

POLICY NAME:	308.01: Cash Management
EFFECTIVE:	01-01-09
SUPERSEDES:	308.01 issued 03/27/08; 03-24-05; 09-26-02; 12-08-94; 10-23-86
SOURCE:	State Board of Education Resolution
CROSS REFERENCE:	

1. Responsibility

The President shall establish a cash management and investment program for institutional funds. The President may designate the chief financial officer to be responsible for the day-to-day activities and functions of the program. Such officers shall be bonded in an appropriate amount in accordance with State Board of Education policy. The designee shall manage both daily cash flow and short-term investments.

2. Investment Goals

- 2.1. Foster sound and prudent judgment in the management of assets consistent with the fiduciary responsibility to the citizens of Alabama.
- 2.2. Investment of all appropriate available cash on a daily basis or longer-term basis to secure the maximum investment return, which is consistent with investment management policy.
- 2.3. Maximization of balances available for short-term investment.
- 2.4. Sufficient liquid funds available to pay current obligations in a timely manner.
- 2.5. To the extent funds are available, to maintain a minimum of two months' operating contingency in cash and short-term investments (maturing one year or less).

3. Investments

- 3.1. All funds invested shall be invested in a manner consistent with all applicable state and federal laws and regulations.
- 3.2. All monies shall be placed in interest-bearing accounts unless legally restricted by an external agency.
- 3.3. Investments in debt securities are limited to the two highest quality credit ratings as described by nationally recognized statistical rating organizations (NRSROs) such as A.M. Best Company, Inc., Dominion Bond Rating Service Ltd., Fitch, Inc., Moody's Investors Service, and the Standard & Poor's Division of the McGraw Hill Companies, Inc. *Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are excluded from this requirement.*

- 3.4. Investment securities must be insured, registered in the Institution's name, or held in the counterparty's trust department in the Institution's name.
- 3.5. Legally permissible investments include:
 - 3.5.1 U.S. Treasury bills, notes, bonds and stripped Treasuries.
 - 3.5.2 U.S. Agency notes, bonds, debentures, discount notes and certificates.
 - 3.5.3 Certificates of Deposits, checking and money market accounts of savings and loan associations, mutual savings banks, or commercial banks whose accounts are insured by the FDIC/FSLIC, and who are designated a Qualified Public Depository (QPD) under the Security for Alabama Funds Enhancement (SAFE) program.
 - 3.5.4 Mortgage Backed Securities (MBS).
 - 3.5.5 Mortgage related securities to include Collateralized Mortgage Obligations (CMOs).
 - 3.5.6 Repurchase Agreements.
 - 3.5.7 Stocks and bonds which have been donated to the institution.
- 3.6. Notwithstanding the institution is authorized to purchase from the aforementioned list of legally permissible investments, the institution portfolio shall consist primarily of bank CDs and interest bearing accounts, United States Treasury securities, debentures of a United States Government Sponsored Entity (GSE) and securities backed by collateral issued by GSEs. In order to diversify the portfolio's exposure to concentration risk, the portfolio's maximum allocation to specific product sectors is as follows:
 - 3.6.1 U.S. Treasury bills, notes and bonds can be held without limitation as to amount. Stripped Treasuries shall never exceed 50 percent of the Institution's total investment portfolio. Maximum maturity of these securities shall be 10 years.
 - 3.6.2 U.S. Agency securities shall have limitations of 50 percent of the institution's total investment portfolio for each Agency, with two exceptions. TVA and SLMA shall be limited to 10 percent of total investments. Maximum maturity of these securities shall be 10 years. Agencies that qualify for investment are: Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Tennessee Valley Authority (TVA), and Student Loan Marketing Association (SLMA).

- 3.6.3 Certificates of Deposit with savings and loan associations, mutual savings banks, or commercial banks may be held without limit provided the depository is a QPD under the SAFE Program. CD maturity shall not exceed five years.
 - 3.6.4 Mortgage Backed Securities (MBS) shall include those issued by Government National Mortgage Association, (GNMA), Federal National Mortgage Association, (FNMA), and Federal Home Loan Mortgage Corporation, (FHLMC). The aggregate average life maturity for all holdings of mortgage backed securities shall not exceed seven years, while the maximum average life maturity of any one security may not exceed 10 years. The aggregate total of all mortgage backed securities may not exceed 50 percent of the institution's total investment portfolio.
 - 3.6.5 The institution may invest in CMO's (Collateralized Mortgage Obligations) and REMIC Securities (Real Estate Mortgage Investment Conduits) issued and collateralized by GNMA, FNMA and FHLMC. The total portfolio of mortgage related securities shall not exceed 50 percent of the institution's total investment portfolio. The aggregate average life maturity for all holdings of CMOs/REMICs shall not exceed seven years while the average life maturity of any one security shall not exceed 10 years.
 - 3.6.6 A repurchase transaction is a transaction in which the institution agrees to purchase a security from a counterparty and to resell the same or an identical security to that counterparty at a specified future date and at a specified price. The institution may enter into a repurchase transaction so long as: (1) the repurchase securities are legal investments under state law for institutions; (2) the institution receives a daily assessment of the market value of the repurchase securities, including accrued interest, and maintains adequate margin that reflects a risk assessment of the repurchase securities and the term of the transaction; and (3) the institution has entered into signed contracts with all approved counterparties.
 - 3.6.7 The institution has discretion to determine if it should hold or sell other investments that it may receive as a gift or donation.
 - 3.7. The institution shall not invest in stripped mortgage backed securities, residual interest in CMOs, mortgage servicing rights or commercial mortgage related securities.
 4. Investment of debt proceeds and deposits with trustees is governed by provisions of the debt agreement. Funds may be invested in any legally permissible instrument.
 5. Endowment donations to the Institution shall be invested in accordance with the procedures and policies developed by the Institution and approved by the Chancellor. Funds shall be managed and invested in accordance with the "Alabama Uniform Prudent Management of Institutional Funds Act" Code of Alabama Sections 19-3C-1 and following.

6. Investment Income

- 6.1. Interest earned shall be clearly accounted for in accordance with policies and procedures set forth in the *Financial Management Procedures Manual*.
- 6.2. Interest income shall be used for appropriate institution purposes.