



**Minnesota State Colleges and Universities
System Procedures
Chapter 7 – General Finance Provisions
Procedures associated with Board Policy 7.5**

7.5.1 Local Cash and Investments

Part 1. Authority. Policy 7.5 and this procedure apply to each college, university, and the system office when investing local funds. (See Guidelines 7.5.1.2 and 7.5.1.3 for additional information.)

Part 2. Objective. To establish standards for universities, colleges, and the system office when investing local funds not managed by the State Board of Investment.

Part 3. Definitions.

Cash equivalents. Cash equivalents are short-term, highly liquid investments with an original maturity of three months or less.

Brokerage house. A brokerage house is licensed by the Securities and Exchange Commission to buy and sell securities for clients and for its own accounts.

Collateral. Collateral as used in this procedure means a collateral security pledged as security 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 money market deposit account is 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. Mutual fund is an investment vehicle that is made up of a pool of funds collected from many 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 part-owner of the fund. A money market mutual fund is a type of mutual fund that invests in short-term debt instruments.

Part 4. Monitoring Risk. It is the responsibility of each university and college to manage 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 system office shall be in compliance with Policy 7.5 and Minnesota Statute §118A.04.

Subpart C. Concentration of credit risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. 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 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. Universities and colleges must rebid their local banking needs at a minimum of every five years. The request for proposal or bid address items including but not limited to, fees, location, services and interest rates. Any university or college seeking to proceed on a sole source basis shall do so in accordance with Minnesota Statute § 16C.02, subd. 18 and applicable system requirements.

Part 6. Management Expectations. Universities and colleges shall have an internal procedure for monitoring levels of local cash accounts. The procedure shall 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 and otherwise in accordance with board policy and procedure.

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

Date of Approval: August 4, 2006,
Date of Implementation: August 4, 2006,

Date and Subject of Revision:

- 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.*