

5.4.5 Kentucky Community and Technical College System Treasury Management Policies

5.4.5.1 Cash Management Program

5.4.5.1.1 Authority and Responsibility

The ultimate responsibility and authority for the financial management of the cash management program rests with the KCTCS Board of Regents. The KCTCS Board of Regents at its April 30, 1999 meeting delegated the financial management responsibility of the cash management program and other assets of KCTCS to the KCTCS President (KCTCS Board of Regents Resolution authorizing KCTCS Officers to perform necessary financial transactions). These delegated responsibilities include the establishment of cash management policies and guidelines, establishing and maintaining banking and other financial relationships, and to sign checks, drafts, orders and other necessary documents for the payment of money upon the active accounts on behalf of the KCTCS. The KCTCS Board further designated the KCTCS President, KCTCS Vice President primarily responsible for Finance, and the Assistant Treasurer as the appropriate officers of the KCTCS to perform these financial transactions.

The Assistant Treasurer will be responsible for the daily management and oversight of the Cash Management Program under the supervision of the KCTCS President and KCTCS Vice President primarily responsible for Finance in accordance with the guidelines established in this document. All employees of the KCTCS assigned daily cash management duties, such as depositing funds and requesting checks on the active accounts of KCTCS, will perform these duties in accordance with the guidelines established in the KCTCS Business Procedures Manual.

5.4.5.1.2 Collection of Funds

- Receipts collected by the KCTCS colleges will be deposited daily into the college's local depository bank account.
- Receipts received by the System Office will be deposited daily to the KCTCS Central Depository Bank.
- Receipts are processed in accordance with the guidelines established in the KCTCS Business Procedures Manual.

5.4.5.1.3 Transfer of Receipts to Appropriate Accounts

- Receipts deposited by the colleges in their local depository bank account will be transferred to the Central Depository Bank no less than weekly by means of electronic funds transfer (ACH).
- Kentucky Revised Statute 41.070 requires that all receipts of state money, which we classify as current unrestricted funds, be deposited in appropriate accounts with the

State Treasury within thirty days from the date of receipt. These funds will be accumulated in the Central Depository and transferred to the State Treasury in accordance with Statute.

- All private funds, which include private gifts and grants and contracts, will be accumulated in the Central Depository pending their expenditure.

5.4.5.1.4 Disbursement of Funds

- All expenditures of KCTCS funds will be processed by the System Office through the Central Depository.
- Separate controlled disbursement accounts have been established with the Central Depository for payroll and vendor expenditures.
- Expenditures of private funds will be funded by deposits accumulated in the Central Depository. Deposits accumulated in State Treasury accounts will fund expenditures of current unrestricted funds. Funds will be received daily from the State Treasury via wire transfer to fund all KCTCS current unrestricted fund expenditures as incurred.
- Expenditures are processed in accordance with the guidelines established in the KCTCS Business Procedures Manual.

5.4.5.1.5 Central Depository Bank Account Structure

The Central Depository Bank is the primary cash management vehicle of the KCTCS. The account structure with the Central Depository is designed to maximize cash availability for investment purposes, provide for the safety of deposited funds, and provide an efficient and effective system for managing daily cash flow activities.

The account structure consists of a central depository concentration account and two zero-balance controlled disbursement accounts.

Central Depository Concentration Account

All available balances are maintained in the concentration account for investment purposes. On an operational basis, all daily deposits, wire transfers, and ACH transactions will be made to this account.

Controlled Disbursement Accounts

All disbursements by check will flow through the controlled disbursement accounts, one established for payroll and one for vendor payments. The controlled disbursement accounts will be reimbursed for all checks presented for payment that day with an automatic transfer from the concentration account, resulting in the accounts having a zero balance at the end of the day.

Additional Accounts

Additional depository and disbursement accounts may be established with the Central Depository as conditions warrant.

5.4.5.1.6 Investment of Central Depository Bank Balances

All available balances remaining in the Central Depository concentration account at the end of the business day will be automatically swept and invested in an overnight repurchase agreement with the Central Depository Bank. The repurchase agreement will be fully secured by U.S. Treasury and/or federal agency securities.

Central Depository Bank balances may be invested in other appropriate investment vehicles in accordance with the KCTCS Current Operating Funds Statement of Investment Policies, Objectives and Guidelines.

