

Policy Title: Deposit and Investment of Funds

Policy Type: Finance/Administration

New/revised: Revised

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Approval level: Board of Trustees
 President
 Vice President
 Other (specify here)

Purpose: The following policy on the deposit and investment of funds for the university shall apply to all funds, regardless of source, which are received by the university.

All depositories which provide deposit or investment services shall agree to comply with the terms of this policy, and with the requirements of Chapter 4 of Title 9 of Tennessee Code Annotated (T.C.A.) as amended, and the latter provisions shall control in the event of conflict. Words and phrases used in this policy shall have the same definition and meaning as in T.C.A. § 9-4.

Definitions:

- Collateral Security - means securities which may be accepted as collateral for deposits.
- Compensating balances - means the amount of funds allowed to remain in an account.
- Default - may include but is not limited to:
 - The failure of any qualified public depository to return any public deposit, including earned interest in accordance with the terms of the deposit contract.
 - The failure of any qualified public depository to pay any properly payable check, draft or warrant drawn by the public depositor.
 - The failure of any qualified public depository to honor any valid request for electronic transfer of funds.
 - The failure of any qualified public depository to account for any check, draft, warrant, order, deposit certificate or money entrusted to it.
 - The issuance of any order of any court or the taking of any formal action by any supervisory authority, which has the effect of restraining a qualified public depository from making payments of deposit liabilities.
 - The appointment of a conservator or receiver for a qualified public depository; or
 - Any other action which the treasurer determines to place public deposits in jeopardy.
 - Failure to provide the required collateral.
- Deposit Insurance - means the insurance provided by the Federal Deposit Insurance Corporation.
- Eligible Collateral - shall have the meaning set forth in T.C.A. § 9-4-103. For savings institutions securing local government deposits, eligible collateral shall also include securities described in T.C.A. § 9-1-107(a)(2) under such additional conditions as the treasurer deems appropriate.
- Loss - includes but is not limited to:
 - The principal amount of the public deposit;

- All accrued interest through the date of default;
- Additional interest at the rate the public deposit was earning on the total of the principal amount of the public deposit and all accrued interest through the date of default, through the day of payment by a liquidator or other third party or through the date of sale of eligible collateral by the treasurer or his agent; and
- Attorney's fees incurred in recovering public deposits.
- Market Value - means current market price.
- Depository - means any bank, savings and loan association or savings bank (collectively referred to as savings institutions) located in the state of Tennessee which is under the supervision of the Department of Financial Institutions, the United States Comptroller of the Currency, or the Office of Thrift Supervision, and which has been appropriately designated to hold public deposits by a public depositor.
- Required Collateral - means eligible collateral, excluding accrued interest, having a market value equal to or in excess of the greater of the average daily balance or average monthly balance of public deposits multiplied by the qualified public depository's collateral-pledging level as required by the collateral pool board. (T.C.A. § 9-4-502)
- Trust Receipts - means a receipt issued by the trustee custodians in lieu of the actual deposit of eligible collateral, it is subject in all respects to the claims and rights of the institution to the same extent as though such collateral had been physically deposited with the institution.
- Trustee Custodian - means a financial institution designated to hold eligible collateral on behalf of the state treasurer and a qualified public depository pursuant to T.C.A. § 9-4-108.

Policy:

I. Depository Accounts

- A. The university shall maintain one general operating account and one payroll account at an authorized depository for the regular operating and payroll functions of the institution. No additional checking accounts may be opened or maintained unless approved by the President or his or her designee.
- B. All checks, drafts, or other methods of withdrawing funds from an account must be co-signed by the President and the Chief Financial Officer of the university except when the withdrawal is for purposes of transferring funds to the primary depository account from a secondary depository account. Facsimile signatures may be used on checks, drafts, or other methods of withdrawals; and provided that any authorization or request for withdrawal form shall bear the original or electronic signature of the President or the Chief Financial Officer or designee approved by the President in all cases where expenditures exceed one percent (1%) of the state appropriation to the university.
- C. The President is authorized to establish one or more checking accounts for the deposit and disbursement of petty cash funds within the business office. Additional petty cash accounts may be authorized by the President for departments external to the business office provided that no account shall exceed one thousand dollars (\$1,000.00). If the custodian of the fund has accepted responsibility for the funds in writing, and has agreed to repay any shortages or expended funds not properly accounted for from the account, then the custodian may be designated as the signatory authority for the account, and the custodian or the Chief Financial Officer of the university shall be authorized to withdraw funds from the account.

- D. The university will retain written documentation of employees' authority to perform routine activities related to the depository accounts.
- E. No accounts shall be authorized or established which are complimentary non-interest bearing accounts. When using compensatory balances, the amount of funds allowed to remain in any checking account should be reasonably related to the number of transactions to be processed through the account during any month, and other servicing costs, if any.

