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GENERAL STATEMENT OF POLICY

This policy applies to the investment of all operating funds of Southeast Missouri State University as well as longer-term funds and proceeds from certain bond issues. Except for cash in certain restricted and agency funds, Southeast Missouri State University will consolidate cash balances from all funds to maximize earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

General Objectives -

Safety - Investments shall be undertaken in such a manner so as to ensure the safety of the principal by attempting to minimize credit and interest rate risk. Safety of the principal can be achieved by:

1. Only investing with reputable financial institutions, brokers and dealers.
2. Diversifying the investments so as to minimize the potential loss on individual securities.
3. Structuring the investments so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
4. Investing operating funds primarily in shorter-term securities.

Liquidity - The investments shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. Since all possible cash demands cannot be anticipated, the investments should consist largely of securities with active resale markets. Funds may also be placed in bank deposits or repurchase agreements that offer same-day liquidity for short-term funds.

Yield - The funds shall be invested with the objective of attaining a market rate of return throughout budgetary and economic cycles. Securities shall not be sold prior to maturity with the following exceptions:

1. A security with a declining credit may be sold early to minimize loss.
2. A security swap would improve the quality, yield or duration of the investment.
3. Liquidity needs of the institution require that the investment be sold.



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Standards of Care Back -

Prudence - The standard of care to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Vice President for Finance and Administration acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion to the governing body and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

Ethics and Conflicts of Interest –

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions in which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officials shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of Southeast Missouri State University.

Delegation of Authority –

Authority to manage the investment program is granted to the Treasurer, hereinafter referred to as Vice President for Finance and Administration. Responsibility for the operation of the investment program is hereby delegated to the Vice President for Finance and Administration, who shall act in accordance with the established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Vice President for Finance and Administration. The Vice President for Finance and Administration shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.



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Investment Transactions –

Authorized Financial Dealers and Institutions - A list will be maintained of financial institutions authorized to provide investment transactions. In addition, a list also will be maintained of approved security brokers/dealers selected by creditworthiness as determined by the Vice President for Finance and Administration. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

1. Audited financial statements.
2. Proof of National Association of Securities (NASD) certification.
3. Completed broker/dealer questionnaire.
4. Certification of having read and understood and agreeing to comply with Southeast Missouri State University's investment policy.

An annual review of the financial condition and registration of qualified financial institutions and broker/dealers will be conducted by the Vice President for Finance and Administration.

Internal Controls –

The Vice President for Finance and Administration is responsible for establishing and maintaining an internal control structure that will be reviewed annually with Southeast Missouri State University's independent auditor. The internal control structure shall be designed to ensure that the assets of Southeast Missouri State University are protected from loss, theft or misuse and to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognized that (1) the cost of control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits require estimates and judgments by management.

The internal controls shall address the following points:

1. Control of collusion.
2. Separation of transaction authority from accounting and record keeping.



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3. Custodial safekeeping.
4. Avoidance of physical delivery securities.
5. Clear delegation of authority to subordinate staff members.
6. Written confirmation of transactions for investments and wire transfers.
7. Development of a wire transfers agreement with the lead bank and third party custodian.

Delivery vs. Payment –

All trades where applicable will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in eligible financial institutions prior to the release of funds. All securities shall be perfected in the name or for the account of Southeast Missouri State University and shall be held by a third-party custodian as evidenced by safekeeping receipts.

Suitable and Authorized Investments -

Investment Types - In accordance with and subject to restrictions imposed by current statutes, the following list represents the entire range of investments that Southeast Missouri State University will consider and which shall be authorized for the investments of funds by Southeast Missouri State University.

1. United States Treasury Securities - Southeast Missouri State University may invest in obligations of the United States government for which the full faith and credit of the United States are pledged for the payment of principal interest.
2. United States Agency Securities - Southeast Missouri State University may invest in obligations issued or guaranteed by any agency of the United States Government as described below.
3. Repurchase Agreements - Southeast Missouri State University may invest in contractual agreements between Southeast Missouri State University and commercial banks or primary government securities dealers. The purchaser in a repurchase agreement (repo) enters into a contractual agreement to purchase Treasury and government agency securities while simultaneously agreeing to resell the securities at predetermined dates and prices.
4. Collateralized Public Deposits (Certificates of Deposit) - Instruments issued by financial institutions that state that specified sums have been deposited for specified periods of time and at specified rates of



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interest. The certificates of deposit are required to be backed by acceptable collateral securities as dictated by State statute.

5. Banker's Acceptance - Time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances. Southeast Missouri State University may invest in bankers' acceptances issued by domestic commercial banks possessing the highest rating issued by Moody's Investor Services, Inc. or Standard and Poor's Corporation.
6. Commercial Paper - Southeast Missouri State University may invest in commercial paper issued by domestic-corporations, which has received the highest rating issued by Moody's Investor Services, Inc. or Standard and Poor's Corporation. Eligible paper is further limited to issuing corporations that have total assets in excess of five hundred million dollars (\$500,000,000).

