



System Procedure 7.5.1 Local Cash and Investments

Part 1. Authority

Board Policy 7.5 and this procedure apply to each college, university, and the Minnesota State system office when investing local funds. (See Operating Instructions 7.5.1.2 and 7.5.1.3 for additional information.)

Part 2. Objective

To establish standards for colleges, universities, and the Minnesota State system office when investing local funds not managed by the State Board of Investment.

Part 3. Definitions

Cash equivalents

Short-term, highly liquid investments with an original maturity of three months or less.

Brokerage house

A financial and investment services firm licensed by the Securities and Exchange Commission to buy and sell securities for clients and for its own accounts.

Collateral

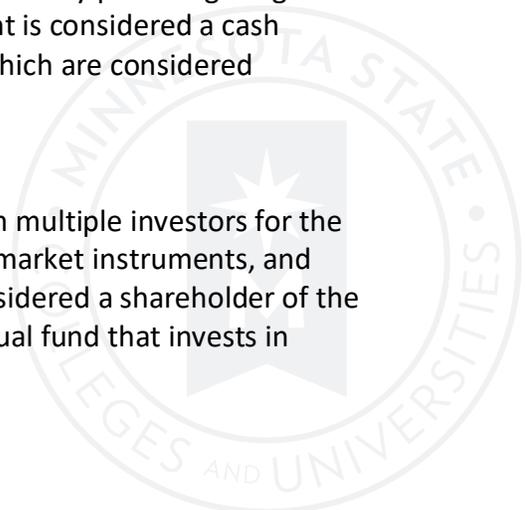
An asset pledged to guarantee deposits with a financial institution. A financial institution can be a savings association, commercial bank, trust company, credit union, or industrial loan and thrift company.

Money market deposit account

A type of savings account offered by banks and credit unions, generally providing a higher interest rate than a regular savings account. This type of account is considered a cash equivalent and does not include money market mutual funds, which are considered investments.

Mutual fund

An investment vehicle made up of a pool of funds collected from multiple investors for the purpose of investing in securities such as stocks, bonds, money market instruments, and similar assets. Each investor who invests in a mutual fund is considered a shareholder of the investment pool. A money market mutual fund is a type of mutual fund that invests in short-term debt instruments.



Part 4. Monitoring Risk

Each college, university, and the Minnesota State system office is responsible for managing the risk of all local accounts in the following four areas:

Subpart A. Custodial credit risk

Custodial credit risk is the risk that an issuer or other party to an investment or deposit will not fulfill its obligations. To minimize such risk, every local deposit or investment must meet the following requirements:

1. Cash and cash equivalent deposit accounts must be covered by sufficient collateral in accordance with Minn. Stat. §§ 136F.71, subd. 4, and 118A.03. Types of cash and cash equivalent deposit accounts requiring collateral coverage include, but are not limited to: checking, savings, money market depository accounts, and certificates of deposit.

Collateral requirements include:

- a) The value of the collateral must be at least ten percent greater than the amount on deposit at the close of the banking day.
 - b) Colleges, universities, and the system office must monitor the sufficiency of collateral amounts regularly throughout the year.
 - c) Each college, university, and the system office must maintain a written assignment of collateral, which is an official record of the bank where the collateral was obtained.
2. Every local investment must have full insurance to cover the amount of any investment at a brokerage house.

Subpart B. Credit risk

Credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. To minimize such risk, all investments by a college, university, or the Minnesota State system office must comply with Board Policy 7.5 and Minn. Stat. §118A.04.

Subpart C. Concentration of credit risk

Concentration of credit risk is the risk of loss attributed to a disproportionately large risk exposure to specific credit risks. Investments must be diversified by type and issuer to alleviate this risk. Investments issued or explicitly guaranteed by the United States government are excluded from this requirement, as are pooled investments and mutual funds.

Subpart D. Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. To limit this risk, colleges, universities, and the Minnesota State system office must take into consideration fluctuating interest rates and cash flow needs when purchasing short-term and long-term debt investments. Payout rates of interest for some long-term investments may be higher than short-term investments or deposits even if subject to a penalty for early withdrawal.

Part 5. Re-bidding of bank contracts

Colleges, universities, and the Minnesota State system office must rebid their local banking needs at a minimum of every ten years. The request for proposal or bid must address items including, but not limited to, fees, location, services and interest rates. Any college or university seeking to proceed on a sole source basis shall do so in accordance with Minn. Stat. § 16C.02, subd. 18 and applicable Minnesota State requirements.

Part 6. Management Expectations

Colleges and universities shall have an internal procedure for monitoring levels of local cash accounts. The procedure must address factors including, but not limited to, investing local funds in various short-term and long-term investment vehicles to obtain the highest yield based on cash flow needs in accordance with board policy and system procedure.

Colleges and universities must establish, following consultation with the student government, appropriate business practices for expenditures from student organization agency accounts.

Date of Adoption: 08/04/2006
Date of Implementation: 08/04/2006
Date of Last Review: 02/23/2022

Date and Subject of Amendments:

- 02/23/22 – Part 5, Re-bidding of bank contracts, modified to require local bank service to be rebid at a minimum of every ten years, an increase from five years; also includes technical edits, and the application of new formatting and writing standards.
- 9/24/15 – Amended Parts 3, 4, 6, and 7 to reflect current terminology, processes, and requirements. Removed part 5 “Collateral” and inserted related requirements into Part 4.
- 5/17/11 - Modified Part 7, Management Expectations, to allow colleges and universities to establish, in consultation with a student organization, guidelines for expenditures from agency accounts.
- 11/5/09 - Part 5, technical changes to update FDIC insurance limits based on recent legislation changes.
- 7/27/09 - Part 5, FDIC limits updated; Part 6, RFP required for bank selection or selection based on local non-competitive basis must be documented by the university or college and approved by the vice chancellor–chief financial officer or designee.

No Additional HISTORY