



# Frederick Community College Policy

Section 6.00 General Policies	Policy Number	6.25
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Investments	Procedure Number	None
	Board Approved	5/15/00
	Re-approved	4/20/05

A. Policy

1. It is the policy of Frederick Community College (herein referred to as "the College") to invest public funds:
  - a. In a manner designed to reasonably match the anticipated cash flow of the College so that sufficient funds are available to pay obligations upon proper presentation for payment;
  - b. So that a reasonable amount of cash or cash equivalents is available for unanticipated cash needs;
  - c. With due regard for minimizing risk while maximizing return;
  - d. Using competitive purchasing practices except when impractical;
  - e. In accordance with a written investment policy;
  - f. So that the securities and collateral may continue to be priced on a mark to market basis; and
  - g. To avoid the enhancement of the personal financial position of any employee who has responsibilities for such investments.
  
2. All College investments shall comply with all State and local statutes governing the investment of public funds, including State Finance and Procurement Article §6-222(d). The College shall invest in only those types of securities authorized by State Finance and Procurement Article §6-222(a) or Article 95, §22-22N, Annotated Code of Maryland. The borrowing of money for the sole purpose of investment is prohibited by this policy.

B. Scope. This investment policy applies to all financial assets of the College. These funds are accounted for in the College's Annual Financial Report and include:

1. Current Unrestricted Funds
2. Current Restricted Funds
3. Loan Funds
4. Plant Funds
5. Agency Funds

C. Prudence.

1. Investments shall be made with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims; not for speculation, but for investment, considering the probable safety of capital as well as the probable income to be derived.
2. The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

D. Objective. The primary objectives, in priority order, of the College's investment activities shall be:

1. Safety. Safety of principal is the foremost objective of the investment program. Investments of the College shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
2. Liquidity. The College's investment portfolio will remain sufficiently liquid to enable the College to meet all operating requirements which might be reasonably anticipated.
3. Return on Investments. The College's investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with the College's investment risk constraints and the cash flow characteristics of the portfolio.

E. Delegation of Authority.

1. Authority to manage the College's investment program is derived from the following:
  - a. Article 95, §22F, Annotated Code of Maryland, and
  - b. State Finance & Procurement Article, §6-222.
2. Management responsibility for the investment program is hereby delegated to the chief administrative officer, who shall establish written procedures for the operation of the investment program consistent with this investment policy. Procedures should include reference to: safekeeping, repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the chief administrative officer. The chief administrative officer shall be responsible

for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinates.

- F. Ethics and Conflicts of Interest. All employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees shall disclose to the College President any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the College, particularly with regard to the time of purchases and sales.
- G. Authorized Financial Dealers and Institutions.
1. The Vice President for Administration will maintain a list of financial institutions authorized to provide investment services.
  2. All financial institutions who desire to become qualified bidders for investment transactions must supply the chief administrative officer with audited financial statements.
  3. An annual review of the financial condition and registrations of qualified bidders will be conducted by the chief administrative officer.
  4. A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the College invests.
- H. Authorized and Suitable Investments.
1. The College is empowered by statute to deposit or invest in the following permitted Investments:
    - a. An obligation for which the United States has pledged its faith and credit. Article 95, §22; State Finance and Procurement Article, §6-222.
    - b. An obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress. Article 95, §22; State Finance and Procurement Article, §6-222.
    - c. A repurchase agreement collateralized in an amount not less than 102% of the principal amount by an obligation of the United States or its agencies or instrumentalities if the collateral is held by a custodian other than the seller designated by the buyer. Article 95, §22; State Finance and Procurement Article, §6-222.
    - d. Bankers' acceptances guaranteed by a financial institution with a short-term debt rating in the highest letter and numerical rating by at least one nationally recognized statistical rating organization as designated by either the SEC or the Treasurer. Article 95, §22; State Finance and Procurement Article, §6-222.
    - e. Commercial paper that has received the highest letter and numerical rating by at least one nationally recognized statistical rating organization as designated by the SEC up to 5% of total

investments. Article 95, §22; State Finance and Procurement Article, §6-222.