5.4.5.1.7 Cash Management Services Provided by the Central Depository

As part of the KCTCS contract for transactional banking services with the Central Depository, the KCTCS will be provided:

- PC based treasury management software linking KCTCS management directly with the Central Depository to provide:
- Daily balance, transaction, and check presentment reporting for all accounts
- Initiation of wire and ACH transactions
- Electronic stop payment requests
- Direct deposit processing
- Images of all paid checks
- Account reconciliation and positive pay services

5.4.5.2 Current Operating Funds

5.4.5.2.1 Overview

The current operating funds of the Kentucky Community and Technical College System (KCTCS) consist of current unrestricted and current restricted funds. These funds are immediately available for expenditure in support of current operations and typically have short-term investment time horizons.

Current unrestricted funds are required to be held on deposit with the Commonwealth of Kentucky State Treasury in accordance with KRS 41.070. KCTCS unrestricted funds eligible to receive investment earnings are invested in the Commonwealth of Kentucky Intermediate-term Investment Pool (Pool) per the direction of the State Investment Commission. Day-to-day investment management responsibilities of the Pool have been

delegated by the State Investment Commission to the Office of Financial Management and Economic Analysis (OFMEA).

Restricted current funds are held on deposit with the KCTCS Central Depository Bank. These funds are generally expended in the near term but in some cases may not be required for expenditure until some future date. An example of funds not required currently for expenditure would be restricted gifts whose charitable purpose supports future expenditure needs, such as private funding for building projects pending approval of the State Legislature.

All funds held on deposit with the KCTCS Central Depository Bank will initially be invested in overnight repurchase agreements of U. S. Treasury and Federal Agency securities with the Central Depository Bank. Funds identified as not required for expenditure in the near term may be invested in one or more categories of permissible investments as outlined in this policy.

5.4.5.2.2 Authority and Responsibility

The ultimate authority and responsibility for the financial management of the current operating funds rests with the KCTCS Board of Regents. The KCTCS Board of Regents at its April 30, 1999 meeting delegated the financial management responsibilities of the current operating funds and other assets of KCTCS to the KCTCS President. These delegated responsibilities include the establishment of investment objectives, selecting permissible investments, selection of investment management and support services, and review of investment performance and policy decisions.

The KCTCS President has appointed an Investment Committee consisting of the KCTCS Vice President for Finance, Vice President for Advancement, and the Assistant Treasurer of KCTCS. The Investment Committee will advise the KCTCS President on all current operating funds investment issues. The KCTCS Vice President for Finance and the Assistant Treasurer are responsible for the day-to-day oversight and management of the KCTCS Current Operating Funds investments within these policies and guidelines and under the supervision of the KCTCS President.

5.4.5.2.3 Investment Objective

The investment objective of the current operating funds investment program is to maximize returns consistent with safety of principal, liquidity, and the period of investment. Due to the short-term investment time horizon of these funds, safety of principal and liquidity are considered the primary factors in investment decisions.

5.4.5.2.4 Permissible Investments

Permissible investments of current operating funds are restricted to:

1. The Commonwealth of Kentucky Intermediate-term Investment Pool
2. Direct obligations of the U.S. Treasury

3. Securities issued by federal agencies
4. Repurchase agreements of U.S. Treasury and federal agency securities
5. Investment Advisor funds meeting the above criteria
6. CommonFund Intermediate Term Fund

Investments in direct obligations of the U. S. Treasury, federal agency, and repurchase agreement securities will generally be limited to maturities of up to 24 months at the time of purchase. Investments in the Commonwealth of Kentucky Intermediate-term Investment Pool will be selected by OFMEA with permitted investments and maturities as set forth in KRS 42.500 and as further limited by 200 KAR Chapter 14. Investments in Investment Advisor funds will be in accordance with the current operating guidelines for each fund as established. Investments in the CommonFund Intermediate Term Fund will be selected by the Commonfund in accordance with the current operating guidelines of the fund as established by the CommonFund.

5.4.5.2.5 Investment Performance Objectives

The investment performance objectives for current operating funds under this policy are as follows:

- 1) For short term investments such as overnight repurchase agreements, the investment performance objective is to achieve an annual return in excess of the average 90-day U. S. Treasury bill return.
- 2) For all other permissible investments, the investment performance objective is to achieve an annual return in excess of the Merrill Lynch 1-3 Year Treasury Index.

5.4.5.2.6 Current Operating Funds Investment Consultant

KCTCS may require periodic consulting services. These services can include review of investment performance results with comparisons to appropriate benchmarks, assistance with development of policies and guidelines, and periodic review of capital markets and the economy.

