



POL-BFA5100.05

**Business and Financial Affairs
Short-Term Investment Policy for Western Washington University**

**Approved by:
Richard Van Den Hul, Vice President
Business and Financial Affairs**

October 24, 2012

Table of Contents

1.0	Introduction	1
2.0	Governing Authority	1
3.0	Scope.....	1
3.1	Unrestricted Funds	1
3.2	Internally Restricted Funds	1
3.3	Externally Restricted Funds	1
3.4	Pooling of Funds	2
4.0	Objectives	2
4.1	Safety	2
4.2	Liquidity	2
4.3	Return on Investment	2
5.0	Standards of Care	3
5.1	Delegation of Authority	3
5.2	Prudence.....	3
5.3	Ethics	3
6.0	Safekeeping, Custody and Controls	4
6.1	Third Party Safekeeping	4
6.2	Internal Controls.....	4
7.0	Authorized Financial Dealers	5
7.1	Broker/Dealers	5
7.2	Investment Advisers	5
7.3	Bank Institutions.....	5
7.4	Competitive Transactions	6
8.0	Authorized and Suitable Investments.....	6
8.1	Authorized Investments	6
8.2	Suitable Investments	6
8.3	Bank Collateralization.....	7
9.0	Investment Parameters	7
9.1	Diversification.....	7
9.2	Investment Maturity	8
9.3	Prohibited Investments	8
9.4	Strategy	9
10.0	Reporting Requirements.....	9
10.1	Reporting.....	9
10.2	Performance Standards.....	9
11.0	Investment Policy Adoption and Review	9
12.0	Glossary of Terms	9
	Appendix A – Participating Funds in Pooled Interest Distribution Categories.....	A-1

1.0 Introduction

The intent of the BFA Short-Term Investment Policy for Western Washington University (the University) is to define the parameters within which funds are to be managed. In methods, procedures and practices, the policy formalizes the framework for the investment activities that must be exercised to ensure effective and judicious fiscal and investment management of University funds. The guidelines are intended to be broad enough to allow the office of the Assistant Vice President for Business and Financial Affairs to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets.

2.0 Governing Authority

The investment program shall be operated in conformance with federal, state, and other legal requirements, including the Revised Code of Washington.

3.0 Scope

This Investment Policy applies to all financial assets of the University. These funds are accounted for in the University's Annual Financial Report and include:

3.1 Unrestricted Funds

Operating and Project Funds: To provide for operating and capital project expenditures and to meet daily liquidity need.

3.2 Internally Restricted Funds

Operating Reserve and Contingency Funds: To provide liquidity for unforeseen events and expenses. Under the University's financial policies, the University is to maintain an amount that approximates the forecasted next four months of operating expenses.

3.3 Externally Restricted Funds

Debt Service and Renewal and Replacement Funds: To satisfy bond covenant requirements.

Other Externally Restricted Funds: Funds which have an external restriction, whether by statute or otherwise, which governs the management of money held within the funds.

3.4 Pooling of Funds

Except where prohibited by statute, trust indenture, or other controlling authority, the University will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income, net of applicable investment expenses, will be distributed to all participating funds. Participating funds will receive an interest distribution (see Appendix A for list of participating funds). Any participating fund with a negative cash balance at the time of distribution will be charged the net interest rate calculated for the distribution period.

Each group of funds will be classified based on the objectives and requirements of the designated assets.

Liquidity – Tier 1	Investment Component – Tier 2
<ul style="list-style-type: none">Liquid Operating Cash Funds	<ul style="list-style-type: none">Ongoing Operating Funds
<ul style="list-style-type: none">Liquid Reserves	<ul style="list-style-type: none">Reserves

4.0 Objectives

All funds will be invested in a manner that is in conformance with federal, state and other legal requirements. In addition, the objectives, in order of priority, of the investment activities will be as follows:

4.1 Safety

Safety of principal is the primary objective of the University. Investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. To obtain this objective, funds will be diversified, utilizing highly rated securities, by investing among a variety of securities and financial institutions offering independent returns.

4.2 Liquidity

The investment portfolio will remain liquid to enable the University to meet all cash requirements that might reasonably be anticipated. Therefore, the investments shall be managed to maintain a balance to meet daily obligations.

4.3 Return on Investment

The investment portfolio will be structured with the objective of attaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk parameters and the cash flow characteristics of the portfolio.

5.0 Standards of Care

5.1 Delegation of Authority

Governing Body: The ultimate responsibility and authority for the investment of University funds resides with the President of the University in accordance with Section 8.9 of the University's Board of Trustees Rules of Operation.

