

COMPTROLLER POLICY MANUAL

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|  | POLICY: CMP 301-02 |
| | Section: 300 Deposits of University Funds |
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| | Responsible office: Comptroller |
| | Origination date: 01/01/2000 |
| Subject: Investment Policy | Effective date: 04/15/2009 |
| | Revision date: 01/29/2016 |

PURPOSE

To define the procedure for investment of university funds.

SOURCE

Arizona Board of Regents Policy Manual - 3-101. The investment policy must, at all times, be in compliance with State law and rules and regulations promulgated by the Arizona Board of Regents. The University invests its short term excess funds in accordance with ABOR Policy 3-301 “University Investments”.

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Background

Northern Arizona University, as part of its daily ongoing fiscal and budgeting operations, has excess cash balances to invest. The University has a fiscal, as well as board mandated obligation to invest those funds prudently considering both safety and liquidity, in the most efficient way possible for return of investment income to the University budget.

Organization and Reporting

Consistent with ABOR policy, responsibility for guiding the investment of short-term excess funds lies with an Investment Committee as set forth in this policy or as otherwise appointed by the University President. The reporting of cash position is the responsibility of the staff in Financial Accounting Services, reporting through the Associate Vice President for Financial Services/Comptroller.

The Investment Committee includes the President, the Vice President for Finance and Administration, the Associate Vice President for Financial Services/Comptroller, and other members as identified by the President.

Investment results, including the securities held, will be reported to the President at least bi-annually. The Investment Committee will meet at least annually to discuss results and future strategies for the investing of University funds. The Committee also meets at other times as necessary when needed.

Internal Controls

The internal controls necessary for proper accounting and reporting are:

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- Cash is received and deposited by the Student and Departmental Account Services cashier or by armored car pick-up at approved sites (lockboxes);
- Persons occupying positions designated by the University President and certified to the Executive Director of the Board of Regents as having investment authority are authorized to purchase or sell securities on behalf of Northern Arizona University. The purchase or sale of short-term investments is commonly done by telephone with a financial institution or broker/dealer;
- Financial Accounting Services is authorized to initiate pre-set wire transfers online. These pre-set wire transfers are approved by the Associate Vice President for Financial Services/Comptroller and one other check signer when established;
- Bank statements and custody receipt (wire transfers and/or trade tickets) must be mailed directly to Financial Accounting Services. Financial Accounting Services must match a listing of investment purchases and the bank advice of charge. Additionally, Financial Accounting Services must maintain a listing of maturity dates and match the bank's advice of deposit with the respective maturity date. These functions are performed by people not having check signing authorization; and
- The proceeds from securities sold and matured will automatically be deposited, in collected funds, to Northern Arizona University's account. A list of authorized personnel who may execute an order will be sent to all approved financial institutions and broker/dealers.

All investment securities will be held as segregated assets in the name of Northern Arizona University at a Federal Reserve Bank or other federally insured financial institution. The delivery of the securities and the receipt of Northern Arizona University funds must be simultaneous. Under no circumstances will the securities or repurchase agreements with maturity dates greater than 14 days be placed in safekeeping with a broker/dealer or any affiliate of the broker/dealer where the transaction was executed.

Repurchase agreements may only be transacted with a broker/dealer or financial institution that has signed a master repurchase agreement.

Investments are confirmed annually during the Fiscal Year end audit.

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Eligible Securities (per Board Policy 3-301):

Gift and endowment funds normally received for scholarship and student loan purposes will be invested according to the conditions stipulated by the donor, but if no conditions are imposed, such funds may be invested under the direction of the Investment Committee of the University in such a manner as to obtain the most favorable rate of return and income stability commensurate with safety of principal.

University operating funds may be invested in the following instruments in addition to any other instruments as may be permitted by the State Treasurer’s investment policy for investment of University funds, including:

- a. Obligations issued or guaranteed by the United States or any of its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities.
 - i) Repurchase agreements and tri-party repurchase agreements, collateralized at no less than 102 percent by securities or 100 percent by cash, purchased from securities dealers that make markets in those securities listed in ABOR Policy 3-301 E.2.a. Repurchase agreements and tri-party repurchase agreements collateralized by mortgage-backed securities shall be collateralized at no less than 105 percent. In all cases, collateral must be delivered to the University’s custody institution, or held in an account for the benefit of the University in an institution meeting the requirements of an eligible depository. In the case of tri-party repurchase agreements, the eligible depository may price and verify collateral but is required to provide a report of pricing and adequacy of collateral to the University within 24 hours of settlement. The University will measure the volatility and make a professional judgment on appropriateness of the collateral.
- b. Bonds or other evidences of indebtedness of the State of Arizona or any of its counties or incorporated cities, towns or duly organized school districts which carry as a minimum a Baa (Investment Grade) or better rating of Moody’s Investors Service or a BBB (Investment Grade) or better rating of Standard and Poor’s Rating Service or Fitch Ratings, or their successors.
- c. Arizona State Treasurer’s warrant notes issued pursuant to A.R.S. §35-185.01 or registered warrants of a county issued pursuant to A.R.S. §11-605, if the yield is equal to or greater than yields on eligible investment instruments of comparable maturities.
- d. Arizona State Transportation Board Funding Obligations, subject to A.R.S. §35-313(D), delivered pursuant to A.R.S. §28-7678.
- e. Commercial paper rated by at least two nationally recognized statistical rating organizations (NRSO’s). The three current NRSO’s include Standard & Poor’s, Moody’s and Fitch. The ratings assigned by at

