131