

IV:05:10 DEPOSIT AND INVESTMENT OF FUNDS

This policy defines deposit and investment of funds and applies to all funds, regardless of source, which are received by the College.

All depositories, which provide deposit or investment services, shall agree to comply with the terms of this policy, and with the requirements of Chapter 4 of Title 9 of Tennessee Code Annotated as amended, and the latter provisions shall control in the event of conflict. Words and phrases used in this policy shall have the same definition and meaning as in Chapter 4 of Title 9 Tennessee Code Annotated.

A. DEFINITIONS

1. **"Collateral Security"** means securities that may be accepted as collateral for deposits.
2. **"Compensating balances"** means the amount of funds allowed to remain in an account.
3. **"Default"** may include but is not limited to:
 - (1) The failure of any qualified public depository to return any public deposit, including earned interest in accordance with the terms of the deposit contract.
 - (2) The failure of any qualified public depository to pay any properly payable check, draft or warrant drawn by the public depositor.
 - (3) The failure of any qualified public depository to honor any valid request for electronic transfer of funds.
 - (4) The failure of any qualified public depository to account for any check, draft, warrant, order, deposit certificate or money entrusted to it.
 - (5) The issuance of any order of any court or the taking of any formal action by any supervisory authority, which has the effect of restraining a qualified public depository from making payments of deposit liabilities.
 - (6) The appointment of a conservator or receiver for a qualified public depository; or
 - (7) Any other action that the treasurer determines to place public deposits in jeopardy.
 - (8) Failure to provide the required collateral.
4. **"Deposit Insurance"** means the insurance provided by the Federal Deposit Insurance Corporation.
5. **"Eligible Collateral"** shall have the meaning set forth in T.C.A. Section 9-4-103. For savings the college securing local government deposits, eligible collateral shall also include securities described in T.C.A. section 9-1-107 (a) (2) under such additional conditions as the treasurer deems appropriate.
6. **"Loss"** includes but is not limited to:
 - (1) The principal amount of the public deposit;
 - (2) All accrued interest through the date of default;
 - (3) Additional interest at the rate the public deposit was earning on the total of subdivisions (1) and (2) through the day of payment by a liquidator or other third party or through the date of sale of eligible collateral by the treasurer or his agent; and
 - (4) Attorney's fees incurred in recovering public deposits.

7. **"Market Value"** means current market price.
8. **"Depository"** means any bank, savings and loan association or savings bank (collectively referred to as savings institutions) located in the state of Tennessee which is under the supervision of the Department of Financial Institutions, the United States Comptroller of the Currency, or the Office of Thrift Supervision, and which has been appropriately designated to hold public deposits by a public depositor.
9. **"Required Collateral"** means eligible collateral, excluding accrued interest, having a market value equal to or in excess of the greater of the average daily balance or average monthly balance of public deposits multiplied by the qualified public depository's collateral-pledging level as required by the Tennessee Board of Regents. (T.C.A. 9-4-502)
10. **"Trust Receipts"** means a receipt issued by the trustee custodians in lieu of the actual deposit of eligible collateral; it is subject in all respects to the claims and rights of the College to the same extent as though such collateral had been physically deposited with the College.
11. **"Trustee Custodian"** means a financial institution designated to hold eligible collateral on behalf of Volunteer State Community College and a qualified public depository pursuant to T.C.A. Section 9-4-108.

B. DEPOSITORY ACCOUNTS

1. The College shall maintain one general operating account and one payroll account at an authorized depository for the regular operating and payroll functions of the College. No additional checking accounts may be opened or maintained by the College unless approved by the Chancellor or his or her designee.
2. All checks, drafts, or other methods of withdrawing funds from an account must be co-signed by the President and the Vice President for Business and Finance provided that facsimile signatures may be used on checks, drafts, or other methods of withdrawals; and provided that any authorization or request for withdrawal form shall bear the original signature of the President or the Vice President for Business and Finance or designee approved by the President in all cases where expenditures exceed one percent (1%) of the state appropriation to the College for the year or ten thousand dollars (\$10,000.00), whichever is greater.
3. The President of the College is authorized to establish one or more checking accounts for the deposit and disbursement of petty cash funds within the business office. Additional petty cash accounts may be authorized by the President for departments external to the business office provided that no account shall exceed one thousand dollars (\$1,000.00). If the custodian of the fund has accepted responsibility for the funds in writing, and has agreed to repay any shortages or expended funds not properly accounted for from the account, then the custodian may be designated as the signatory authority for the account, and the custodian or the Vice President of Business and Finance shall be authorized to withdraw funds from the account.
4. The College will retain written documentation of employees' authority to perform routine activities related to the depository accounts.
5. No accounts shall be authorized or established which are complimentary non-interest bearing accounts. When using compensatory balances, the amount of funds allowed to