- f. Money market mutual funds registered under the Investment Company Act of 1940, which do not include "derivatives", operated in accordance with Rule 2A-7, and having the highest possible rating from at least one statistical rating organization designated by the SEC. Article 95, §22; State Finance and Procurement Article, §6-222.
- g. Local government investment pool administered by the State Treasurer. Article 95, §22; Article 95, §22G.
- h. Any other security that may be authorized by State Finance and Procurement Article, §6-222(c) or Article 95, §'22-22N, Annotated Code of Maryland.

2. Permitted Deposits. Interest-bearing time deposit or savings account in any bank in the State of Maryland or savings and loan association or building and loan association if the bank or association has:

- a. Deposited a like amount of bonds in escrow covering the deposits;
- b. Given as security for the deposits collateral as further delineated in paragraph I. of this policy, Collateralization.

or

I. Collateralization.

1. General Requirements:

- a. Required. College money on deposit with a financial institution shall be secured by:
  - i. Deposit insurance; or
  - ii. Collateral as required by this section.
- b. Form and amount of collateral.
  - i. The collateral for College money on deposit with a financial institution:
    - Must have, at all times, a market value that equals or exceeds the College money that is on deposit with the financial institution and is not covered by deposit insurance; and
    - Must be approved by the chief administrative officer.
  - ii. Subject to the requirements of this section, a financial institution may change its collateral from time to time.

2. Acceptable Collateral. Collateral that may be used shall be:

- a. An obligation of the United States or any of its agencies;
  - b. An obligation guaranteed by the United States or by any of its agencies;
  - c. An obligation insured by the United States;
  - d. An obligation of the State or any of its units or instrumentalities;
  - e. An obligation of a county of the State or any of its agencies;
  - f. An obligation of a municipal corporation in the State or any of its agencies;
  - g. An obligation of any other governmental authority in the State;
  - h. An obligation of the Inter-America Development Bank; or
  - i. An obligation of the World Bank. (Ann. Code 1957, Art. 95, §§21A, 23; 1985, ch. 11, §2; ch. 718.)
  - j. An irrevocable and absolute surety bond issued by an insurance company that is authorized to do business in this State, does not provide surety bonds for any financial institution in an amount that exceeds 10% of its policyholders' surplus and contingency reserve, net of reinsurance, and is rated in the highest category by at least two nationally recognized rating agencies, or
  - k. An obligation or security of, or other interest in, any open-end or closed-end management type investment company or investment trust registered under the Investment Company Act of 1940 if the portfolio thereof is limited to direct obligations of the United States government and repurchase agreements fully collateralized thereby and the investment company or trust or its custodian holds the collateral. Article 95, §22; State Finance and Procurement Article, §6-202.
- J. Safekeeping and Custody. All security transactions including collateral for repurchase agreements entered into by the College shall be conducted on a delivery versus payment basis. A custodian shall hold the collateral under this section for the benefit of the College. A financial institution may use as a custodian:
- 1. Any banking institution that is approved by the Bank Commissioner to conduct commercial banking business in the State;
  - 2. A federal reserve bank; or
  - 3. Any national banking association that is approved by the Comptroller of the Currency to conduct banking business in the State.
- K. Diversification. The College will diversify its investments by security type and institution. With the exception of U.S. Treasury securities, demand deposits, and authorized pools, no more than 50% of the College's remaining investment portfolio will be invested in a single security type or with a single financial institution.

- L. **Maximum Maturities.** To the extent possible, the College will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the College will not directly invest in securities maturing more than one year from the date of purchase. However, the College may collateralize its repurchase agreements using longer-dated investments not to exceed two years to maturity.
- M. **Internal Control.** The chief administrative officer shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.
- N. **Performance Standards.** The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.
  - 1. **Market Yield (Benchmark).** Consistent with the College's cash flow needs and risk constraints, the basis for determining whether market yields are being achieved shall be the three-month U.S. Treasury Bill averaged on an annual basis.
- O. **Reporting.** The chief administrative officer is charged with the responsibility of including a market report on investment activity and returns in the College's Financial Report. Reports shall be submitted to the State Treasurer's office as required under regulations adopted by the State Treasurer's office.
- P. **Investment Policy Adoption.** The College's investment policy shall be adopted by resolution of the College's Board of Trustees. The policy shall be reviewed annually by the Plant and Finance Committee of the Board of Trustees and any modifications made thereto must be approved by the Board of Trustees.