Authority: In accordance with Sections 1.3 and 8.9 of the University's Board of Trustees Rules of Operation, the President may delegate to other administrative officers the authority to develop and administer the policy, establish procedures, place investments, maintain accounting records, and prepare investment reports.

Investment Adviser: The University may engage the services of an external investment adviser to assist with the management of the University's investment portfolio in a manner consistent with the University's objectives. Such adviser(s) may be granted the authority to purchase and sell investments in accordance with this investment policy. Such adviser(s) must be registered under the Investment Advisers Act of 1940.

5.2 Prudence

The standard of prudence to be used by the President and any designees in the context of managing the overall portfolio is the prudent person rule, which states:

Investments will 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 in regard to speculation but in regard to the permanent disposition of the funds considering the probable income as well as the probable safety of the capital.

5.3 Ethics

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution and management of the investment program, or may impair their ability to make impartial decisions. Such employees shall disclose any material financial interests in financial institutions that conduct business with the University, and will further disclose any personal financial or investment positions that could be related to the performance of the University portfolio, particularly with regard to the timing of purchases and sales.

6.0 Safekeeping, Custody and Controls

6.1 Third Party Safekeeping

The laws of the state and prudent treasury management require all purchased securities be bought on a delivery versus payment (DVP) basis and be held in safekeeping by the University, an independent third-party financial institution, or the University's designated depository.

The Assistant Vice President for Business and Financial Affairs shall designate all safekeeping arrangements and an agreement of the terms executed in writing. The third-party custodian shall be required to provide a statement to the University listing at a minimum each specific security, book yield, description, maturity date, market value, par value, purchase date, and CUSIP number.

All securities pledged to the University for certificates of deposit or demand deposits shall be held in a segregated account at the issuing financial institution.

6.2 Internal Control

The Assistant Vice President for Business and Financial Affairs is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the University are protected from loss, theft or misuse. Specifics for the internal controls shall be documented in a procedure that shall be reviewed and updated periodically by the Assistant Vice President, the Director of Financial Services, and the Manager of Treasury Services.

The internal control structure shall be designed to provide reasonable assurance these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management.

The internal controls shall address the following points at a minimum:

- Separation of transaction authority from accounting and recordkeeping;
- Custodial safekeeping;
- Avoidance of physical delivery securities;
- Clear delegation of authority to subordinate staff members;
- Written confirmation of transactions for investments and wire transfers;
- Dual authorizations of wire transfers;
- Staff training; and
- Review, maintenance and monitoring of security procedures both manual and automated.

7.0 Authorized Financial Dealers

7.1 Broker/Dealers

The Manager of Treasury Services shall maintain a list of all authorized financial institutions and broker/dealers that are approved to transact with the University for investment purposes. Any firm is eligible to make an application to the University and upon due consideration and approval, will be added to the list. Additions and deletions to the list will be made at the University's discretion.

Authorized broker/dealers and financial institutions will be limited to those that meet one or more of the following:

- Financial institutions approved by the Washington PDPC (RCW 39.58) and meet all regulatory capital requirements;
- Primary dealers recognized by the Federal Reserve Bank; and,
- Non-primary dealers qualified under SEC rule 15C3-1 and a certified member of FINRA.

7.2 Investment Advisers

The investment adviser firm must be registered with the U.S. Securities and Exchange Commission (SEC) and licensed by Washington State. All investment adviser firm representatives conducting investment transactions on behalf of the University must be registered representatives with the Financial Industry Regulatory Authority (FINRA).

The advisory contract must include authority to transact business with the adviser's approved broker/dealer list. This approved list will suffice for all broker/dealer review processes. The adviser must provide non-discretionary management services, providing for prior authorization from the University on transactions.

7.3 Bank Institutions

The University will only place funds exceeding the current FDIC insurance limits, with banks who are currently participating in the Washington State Public Deposit Protection Commission (PDPC) program. Compliance/listing with the PDPC will be verified by the President or designated investment officer utilizing the Washington State Treasurer's website (<http://www.tre.wa.gov/government/pdpc.shtml>).

7.4 Competitive Transactions

Each transaction must be executed on a competitive basis and documented. Competitive prices should be provided from at least three separate brokers or through a nationally online line trading platform. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price. If an adviser handles all trade executions then they must provide the competitive documentation as requested.

8.0 Authorized and Suitable Investments

8.1 Authorized Investments

All investments of the University are limited by RCW, principally RCW 39.59.020.