remain in any checking account should be reasonably related to the number of transactions to be processed through the account during any month, and other servicing costs, if any.

C. COLLATERAL

1. All depositories must provide collateral security for deposits and accrued interest in all accounts, including checking, savings, and certificates of deposit. Securities that may be accepted as collateral for deposits shall be limited to those specified in T.C.A. Section 9-4-103. All items listed in Section E.11 of this policy and items noted in Section E.12 are eligible as collateral.
2. The required collateral accepted as security for deposits at financial institutions that do not participate in the collateral pool shall be collateral whose market value is equal to one hundred five percent (105%) of the value of the deposit and secured thereby; less so much of such amount as is protected by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation. The required collateral accepted as security for deposits at financial institutions participating in the collateral pool will be set by the Department of Treasury.
3. At the time of designation as the College's depository or at any time thereafter, additional collateral with a market value of one hundred thousand dollars (\$100,000) shall be required where the capital to asset ratio of a savings and loan association, savings bank, or bank is less than five percent (5%). This additional collateral shall be in addition to the collateral required by other provisions of this policy.
4. The market value of required collateral shall be evaluated by the College monthly and more frequently if required by unusual market conditions. Any depository not providing collateral with a market value as specified in C.2 above must provide additional, adequate collateral within two working days of a request by the College. Failure to provide the additional collateral may be considered an act of default.
5. In the case of a checking account, the market value of the collateral accepted as security for deposits shall be the amount specified in Section C.2 based on the highest daily depository book balance in the account for the preceding month excluding large deposits covered below. The amount of the depository balance must be determined on or before the fifth day of the month in question. Large deposits, such as registration receipts, which may result in insufficient collateral, either should be invested immediately or additional collateral should be in place. (If the investment is in a certificate of deposit, the certificate must be collateralized.) Alternatively, depositories may be allowed to post collateral daily to cover the current depository book balance.
6. Any loss to the College due to a depository's default shall be satisfied out of collateral pledged by the depository to whatever extent possible. The collateral security shall be liable for any loss, including and not limited to the principal amount of the deposit, for accrued interest through the date of default, for additional interest through the date of recovery on the principal and accrued interest at the rate the deposit was earning, and for attorney's fees incurred in recovering deposits and other losses.
7. The College must either be provided the actual securities pledged as collateral for deposits, or trust receipts from trustee custodians for the collateral in lieu of the actual delivery of the securities. A trustee custodian is one that meets the requirements of

T.C.A. Section 9-4-108. When any trustee custodian holds collateral for the College's depository that is related to the custodian through shared ownership or control, such collateral shall be held in a restricted account at a Reserve Federal Bank or branch thereof or at a Federal Home Loan or branch thereof.

8. In lieu of the actual deposit of eligible collateral, the College is authorized at its option to accept trust receipts therefore.
 - a. Trust receipts shall be issued by trustee custodians in a form acceptable to the College following the deposit of eligible collateral with the trustee custodian by the College's depository.
 - b. Eligible collateral deposited with a trustee custodian shall be subject in all respects to the claims and rights of the College to the same extent as though such collateral had been physically deposited with the College.
 - c. Each trust receipt shall be nonnegotiable and irrevocable and shall continue in full force and effect until surrendered by the issuing trustee custodian with the release of the College endorsed thereon.
 - d. The College may present the trust receipt at any time to the issuing trustee custodian and upon delivery thereof shall be entitled to receive any and all collateral represented thereby from the trustee custodian, and such collateral shall thereafter be held by the College as if deposited with the College by the depository as collateral, without further liability on the party of the trustee custodian.
 - e. Following delivery of the collateral to the College, the College is permitted to register such collateral in the name of the College and to hold it on behalf of the depository.
9. The College with depositories participating in the collateral pool administered by the Department of Treasury will not be responsible for monitoring the collateral securities pledged. As provided in TCA 9-4-501 - 9-4-523, the Department of Treasury will monitor the collateral securities pledged.