II. Collateral

- A. All depositories must provide collateral security for deposits and accrued interest in all accounts, including checking, savings, and certificates of deposit. Securities which may be accepted as collateral for deposits shall be limited to those specified in T.C.A. § 9-4-103. All items listed in Section V.J of this policy and items noted in Section V.K are eligible as collateral.
- B. The required collateral accepted as security for deposits at financial institutions that do not participate in the collateral pool shall be collateral whose market value is equal to one hundred five percent (105%) of the value of the deposit and secured thereby; less so much of such amount as is protected by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation. The required collateral accepted as security for deposits at financial institutions participating in the collateral pool will be set by the Department of Treasury.
- C. At the time of designation as the university's depository or at any time thereafter, additional collateral with a market value of one hundred thousand dollars (\$100,000) shall be required where the capital to asset ratio of a savings and loan association, savings bank, or bank is less than five percent (5%). This additional collateral shall be in addition to the collateral required by other provisions of this policy.
- D. The market value of required collateral shall be evaluated by the university monthly and more frequently if required by unusual market conditions. Any depository not providing collateral with a market value as specified in II.B above must provide additional, adequate collateral within two working days of a request by the university. Failure to provide the additional collateral may be considered an act of default.
- E. In the case of a checking account, the market value of the collateral accepted as security for deposits shall be the amount specified in Section II.B based on the highest daily depository book balance in the account for the preceding month excluding large deposits covered below. The amount of the depository balance must be determined on or before the fifth day of the month in question. Large deposits, such as registration receipts, which may result in insufficient collateral, either should be invested immediately or additional collateral should be in place. (If the investment is in a certificate of deposit, the certificate must be collateralized.) Alternatively, depositories may be allowed to post collateral daily to cover the current depository book balance.
- F. Any loss to the institution due to a depository's default shall be satisfied out of collateral pledged by the depository to whatever extent possible. The collateral security shall be liable for any loss, including and not limited to the principal amount of the deposit, for accrued interest through the date of default, for additional interest through the date of recovery on the principal and accrued interest at the rate the deposit was earning, and for attorney's fees incurred in recovering deposits and other losses.
- G. The university must either be provided the actual securities pledged as collateral for deposits, or trust receipts from trustee custodians for the collateral in lieu of the actual delivery of the securities. A trustee custodian is one which meets the requirements of

T.C.A. § 9-4-108. When any trustee custodian holds collateral for an institution's depository which is related to the custodian through shared ownership or control, such collateral shall be held in a restricted account at a Reserve Federal Bank or branch thereof or at a Federal Home Loan or branch thereof.

- H. In lieu of the actual deposit of eligible collateral, the university is authorized at its option to accept trust receipts therefore.
 - 1. Trust receipts shall be issued by trustee custodians in a form acceptable to the university following the deposit of eligible collateral with the trustee custodian by an institution's depository.
 - 2. Eligible collateral deposited with a trustee custodian shall be subject in all respects to the claims and rights of the institution to the same extent as though such collateral had been physically deposited with the university.
 - 3. Each trust receipt shall be nonnegotiable and irrevocable and shall continue in full force and effect until surrendered by the issuing trustee custodian with the release of the university endorsed thereon.
 - 4. The university may present the trust receipt at any time to the issuing trustee custodian and upon delivery thereof shall be entitled to receive any and all collateral represented thereby from the trustee custodian, and such collateral shall thereafter be held by the university as if deposited with the university by the depository as collateral, without further liability on the party of the trustee custodian.
 - 5. Following delivery of the collateral to the university, the university is permitted to register such collateral in the name of the institution and to hold it on behalf of the depository.
- I. For depositories participating in the collateral pool administered by the Department of Treasury, the university will not be responsible for monitoring the collateral securities pledged. As provided in T.C.A. § 9-4-501 through 9-4-523, the Department of Treasury will monitor the collateral securities pledged.

III. Depository Institutions

- A. Subject to the other requirements of this policy, accounts may be authorized and established at depositories which are either under the supervision of the Department of Financial Institutions, the United States Comptroller of the Currency or the Federal Home Loan Bank Board.
- B. Before a depository may be used by the university for the deposit of funds in a checking account, it must provide documentation verifying the following:
 - 1. That the depository is supervised by the Department of Financial Institutions of the State of Tennessee, the United States Comptroller of the Currency, or the Federal Home Loan Bank Board;
 - 2. The capital to asset ratio of the depository as of the current date and the date of the last audited financial statements of the depository;
 - 3. That the depository can comply with the collateral security requirements for all accounts;
 - 4. The names of the members of the board of directors and officers of the depository;
 - 5. The name of the holding company of the depository, if applicable; and
 - 6. The names of the owners of ten percent (10%) or more of the stock of the depository.