Among the authorized investments are:

- U.S. Treasury and agency securities (i.e., obligations of any government sponsored enterprise eligible for collateral purposes at the Federal Reserve);
- Repurchase and for collateral otherwise authorized for investment;
- Municipal bonds of Washington State with one of the three highest ratings of a national rating agency at the time of investment;
- Certificates of deposit with qualified public depositories within statutory limits as promulgated by the Public Deposit Protection Commission (PDPC) at the time of investment;
- Foreign and domestic bankers acceptances; and,
- Washington State Local Government Investment Pool and Bank Deposits.

The State of Washington Local Government Investment Pool (LGIP) is the only government-sponsored pool approved for investment of funds.

8.2 Suitable Investments

The University is empowered to invest in the following types of securities:

Type	Definition
U.S. Treasury Obligation	Direct obligations of the United States Treasury
GSE – Agency Obligations	Government Sponsored Enterprises (GSEs) – Federal Instrumentality Securities include, but are not limited to: Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Banks (FHLB), and the Federal Farm Credit Bureau (FFCB)

Type	Definition
Commercial Paper	Unsecured debt obligations of corporate issuers that are rated at least A1+ by Moody's and P1 by Standard and Poor's. Commercial paper holdings may not have maturities exceeding 180 days. Any commercial paper purchased with a maturity longer than 100 days must also have an underlying long-term credit rating at the time of purchase, and must have a minimum rating of AA- by S&P and Aa3 by Moody's per RCW 39.59.020.
Bankers Acceptance	Bankers Acceptances generally are created based on a letter of credit issued in a foreign trade transaction. They are used to finance the shipment of some specific goods within the United States. They are Issued by qualified financial institutions eligible for discount by the Federal Reserve System and by a qualified institution whose long-term letter of credit rating is rated in the highest category, AAA.
Local Government Investment Pool (LGIP)	Investment Pool managed by the Washington State Treasurer's Office
Time Deposits and Savings Accounts Issued by Banks	Deposits in PDPC approved banks
Certificates of Deposit	Non-negotiable Certificates of Deposit of financial institutions which are qualified public depositories as defined by RCW 39.58.010(2) and in accordance with the restrictions therein
Municipal Debt Obligations	Bonds of Washington State and any local government in Washington State, which bonds have at the time of investment, have one of the following ratings: S&P AA-, Moody's Aa3 or Fitch AA-

8.3 Bank Collateralization

In accordance with RCW 39.58, the PDPC makes and enforces regulations and administers a program to ensure public funds deposited in banks and thrifts are protected if a financial institution becomes insolvent. The PDPC approves which banks and thrifts can hold State and local government deposits, and monitors collateral pledged to secure uninsured public deposits.

9.0 Investment Parameters

9.1 Diversification

The University will diversify the investment of all funds in accordance with the following table:

Table of Constraints on the Portfolio		
Issuer Type	% of Total Portfolio	Per Issuer Constraints
U.S. Treasury Obligation	100%	100%
GSE-Agency Obligations	100%	35%
Commercial Paper	15%	5%
Bankers' Acceptance	20%	5%
Local Government Investment Pool	100%	
Certificate of Deposits	20%	10%
Municipal Debt Obligations	15%	5%

9.2 Investment Maturity

9.2.1 Liquidity Funds – Tier 1

Liquidity funds will be defined as those funds that are in Washington State's LGIP, bank deposits, and bank certificates of deposits or money market instruments and will be available for immediate use.

9.2.2 Investment Funds – Tier 2

Investment funds will be defined as the funds in excess of liquidity requirements and invested in authorized investments. The investments in this portion of the portfolio will have maturities out to 10 years and will be only invested in higher quality and liquid (marketable) securities.

Total Portfolio Maturity Constraints	
Maturity Constraints	Minimum % of Total Portfolio
Under 30 Days	10%
Under 1 Year	25%
Under 10 Years	100%
Maximum Weighted Average Maturity	3 years

9.3 Prohibited Investments

9.3.1 Securities Lending/Reverse Repurchase Program

The University shall not lend securities nor directly participate in a securities lending or reverse repurchase program.

9.3.2 Mortgage-backed Securities

The University shall not invest in mortgage-backed securities.

9.4 Strategy

The intent of the portfolio strategy is to provide market rates of return, while protecting principal. Therefore, securities may be sold when:

- A security with declining credit exposes the funds to a loss of principal;
- A security exchange would improve the quality, yield or target duration in the portfolio; or,
- Liquidity needs of the portfolio require that the security be sold.