D. DEPOSITORY INSTITUTIONS

1. Subject to the other requirements of this policy, accounts may be authorized and established at depositories that are either under the supervision of the Department of Financial Institutions, the United States Comptroller of the Currency or the Federal Home Loan Bank Board.
2. Before a depository may be used by the College for the deposit of funds in a checking account, it must provide documentation verifying the following: (1) that the depository is supervised by the Department of Financial Institutions of the State of Tennessee, the United States Comptroller of the Currency, or the Federal Home Loan Bank Board; (2) the capital to asset ratio of the depository as of the current date and the date of the last audited financial statements of the depository; (3) that the depository can comply with the collateral security requirements for all accounts; (4) the names of the members of the board of directors and officers of the depository; (5) the name of the holding company of the depository, if applicable; and (6) the names of the owners of ten percent (10%) or more of the stock of the depository.
3. The College shall identify the nature and level of services that must be provided by a depository before a checking account is established. Such services should include but

are not limited to the minimum services in the standard request for proposals for depository services as set forth in guidelines established pursuant to this policy. Some or all of these services may be required without charge to the institution.

4. The College shall solicit proposals from all qualified depositories with offices within a reasonable distance from the campus, and shall determine those depositories that can provide the nature and level of services for accounts as required by the College on a competitive basis. The agreement with the depository may be renewed annually for up to four succeeding years.

E. DEPOSITING FUNDS

1. Each College department will deposit funds each day when \$500 in funds has been accumulated. All funds must be adequately secured. In all cases, a deposit must be made at least once each workweek (Monday - Friday) if there are any funds to be deposited.

The \$500 is considered in excess of the established change fund amount.

F. INVESTMENTS

1. All investment decisions shall be in accordance with this policy and must be approved by the Vice President of Business and Finance or his or her designee.
2. All investments in which funds are deposited outside the State of Tennessee must be authorized by the President.
3. A trustee custodian account should be used for handling and holding all investments, other than the Local Government Investment Pool and collateralized certificates of deposit.
4. All investments must be made subject to "delivery versus payment."
5. All funds which are received by the College and which are available for a sufficient period of time for investment in any interest-generating medium should be invested within three (3) days after receipt of such funds.
6. At a minimum, the College shall determine rates of return on all feasible authorized mediums of investment prior to making an investment; and funds shall be invested in those mediums expected to pay the highest rate for the period of time for which the funds are available for investment.
7. All investments of funds in certificates of deposits where the period of investment will exceed thirty (30) days shall be determined on the basis of telephone bids, with appropriate records maintained for audit purposes, including the person obtaining the bids, the institutions which submitted the bids, the amount and rate of return of each bid, and the person who approved the investment. Where more than one bid provides the highest rate of return available, investments should be made in such a manner that no one institution making one of the high bids receives a disproportionate amount of the investments on the basis of two or more equal bids over a reasonable period of time. Records shall also be maintained on the basis for selecting LGIP and other investments as an investment medium.
8. An investment plan should be developed that specifies liquidity requirements for providing cash needed by the College.