- C. The university shall identify the nature and level of services which must be provided by a depository before a checking account is established. Such services should include but are not limited to the minimum services in the standard request for proposals for depository services as set forth in guidelines established pursuant to this policy. Some or all of these services may be required without charge to the institution.
 - D. The university shall solicit proposals from all qualified depositories with offices within a reasonable distance from the campus, and shall determine those depositories which can provide the nature and level of services for accounts as required by the institution on a competitive basis. The agreement with the depository cannot exceed 5 years.
- IV. Depositing Funds
- A. All funds must be deposited in accordance with the ETSU Policy Cash Receipts and Deposits.
- V. Investments
- A. All investment decisions shall be in accordance with this policy and must be approved by the Chief Financial Officer or his or her designee.
 - B. All investments in which funds are deposited outside the State of Tennessee must be authorized by the President.
 - C. A trustee custodian account should be used for handling and holding all investments, other than the Local Government Investment Pool and collateralized certificates of deposit.
 - D. All investments must be made subject to "delivery versus payment."
 - E. All funds which are received by an institution and which are available for a sufficient period of time for investment in any interest generating medium should be invested within three (3) days after receipt of such funds.
 - F. At a minimum, each institution shall determine rates of return on all feasible authorized mediums of investment prior to making an investment; and funds shall be invested in those mediums expected to pay the highest rate for the period of time for which the funds are available for investment.
 - G. All investments of funds in certificates of deposits where the period of investment will exceed thirty (30) days shall be determined on the basis of competitive bids, with appropriate records maintained for audit purposes, including the person obtaining the bids, the institutions which submitted the bids, the amount and rate of return of each bid, and the person who approved the investment. Where more than one bid provides the highest rate of return available, investments should be made in such a manner that no one institution making one of the high bids receives a disproportionate amount of the investments on the basis of two or more equal bids over a reasonable period of time. Records shall also be maintained on the basis for selecting LGIP and other investments as an investment medium.
 - H. An investment plan should be developed that specifies liquidity requirements for providing cash needed by the university.
 - I. Investments of endowments in equity securities shall be limited to funds from private gifts or other sources external to the university. Endowment investments shall be prudently diversified.
 - J. Funds of the university may be invested in a savings account or certificate of deposit of any depository provided the requirements of this policy including Sections III.A and III.B, and the collateral security requirements of Section II. are met. Other authorized investments, subject to the limitations of Section V.L, are set forth in T.C.A. § 9-4-602.
 - K. All investments via repurchase agreements must include the following:

1. There must be a written agreement in accordance with the standard agreement set forth in guidelines established pursuant to this policy.
 2. The agreement must state explicitly that the exchange of assets represents a simultaneous purchase and resale transaction "and is not intended to be collateralized loan."
 3. The purchased securities must be transferred to the Trustee Custodian Account.
 4. The purchased securities must, at the time of purchase, have a current market value of at least 100% of the amount of the repurchase agreement.
- L. The following terms and conditions shall apply to investments:
1. Prime banker's acceptances must be issued by domestic banks with a minimum AA rating or foreign banks with a AAA long term debt rating by a majority of the rating services that have rated the issuer. The short term debt rating services that rate the issuer (minimum of two ratings must be available). Banker's acceptances shall not exceed five percent of total investments on the date of acquisition. The amount invested in any one bank shall not exceed five percent of total investments on the date of acquisition.
 2. Prime banker's acceptances are required to be eligible for purchase by the Federal Reserve System. To be eligible the original maturity must not be more than 270 days, and it must
 - a. arise out of the current shipment of goods between countries or within the United States, or
 - b. arise out of storage within the United States of goods under contract of sale or expected to move into the channel of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods.
 3. The combined amount of banker's acceptances and commercial paper shall not exceed thirty-five percent of total investments at the date of acquisition.
 4. Prime commercial paper shall not have a maturity that exceeds 270 days. Acquisitions shall be monitored to assure that no more than five percent of total investments at the date of acquisition are invested in commercial paper of a single issuing corporation. The total holdings of an issuer's paper should not represent more than two percent of the issuing corporation's total outstanding commercial paper. Purchases of commercial paper shall not exceed thirty-five percent of total investments at the date of acquisition. Prime commercial paper shall be limited to that of corporations that meet the following criteria:
 - a. Senior long term debt, if any, should have a minimum rating of A1 or equivalent, and short term debt should have a minimum rating of A1 or equivalent, as provided by a majority of the rating services that rate the issuer. If there is no long term debt rating, the short term debt rating must be A1 by all rating services (minimum of two).
 - b. The rating should be based on the merits of the issuer or guarantee by a non-bank.
 - c. A financial review should be made to ascertain the issuer's financial strength to cover the debt.
 - d. Commercial paper of a banking institution should not be purchased.

5. The amount invested in money market mutual funds shall not exceed ten percent of total investments on the date of investment.

VI. General

- A. The President or his or her designee may approve exceptions to the requirements of this policy in appropriate cases.

6/9/2017 – approved by the Board of Trustees.