10.0 Reporting Requirements

10.1 Reporting

The Treasury Manager will provide the Director of Financial Services, the Assistant Vice President for Business and Financial Affairs and the Vice President for Business and Financial Affairs a comprehensive investment report quarterly. Reports also will be available upon request. Reports will contain the following information at a minimum:

- Book Yield
- Holdings Report including mark to market and security description
- Transactions Report
- Weighted Average Maturity or Duration
- Performance of Tier 2 funds

10.2 Performance Standards

The investment portfolio will be designed to obtain a market average rate of return during budgetary and economic cycles, taking into account investment risk constraints and cash flow needs. A market benchmark will be established to compare risk and return of the investment portfolio.

The earnings benchmark will be the LGIP and an appropriate yield comparison.

11.0 Investment Policy Adoption and Review

The BFA Short-Term Investment Policy for WWU shall be adopted by the Vice President for Business and Financial Affairs in accordance with delegated authority from the University's President. The Assistant Vice President for Business and Financial Affairs will ensure annual review of the policy.

12.0 Glossary of Terms

Agency Securities: Government sponsored enterprises of the US Government.

Bankers Acceptances: A time draft accepted (endorsed) by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer. BAs are short-term non-interest-bearing notes sold at a discount and redeemed by the accepting bank at maturity for full face value.

Bond: An interest-bearing security issued by a corporation, government, governmental agency, or other body. It is a form of debt with an interest rate, maturity, and face value, and specific assets sometimes secure it. Most bonds have a maturity of greater than one year and generally pay interest semiannually. See Debenture.

Broker: An intermediary who brings buyers and sellers together and handles their orders, generally charging a commission for this service. In contrast to a principal or a dealer, the broker does not own or take a position in securities.

Collateral: Securities or other property that a borrower pledges as security for the repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

Commercial Paper: Short-term, unsecured, negotiable promissory notes issued by corporations.

Current Maturity: The amount of time left until an obligation matures. For example, a one-year bill issued nine months ago has a current maturity of three months.

CUSIP: A CUSIP number identifies securities. CUSIP stands for Committee on Uniform Security Identification Procedures, which was established under the auspices of the American Bankers Association to develop a uniform method of identifying municipal, U.S. government, and corporate securities.

Dealer: An individual or firm that ordinarily acts as a principal in security transactions. Typically, dealers buy for their own account and sell to a customer from their inventory. A dealer's profit is determined by the difference between the price paid and the price received.

Debenture: Unsecured debt backed only by the integrity of the borrower, not by collateral, and documented by an agreement called an 'Indenture'.

Delivery: Either of two methods of delivering securities: delivery vs. payment and delivery vs. receipt (also called "free"). Delivery vs. payment is delivery of securities with an exchange of money for the securities.

Duration: A measure used to calculate the price sensitivity of a bond or portfolio of bonds to changes in interest rates. This equals the sum of the present value of future cash flows.

Full Faith and Credit: Indicator that the unconditional guarantee of the U.S. government backs the repayment of a debt.

General Obligation Bonds (GOs): Bonds secured by the pledge of the municipal issuer's full faith and credit, which usually includes unlimited taxing power.

Government Bonds: Securities issued by the federal government; they are obligations of the U.S. Treasury; also known as "governments."

Interest: Compensation paid or to be paid for the use of money. The rate of interest is generally expressed as an annual percentage.

Investment Funds: Core funds are defined as operating fund balance, which exceeds the University's daily liquidity needs. Core funds are invested out the yield curve to diversify maturity structure in the overall portfolio. Having longer term investments in a portfolio will stabilize the overall portfolio interest earnings over interest rate cycles.

Investment Securities: Securities purchased for an investment portfolio, as opposed to those purchased for resale to customers.

Liquidity: The ease at which a security can be bought or sold (converted to cash) in the market. A large number of buyers and sellers and a high volume of trading activity are important components of liquidity.

Liquidity Component: A percentage of the total portfolio that is dedicated to providing liquidity needs for the District.

Mark to Market: Adjustment of an account or portfolio to reflect actual market price rather than book price, purchase price or some other valuation.

Municipals: Securities, usually bonds, issued by a state, its agencies, by cities or other municipal entities. The interest on "munis" is usually exempt from federal income taxes and state and local income taxes in the state of issuance. Municipal securities may or may not be backed by the issuing agency's taxation powers.

Par Value: The value of a security expressed as a specific dollar amount marked on the face of the security or the amount of money due at maturity. Par value should not be confused with market value.

Participating Funds: Funds which receive an interest distribution calculated on the fund cash balance for the distribution period. These funds include Auxiliary, Endowment, Institutional, Loan, Foundation and Alumni funds.