9. Investments of endowments in equity securities shall be limited to funds from private gifts or other sources external to the College. Endowment investments shall be prudently diversified.
10. Funds of the College may be invested in a savings account or certificate of deposit of any depository provided the requirements of this policy including Sections D.1 and D.2 and the collateral security requirements of Section C. are met. Other authorized investments, subject to the limitations of Section E. 13, are set forth in T.C.A. Section 9-4-602.
11. All investments via repurchase agreements must include the following:
 - There must be a written agreement in accordance with the standard agreement set forth in guidelines established pursuant to this policy.
 - The agreement must state explicitly that the exchange of assets represents a simultaneous purchase and resale transaction "and is not intended to be collateralized loan."
 - The purchased securities must be transferred to the Trustee Custodian Account.
 - The purchased securities must, at the time of purchase, have a current market value of at least 100% of the amount of the repurchase agreement.
12. The following terms and conditions shall apply to investments:
 - Prime banker's acceptances must be issued by domestic banks with a minimum AA rating or foreign banks with an AAA long term debt rating by a majority of the rating services that have rated the issuer. The short term debt rating services that rate the issuer (minimum of two ratings must be available). Banker's acceptances shall not exceed twenty percent of total investments on the date of acquisition. The amount invested in any one bank shall not exceed five percent of total investments on the date of acquisition.
 - Prime banker's acceptances are required to be eligible for purchase by the Federal Reserve System. To be eligible the original maturity must not be more than 270 days, and it must (1) arise out of the current shipment of goods between countries or within the United States, or (2) arise out of storage within the United States of goods under contract of sale or expected to move into the channel of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods.
 - The combined amount of banker's acceptances and commercial paper shall not exceed thirty-five percent of total investments at the date of acquisition.
 - Prime commercial paper shall not have a maturity that exceeds 270 days.
 - Acquisitions shall be monitored to assure that no more than five percent of total investments at the date of acquisition is invested in commercial paper of a single issuing corporation. The total holdings of an issuer's paper should not represent more than two percent of the issuing corporation's total outstanding commercial paper.
 - Purchases of commercial paper shall not exceed thirty-five percent of total investments at the date of acquisition. Prime commercial paper shall be limited to that of corporations that meet the following criteria: (1) Senior long term debt, if any, should have a minimum rating of A1 or equivalent, and short term debt should have a minimum rating of A1 or equivalent, as provided by a majority of the rating services that rate the issuer. If there is no long term debt rating, the short term debt rating must be A1 by all rating services (minimum of two). (2) The rating should be based on the

merits of the issuer or guarantee by a nonbank. (3) A financial review should be made to ascertain the issuer's financial strength to cover the debt. (4) Commercial paper of a banking institution should not be purchased.

The amount invested in money market mutual funds shall not exceed ten percent of total investments on the date of investment.

G. LEAD INSTITUTIONS AND TECHNOLOGY CENTERS

1. Each technology center is authorized to establish a checking account. The type of account will be based upon the needs of each technology center. A request for the establishment of such an account must be submitted jointly by each technology center director and the President of Volunteer State Community College, and be approved by the Chancellor. Each account will be subject to a \$5,000 maximum for any one transaction. Activity in this account shall be limited to operating transactions, and shall not include travel reimbursement. All transactions must be based on the concept of competitive bidding where possible with appropriate documentation maintained for review. All checks must be co-signed by any two of three authorized employees (director, assistant director, and a third employee) designated in the request for establishing the account. The documentation for the transactions must be reviewed at least quarterly by a person(s) designated by the President of Volunteer State Community College.

The request to establish such an account should, at a minimum, include a description of the type of account, the procedures that will be followed in administering the account, those persons authorized to sign the checks, the bank where the account will be established, and the person(s) at Volunteer State Community College who will be assigned the responsibility for the quarterly review.

2. The director of the technology center or his or her designee is authorized to establish a depository account for the deposit of miscellaneous revenues received by the technology center. These funds shall be transmitted at least monthly to Volunteer State Community College for deposit and investment in behalf of the technology center.
3. Volunteer State Community College shall maintain restricted accounts on behalf of each of the technology centers under its jurisdiction pursuant to the provisions of this policy and shall ensure that all interest income generated by the technology centers is appropriately credited to the individual technology center accounts.
4. Volunteer State Community College shall maintain appropriate fiscal records to ensure the existence of an audit trail for each technology center under its jurisdiction.

H. GENERAL

The Chancellor or his or her designee may approve exceptions to the requirements of this policy in appropriate cases.

Source: TBR Meetings: September 29, 1978; September 30, 1983; December 13, 1985; September 18, 1987; September 16, 1988; June 30, 1989; September 21, 1990; June 28,

1991; September 23, 1994; June 21, 1996; October 2, 1998; June 23, 2000; September 26, 2003; December 8, 2006.

VSCC Source: September 26, 1989, July 23, 1999, President; January 6, 2009, President's Cabinet