

CITY OF MCPHERSON

Investment Policy

Scope

This investment policy applies to the investment activities of the City of McPherson (the “City”) for all funds entrusted to its care.

Objectives

1. Safety

Safety of principal is the foremost objective of the City. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

2. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. A portion of the portfolio may be placed in a money market deposit account, bank certificates of deposit or a government investment pool which offers same-day liquidity for short-term funds.

3. Yield

Return on investments is of secondary importance compared to the safety and liquidity objectives described above. The core of investments are limited to low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

- a. A security with declining credit may be sold early to minimize loss of principal.
- b. Liquidity needs of the portfolio require that the security be sold.

4. Kansas Statutes

All investments shall be made in accordance with Kansas Statutes Annotated.

Delegation of Authority

Management responsibility for the investment program is hereby delegated to the City Administrator, (the “Investment Officer”) who shall establish written procedures for the operation of the investment program, consistent with this investment 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 Investment Officer. The Investment Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

Prudence

The standard of prudence to be used by investment officials shall be the “prudent person” and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures 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 appropriate action is taken to control adverse developments.

Internal Controls

The Investment Officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets 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.

Accordingly, the investment officer shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

- a. Transaction authority
- b. Custodial safekeeping
- c. Written confirmation of transactions for investments and wire transfers

Authorized Investments

In accordance with restrictions on City investments under applicable state law, the Investment Officer may invest in the following:

1. City of McPherson - Idle Funds
 - a. Investments authorized by K.S.A. 12-1675, and amendments thereto.
2. City of McPherson - Proceeds of bonds or temporary notes
 - a. Investments authorized by K.S.A. 10-131, and amendments thereto.
3. Cemetery Endowment
 - a. Investments authorized by K.S.A. 12-1675, and amendments thereto.
 - b. Investments authorized by K.S.A. 12-1410, and amendments thereto.
4. Salthouse Broadway Trust
 - a. Investments established in section II (c) of the Agreement and Declaration of Trust a.k.a. the Salthouse-Broadway Trust, dated July 7, 1954, in accordance with K.S.A. 12-1438, and amendments thereto.
 - b. Investments allowed by K.S.A. 12-1675, and amendments thereto.

Assets of the City shall not be invested in derivatives.

Maturities

Assets of the City may be invested in instruments whose maturities do not exceed the maximum allowed by Kansas Law. Investment maturities shall be scheduled to coincide with projected cash flow needs.

Diversification

The goal of diversification is to reduce the extent of having an unbalanced portfolio in terms of maturities. Therefore, portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity sector.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as a money market deposit account, bank certificates of deposit or government investment pool to ensure that appropriate liquidity is maintained to meet ongoing obligations.

Risk of market price volatility shall be controlled through the adoption of a “buy and hold” strategy whereby the City holds each investment to maturity unless authorized as stated under **Objectives 3(a) and 3(b)**.

Risk

The City recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. In the event of a default by a specific issuer, the Investment Officer shall review and, if appropriate, proceed to liquidate securities having comparable credit risks.

To control market price risks, every investment shall be made with a “buy and hold” strategy. Only 25% of the City’s portfolio may be invested in maturities greater than one year. This provision does not include the Cemetery Endowment Fund or the Salthouse-Broadway Trust Fund.

To control risks of illiquidity, a minimum of 15% of the total portfolio shall be held in highly marketable U.S. Treasury Bills, overnight repurchase agreements, money market deposit accounts, bank certificates of deposit or government investment pools. Non-marketable investments with maturities beyond one year shall not exceed 30% of the portfolio.

Safekeeping, Custody and Pledging

The assets of the City in Federal Book Entry Form shall be secured through third-party custody (the “Custodial Bank”) and safekeeping procedures.

The City will enter into a written contract establishing the responsibilities of the custodial bank holding collateral for deposits (the “Custodial Agreement”).

Securities not backed by the full faith and credit of the United States of America, including but not limited to, repurchase agreements and bank certificates of deposit shall be collateralized through the issuance of bank deposit guaranty bonds or joint custody receipts pledged to the City with a market value in an amount equal to or greater than the investments.

Physical securities in registered form shall be held by the Investment Officer in a lock box, within the city’s vault. Investment officials shall be bonded. Collateralized securities such as repurchase agreements shall be purchased using the delivery vs. payment procedure.

Safekeeping procedures shall be reviewed annually by an independent auditor.

Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this policy. A quarterly report outlining investment activity shall be prepared. Such report shall contain sufficient information to evaluate the performance of the investment program and verify that investment officials have acted in accordance with the investment policy and written investment procedures.

Policy Considerations

1. Exemption

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

Adopted 2/1/1999 by Res. 99-3

Amended 2002, 2009