An independent Performance Evaluation service may be utilized to ensure that all investment funds engaged by the KCTCS are competitive in the market and their performance meets the needs and expectations of the KCTCS.

5.4.5.3 Endowment Funds

The Kentucky Community and Technical College System (KCTCS) Endowment is an aggregation of gifts provided by donors with the requirement they be held and invested in perpetuity to generate earnings now and in future years to support the donor's intended

purpose. The endowment provides stability since the principal cannot be spent, and earnings are generated year after year. An endowed gift keeps giving over time.

The KCTCS has a fiduciary responsibility to manage the endowment prudently and to preserve the purchasing power of the fund in order to provide equitable support to present and future generations. There is a legal and moral obligation to donors who have intended that their gifts provide support in perpetuity.

Endowment funds are managed in accordance with The Uniform Management of Institutional Funds Act (KRS 273.520 to 273.590), that specifically requires trustees to consider both the long-term and short-term needs of the system. Prudent management of the endowment requires due diligence in seeking to fully maximize returns without exposing the assets to undue risk. In recognition of its fiduciary responsibility, the KCTCS has adopted the following endowment management policies, objectives and guidelines. These policies and guidelines may be amended periodically based on current operating, market and other conditions affecting KCTCS.

5.4.5.3.1 Authority and Responsibility

The ultimate authority and responsibility for the financial management of the Endowment rests with the KCTCS Board of Regents. The KCTCS Board of Regents at its April 30, 1999 meeting delegated the financial management responsibilities of the endowment and other assets of KCTCS to the KCTCS President. These delegated responsibilities include the establishment of endowment financial and investment objectives, spending policies, asset allocation policies and strategies, selection of investment management and support services, and review of investment performance and policy decisions.

The KCTCS President has appointed an Investment Committee consisting of the KCTCS Vice President for Finance, Vice President for Institutional Advancement, and the Assistant Treasurer of KCTCS. The Investment Committee will advise the KCTCS President on all endowment investment policy issues, to include asset allocation, spending policy, and investment management. The KCTCS Vice President for Finance and the Assistant Treasurer are responsible for the day-to-day oversight and management of the KCTCS Endowment within these policies and guidelines and under the supervision of the KCTCS President.

5.4.5.3.2 Statement of Financial and Investment Objectives

The financial and investment objectives for the Endowment are intended to accomplish the primary goal of preserving or increasing the purchasing power of principal and income by maximizing real total return (adjusted for inflation), subject to risk constraints, and to achieve financial equilibrium by balancing annual spending and real total return.

The financial and investment objectives for the endowment are:

- To preserve the purchasing power of the endowment assets and the related revenue stream over time to evenly allocate support between current and future beneficiaries.
- To establish a spending policy of 5.50% of average market value over the past 36 months, or increase spending by 3.00% over the previous fiscal year, whichever is greater.
- To earn an average annual real return (inflation adjusted) of at least 5.50% per year.
- To establish a long-range asset allocation of 45 – 75% in equities, and 20 – 45% fixed income, and 0 – 20% in alternative investments with a target asset allocation of 65% equities, 25% fixed income, and 10% alternative investments which should support a real spending rate of 5.50% and at the same time allow the endowment value to grow.
- To engage professional investment management across multiple asset classes to gain specialization and diversification of investment philosophies and styles.

5.4.5.3.3 Long-Term Asset Allocation Policy

Allocating funds among asset classes (stocks, bonds, etc.) is the most important policy decision for achieving the long-term financial and investment objectives. Endowments have different purposes, different investment strategies and different time horizons compared to other types of invested assets. Investment decisions should achieve the objective of maximum total return over the long-term, consistent with minimizing risk and meeting liquidity needs. Investments will be diversified within equity, fixed income, and alternative asset securities so as to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class.

The long-term asset allocation range will be 45 – 75% in equity securities, 20 – 45% in fixed income securities, and 0 – 20% in alternative investments. The target asset allocation is established at 65% equities, 25% fixed income, and 10% alternative investments. The long-term and target asset allocations may be adjusted from time to time as market conditions warrant. Equity investments, as the dominant asset class, are intended to provide long-term capital appreciation and a growing stream of income. Fixed Income investments are intended to provide current income, serve as a hedge against deflation, and to reduce overall volatility of investment returns. Alternative investments are intended to provide long-term capital appreciation and reduce volatility of investment returns.

5.4.5.3.4 Investment Manager Structure

Professional investment management will be engaged for the investment and reinvestment of endowment assets.