Portfolio: A collection of securities held by an individual or institution.

Prudent Person Rule: A long-standing common-law rule that requires a trustee who is investing for another to behave in the same way as a prudent individual of reasonable discretion and intelligence who is seeking a reasonable income and preservation of capital.

Quotation or Quote: A bid to buy or the lowest offer to sell a security in any market at a particular time.

Repurchase Agreement (Repo): Range in maturity from overnight to fixed time to open end. Repos involve a simultaneous sale of securities by a bank or government securities dealer to an investor with an agreement for the bank or government securities dealer to repurchase the securities at a fixed date at a specified rate of interest.

Temporary Liquidity Guarantee Program (TLGP): A program created by the FDIC in 2008, to strengthen the confidence and encourage liquidity in the banking system by guaranteeing newly issued senior unsecured debt of banks, thrifts and certain holding companies, and by providing full FDIC coverage of no-interest bearing deposit transaction accounts, regardless of dollar amount.

Treasury Bill (T-Bill): An obligation of the U.S. government with a maturity of one year or less. T-Bills bear no interest but are sold at a discount.

Treasury Bonds and Notes: Obligations of the U.S. government that bear interest. Notes have maturities of one to ten years; bonds have longer maturities.

Weighted Average Maturity (WAM): The weighted average of the time until all investment instruments in the portfolio mature.

Yield: The annual rate of return on an investment, expressed as a percentage of the investment. Income yield is obtained by dividing the current dollar income by the current market price for the security. Net yield, or yield to maturity, is the current income yield minus any premium above par or plus any discount from par in the purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

Yield to Maturity: The average annual yield on a security, assuming it is held to maturity; equals to the rate at which all principal and interest payments would be discounted to produce a present value equal to the purchase price of the bond.

**WESTERN WASHINGTON UNIVERSITY SHORT-TERM INVESTMENT POLICY
APPENDIX A**

Participating Funds in Pooled Interest Distribution Categories

	Category Description	Chart	Fund Cash Balances (month-end) Used to Allocate Pooled Interest Income	Funding String to Record Interest Income				
				Fast Index	Fund	Org	Prog	Act
10	State Appropriation/Grant Funds	1	All 10XXX funds except 10900, 15010, 50XXX-59XXX (EXCEPT endowment spending funds below), 41007 - 456XX, 80XXX - 99XXX		24801	5210	082ZZZ	
11	Tuition Operating Funds	1	Fund 10900		10900	5230	082FIS	
20	Unrestricted Dedicated/Internal Service Funds	1	Funds 20XXX - 30XXX (Except fund 23026), 72XXX-731XX		24801	5210	082ZZZ	
25	Housing & Dining	1	Funds 44003-44XXX (Except 44011 and 44012), 736XX - 740XX, 744XX, 780XX	FXBSOP	44010	8050	850HSG	
26	Housing & Dining - R & R	1	77011		77011	8080	850HSG	
27	Housing & Dining - Capital Plan	1	Fund 77013		77013	8080	850HSG	
28	Housing & Dining - BTA Bond	1	Funds 73546 & 73720		73546	8050	850HSG	
35	Rec Center Operations	1	Funds 45401 & 45402		45401	8720	850OCR	RERCAD
36	Rec Center R & R	1	Fund 77015	FXRMNR	77015	8720	850OCR	
40	Associated Students	1	Funds 41001 - 41006	FXXINT	41002	8699	850AUX	
45	A.S. Bookstore	1	Fund 42000	FXBOOK	42000	8800	850BKS	
50	Viking Union	1	Funds 44011 & 44012		44012	8520	850HSG	
52	VU Capital Plan	1	Fund 77014		77014	8080	850HSG	
55	Parking	1	Funds 43000 - 43007		43007	5740	850GAR	
60	Foundation	2	Foundation		110002	6330	MGMGEN	
65	Alumni	3	Alumni		11	6320	ALMMNG	
70	Endowment Spending Funds	1	Endowment Spending Funds (see below)	Interest allocated to each fund on a pro-rata basis - see below				
72	Endowment - Kaiser (Saturna)	1	Fund 65018		65018	4010	011BUS	
73	Endowment - Cross Cultural	1	Fund 23026		23026	3500	011PSY	
80	Perkins Loans	1	Fund 60111	FLPERK	66011	7600	850LOG	
81	Institutional Loans	1	Funds 6012X - 604XX	XLWISO	60310	7600	850LOG	
82	State Loans	1	Fund 60511	XLWGSO	60511	7600	850LOG	