Security Selection –

The following list represents the entire range of United States Agency Securities that Southeast Missouri State University will consider and which shall be authorized for the investment of funds by Southeast Missouri State University. Additionally, the following definitions and guidelines should be used in purchasing the instruments:

1. U.S. Govt. Agency Coupon and Zero Coupon Securities - Bullet coupon bonds with no embedded options.
2. U.S. Govt. Agency Discount Notes - Purchased at a discount with maximum maturities of one (1) year.
3. U.S. Govt. Agency Callable Securities - Restricted to securities callable at par only with final maturities of five (5) years.
4. U.S. Govt. Agency Step-Up Securities - The coupon rate is fixed for an initial term. At coupon date, the coupon rate rises to a new, higher fixed term. Restricted to securities with final maturities of five (5) years.
5. U.S. Govt. Agency Floating Rate Securities - The coupon rate floats off one index restricted to coupons with no interim caps that reset at least quarterly.
6. U.S. Govt. Mortgage Backed Securities - Restricted to securities with final maturities of five (5) years.



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Investment Restrictions and Prohibited Transactions –

To provide for the safety and liquidity of Southeast Missouri State University's funds, the investment portfolio will be subject to the following restriction:

1. Borrowing for investment purposes ("Leverage") is prohibited.
2. Instruments known as Structured Notes (e.g. inverse floaters, leveraged floaters, and equity-linked securities) are not permitted. Investment in any instrument, which is commonly considered a "derivative" investment (e.g., options, futures, swaps, caps, floors, and collars), is prohibited.
3. Contracting to sell securities not yet acquired in order to purchase other securities for purposes of speculating on developments or trends in the market is prohibited.
4. No more than 5% of the total market value of the portfolio may be invested in bankers' acceptances issued by any one commercial bank and no more than 5% of the total market value of the portfolio may be invested in commercial paper of any one issuer.

Collateralization –

Collateralization will be required on two types of investments: certificates of deposit and repurchase agreements. In order to anticipate market changes and provide a level of security for all funds, the market value (including accrued interest) of the collateral should be at least 100%.

For certificates of deposit, the market value of collateral must be at least 100% or greater of the amount of certificates of deposits plus demand deposits with the depository, less the amount, if any, which is insured by the Federal Deposit Corporation, or the National Credit Unions Share Insurance Fund.

All securities, which serve as collateral against the deposits of a depository institution must be safe-kept at a non-affiliated custodial facility. Depository institutions pledging collateral against deposits must, in conjunction with the custodial agent, furnish the necessary custodial receipts within five business days from the settlement date.

Southeast Missouri State University shall have a depository contract and pledge agreement with each safekeeping bank that will comply with the Financial Institutions, Reform, Recovery, and Enforcement Act of 1989 (FIRREA). This will ensure that Southeast Missouri State University's security interest in collateral pledge to secure deposits is enforceable against the receiver of a failed financial institution.



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Repurchase Agreements –

The securities for which repurchase agreements will be transacted will be limited to Treasury and government agency securities that are eligible to be delivered via the Federal Reserve's Fed wire book entry system. Securities will be delivered to Southeast Missouri State University's designated Custodial Agent. Funds and securities will be transferred on a delivery vs. payment basis.

Investment Parameters -

Diversification - The investments shall be diversified to minimize the risk of loss resulting from over concentration of assets in specific maturity, specific issuer, or specific class of securities. Diversification strategies shall be established and periodically reviewed.

Maximum Maturities - To the extent possible, Southeast Missouri State University shall attempt to match its investments with anticipated cash flow requirements. Investments in bankers' acceptances and commercial paper shall mature and become payable not more than one hundred eighty days (180) from the date of purchases. All other investments shall mature and become payable not more than five (5) years from the date of purchase. Southeast Missouri State University shall adopt weighted average maturity limitations that should not exceed five (5) years and is consistent with the investment objectives.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as in bank deposits or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

Reporting Methods –

The Treasurer's office shall prepare an investment report annually, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last year. This management summary will be prepared in a manner that will allow Southeast Missouri State University to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the Vice President for Finance and Administration. The report will include the following:

1. Listing of individual securities held at the end of the reporting period.
2. Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration (in accordance with Government Accounting Standards Board (GASB) 31 requirements). (Note: This is only required annually.)



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3. Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.
4. Listing of investment by maturity date.
5. Percentage of the total portfolio, which each type of investment represents.

Performance Standards –

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks may be established against which portfolio performance shall be compared on a regular basis.

Commercial paper and bankers' acceptances must be reviewed monthly to determine if the rating level has change. The commercial paper and bankers' acceptances should be reviewed for possible sale if the securities are downgraded below the minimum acceptable rating levels.

Marking to Market –

The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least annually to the governing body of Southeast Missouri State University. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed.

Policy Considerations -

Exemption - Any investment currently held that does not meet the guidelines of this policy shall be exempt from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.