A complementary equity investment management structure, with multiple managers (funds) of contrasting philosophies and styles, a single fixed income manager (fund), and a mix of alternative investments deemed appropriate by the Investment Committee will be utilized. The use of a complementary structure for equity investments is desirable because of the cycles in market performance. The market tends to reward contrasting manager philosophies and styles (value vs. growth, large-cap vs. small-cap, international vs. domestic, etc.) at different times, with the result that better performing managers and funds are often more volatile than the market. By utilizing multiple managers and funds with different philosophies and styles, the Endowment should be able to capture the benefits of excess returns with less volatility (i.e., some managers and funds will outperform the market when others underperform).

Alternative investments may include investments in hedge funds, absolute return funds, emerging market funds, commodity strategies, real estate and publicly traded real estate investment trusts (REITs). No purchase of alternative investments is permitted without the express prior approval of the KCTCS Investment Committee.

5.4.5.3.5 Endowment Spending Policy

The Endowment spending policy establishes the annual payout of investment earnings for expenditure in support of the donor's intended purpose. The spending policy seeks to establish an equilibrium between the need for current earnings for expenditure and the need to grow earnings over time to offset the effects of inflation.

The Endowment spending policy is determined in unison with asset allocation policies in order to balance expected real return (inflation adjusted) on investments with annual distributions of investment earnings. The KCTCS has established an annual spending policy of 5.50% of the most recent 36-month average market value of the endowment, or an increase of 3.00% over the prior fiscal year, whichever is greater. To support the Endowment's spending policy, a target asset allocation policy of 65% equity, 25% fixed income, and 10% alternative investments has been established. Historical market results indicate that this allocation of assets produce an average annual real return of 5.50% or greater. Distributions of earnings from the Endowment to support expenditures are expected to be equal to or less than actual real returns, therefore achieving the financial objective of preserving the value of the endowment assets and related revenue stream over time. Expenditures are supported first from current income (interest and dividends) and, as required, from realized gains.

The KCTCS Investment Committee will review the Endowment spending policy annually to ensure that an appropriate balance between spending distributions and real return on investments is being maintained. Recommendations for change in this policy will be submitted for review and approval by the KCTCS President prior to December 31 of each year in order to allow sufficient time to adjust income distribution estimates for the upcoming fiscal year.

5.4.5.3.6 Investment Performance Objectives

The annual performance objective of the Endowment is to rank in the top half of all endowment funds as published in the National Association of College and University Business Officers (NACUBO) Endowment Study over rolling five-year periods. The performance objective of each individual portfolio is to achieve an average annual rate of total return over time, net of fees, at least equal to the rate of return of an appropriate market index.

Investment performance data will be provided by KCTCS's investment advisors or consultant through monthly, quarterly, and year-to-date reports. Reports shall include the total return for each fund with comparison to their appropriate benchmark (as selected by the Investment Committee).

5.4.5.3.7 Endowment Master Custodian

The master custodian for the KCTCS Endowment investments is responsible for:

- Establishment and maintenance of direct account relationships.
- Normal custodial functions, including security safekeeping, collections of income, settlement of trades, collection of proceeds of maturing securities, distribution of income, and daily investment of cash.
- Accounting practices as specified by the KCTCS Office of Finance.
- Account statements and reports.
- Global custody services.
- Rate of return calculations.

5.4.5.3.8 Endowment Investment Consultant

KCTCS may require periodic consulting services. These services can include review of investment performance results with comparisons to appropriate benchmarks, asset allocation analysis and recommendations, assistance with development of policies and guidelines, and periodic review of capital markets and the economy.

An independent Performance Evaluation service may be utilized to ensure that all investment funds engaged by the KCTCS are competitive in the market and their performance meets the needs and expectations of the KCTCS.

5.4.5.3.9 Restricted Investments

Certain funds are received by the KCTCS through donations wherein the donor has placed restrictions on the form of investment to which these amounts may be applied, whether directly by donating specific investments or indirectly by specifying the purchase of a particular investment asset class. Such funds will be invested in accordance with the donor's requirement to the extent such requirement is a condition of the gift, and will be segregated from the total pool of available funds subject to the present investment guidelines with respect to asset allocation.

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Date Approved by President, KCTCS	Date(s) of Last Review	Date(s) of Last Revision <i>(Include all dates in chronological order)</i>	
<u>(SIGNED)</u>	<u>6-26-08</u>	<u>(SIGNED)</u>	<u>6-26-08</u>
Recommended by	Date	President, KCTCS	Date