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least two NRSO's must be of the two highest rating categories for short-term obligations. All commercial paper must be issued by entities organized and doing business in the United States.

f. Bills of exchange or time drafts known as bankers acceptances which are issued by commercial banks chartered and doing business in the United States with ratings as outlined in ABOR Policy 3-301 E.2.e, and/or long-term debt rating of BAA (Investment Grade) or better by Moody's Investors Service or BBB (Investment Grade) or better rating of Standard and Poor's Reporting Service or Fitch Ratings, or their successors.

g. Negotiable certificates of deposit issued by a nationally or state chartered bank or savings and loan association which carry as a minimum a BAA (investment Grade) or better rating of Moody's Investors Service or a BBB (Investment Grade) or better rating of Standard and Poor's Rating Service or Fitch Ratings, or their successors.

h. Bonds, debentures and notes issued by entities which are United States dollar denominated and carry as a minimum, when purchased, a BAA (Investment Grade) or better rating of Moody's Investors Service or a BBB (Investment Grade) or better rating of Standard and Poor's Rating Service or their successors.

i. Securities of or any other interests in any open-end management type investment company or investment trust including exchange traded funds whose underlying investments are invested in securities allowed by state law, registered under the Investment Company Act of 1940 (54 Stat. 789; 15 United States Code §§80a-1 through 80a-64).

j. In the event the University elects to invest in an instrument not specifically identified in ABOR Policy 3-301 2.a-i, but as allowed under section 2 of that policy because it is permitted under the State Treasurer's investment policy for investment of University funds, the University shall report such an election prior to making such investment to the Board's President, who will have delegated authority to authorize the University to proceed with such an investment.

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k. The University may contract to loan securities to the financial or dealer community, through its securities custodian, if the borrower transfers collateral to the University or its custodian in the form of cash or securities specified in ABOR Policy 3-301 E.2. Collateral posted in the form of cash shall be in an amount equal to at least 100 percent of the market value of the loaned securities as agreed. Collateral posted in the form of securities shall be in an amount of no more than 110 per cent of the market value of the loaned securities as established from time to time by the University. The loaned securities shall be valued as to market value daily, and, if necessary, the borrower shall post additional collateral, as agreed, to ensure that the required margin is maintained. The University may collect from the borrower all dividends, interest, premiums, rights and other distributions to which the lender of securities would otherwise be entitled. The University may terminate the contract on not less than five business days' notice, as agreed, and the borrower may terminate the contract on not less than two business days' notice, as agreed.

l. It is the intent of this policy to diversify the University's investment portfolio to minimize losses due to various circumstances. The circumstances include, but are not limited to: issuer defaults, market price changes, non-earning assets, technical complications leading to temporary lack of liquidity, risks resulting from an over-concentration of assets in a specific maturity, a specific issuer, a specific geographical distribution, or a specific class of securities. No more than five percent of the University's total investment portfolio (defined as five percent of the prior month's ending amortized book value on the date purchased), or five percent of the issues outstanding, whichever is less, shall be invested in securities issued by a single corporation and its subsidiaries/affiliates. Securities issued by the federal government or its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities are exempted from this provision.

m. The University is specifically prohibited from directly investing operating funds in the following instruments or in similar types of instruments. Securities as provided in E.2.i are exempt from the provision:

1. Reverse repurchase agreements (unless otherwise authorized under a securities lending agreement with a second party)
2. Futures, contractual swaps, options
3. Inverse floaters
4. Interest-only securities
5. Forward contracts

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- 6. Interest-bearing securities that have a possibility of not accruing current income
- 7. Closed-end management type companies
- 8. Securities whose yield/market value is based on currency, commodity or non-interest indices
- 9. Bearer-form securities

Reporting

The University shall submit annually to the Board central office a report on the investment of its operating and endowment funds. The Board's Business and Finance Committee will adopt an appropriate reporting mechanism, including a schedule.