

**American Library Association
Financial and Administrative Policies Handbook**

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CASH MANAGEMENT POLICY

The purpose of this document is to set forth the objectives, policies, and guidelines that are to govern the short-term investment of the Association's cash.

A. OBJECTIVE

1. Rate of Return

The short-term investment objective is to earn the best short-term return possible. Idle, uninvested cash should be kept to a minimum.

B. CRITERIA FOR INVESTING

1. Preservation of capital
2. Lowest volatility in the value of account
3. Net returns better than Money Market and short term CDs
4. Liquid assets
5. Average credit rating ~~Government backed/better than AA to be investment grade or better as defined by S&P. S&P defines investment grade securities as having ratings of AAA, AA, A, or BBB, and may be accompanied by a plus (+) or minus (-) sign to show relative standing within the major rating categories.~~

C. GUIDELINES

1. *Investment Term*

In order to avoid cash shortages, investment maturities must be monitored. The Association's periodic cash requirements are critical elements in determining the duration of an investment, therefore short-term investments must provide liquidity. ~~A portion of the~~ The Association's cash may be invested in a) fixed income securities, b) mutual funds, or c) exchange-traded funds, with effective maturities of no more than 6.5 years ~~and~~ a portfolio average duration of no more than ~~4.5~~ years, provided the Association's cash requirements can be achieved. The fixed income investment may be made directly by authorized Association personnel or through an Investment Manager recommended by the Investment Consultants such as Neuberger & Berman, Campbell Newman or other similar Investment Managers.

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Statement of Investment Policy

A. *Rate of Return Objective*

To exceed the C.P.I. (inflation) rate on the cash and working capital ~~Working Capital Investment Cash Management~~ Accounts. Investment return means total compound

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return, calculated to recognize all cash income plus realized and unrealized capital gains and losses, net of all investment related expenses.

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In addition, the goal would be to exceed the average of 1 year CD rate available at banking institutions, net of investment costs.

B. *Fixed Income Investments*

There shall be no investments in the Equity Market with these funds—~~The average credit rating of the portfolio will be investment grade or higher as defined by S&P. All fixed income securities will be Investment Grade per major rating agencies.~~ The maximum effective maturity of any investment will ~~be~~ be 6.5 years, including mortgage backed securities.

Adequate diversification by issuer and sector should be maintained. However, this diversification requirement shall not apply to U.S. Treasury and agency obligations.

C. *Performance Measurement*

The Finance and Audit Committee will review periodically, but at least annually, the performance of the cash and working capital ~~Working Capital Investment Cash Management~~ Accounts and of the Investment Managers relative to the objectives and guidelines described.

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D. *Performance Benchmarks*

A total net Rate of Return for the investment account will exceed the average 3 month T-bill and the C.P.I. index for any 3-year cycle. Failure to do so will be cause for dismissal of the money manager.

Over any 2 years, the investment account will exceed the annual average return of a 1 year CD. Failure to do so will be cause for dismissal of the money manager.

2. *Asset Mix*

Established permissible levels of investment in the various categories of short-term investments available to the Association.

- A. *Certificate of Deposit* – Not to exceed \$1,000,000 each. No more than \$3,000,000 combined in any single institution. Banking institutions should be highly rated, secure organizations.

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- B. *Repurchase Agreements* – Maximum levels allowable of \$1,000,000 daily. Excess cash should be invested in the higher yielding Certificates of Deposit.

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- C. *Money Funds* – To take advantage of ~~FDIC~~ the SIPC insurance, the investments can be directed to insured institutions by the Money Fund Manager. The maximum level of investment in a single money fund shall not exceed \$1,000,000, except for temporary placement of funds pending long-term investment of those funds. Money Fund investments should be considered a secondary source for meeting daily cash needs since repetitive movement of funds can produce internal control problems.

- D. *U.S. Government Securities* – Primary investment in short-term treasury bills and treasury notes. Also, U.S. Government Agency securities are allowable investments. Total investment in U.S. Government securities is unlimited.

- E. *Other Investments* – Limited investments is allowed in commercial paper and bankers acceptances. Maturities are to be kept below nine months for BAs and 5 years for commercial paper and principal invested in a single issue should be less than \$1,000,000.

- F. *Managed Fixed Income Accounts* – Investment in any single managed account, including mutual funds and exchange-traded funds, is not to exceed \$6,000,000. ~~Maturities within the account should conform to section C 1., Investment Term Guidelines.~~ Fee structures should be reviewed to determine that fees are not excessive. Managed accounts should contain

a diversified portfolio of U.S. Treasuries, Agencies, Mortgage Pass-Throughs, Corporates and Money Market Issues.

G. *Compensating Balances* – Uninvested cash balances should be kept to a minimum, yet balances are to be sufficient to cover bank service fees. The earnings credit attached to the compensating balance arrangement should be periodically monitored to insure that the credit does not fall significantly below the certificate of deposit rate. If the earnings credit is deemed to be too low, considerations should be given to pay for services in hard dollars.

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3. *Invoice Payments*

The Association's vendor payment terms are net 30 days.* -The payment terms should be followed and exceptions kept to a minimum in order to maximize invested cash. Prompt payment discounts must always be utilized.

~~*Management recognizes that payments may also be based on vendor's terms.~~

4. *Bank Deposits and Accounts Receivable*

Cash received by the Association shall be received in a central location, Accounts Receivable, and deposited on a daily basis. The processing cycle must not prevent timely deposit of receipts.

5. *The Association's Use of Cash*

The Association utilizes its cash to fund operating requirements and, when necessary, to purchase, improve or replace capital assets.

Major uses of cash are:

Operating Fund

- Production and/or acquisition of inventory
- Acquisition and/or repair of equipment
- Payment of estimated income taxes
- Payroll and related expenditures
- Conference and Midwinter

D. PAYOUT FORMULA

Yearly spending/payout from the cash and working capital accounts
 will be based on the annual five-year rolling average of the working capital account's dividend and interest income earned investment yield. The spending/payout rate will be reviewed and set annually during the budget process.

D.E. REVIEW PROCESS

1. Reports

At a minimum, a statement is to be included in the monthly commentary included with the Association's financial statements covering the various investments and rates of return achieved. If short-term investments become significant, consideration should be given to adding a schedule detailing the investments on a month and year to date basis.

2. Review and Modification of Cash Management Policy

Financial management personnel shall review the cash management policy at least once a year to determine if modifications are necessary or desirable. The results of management's review shall be discussed with the Finance and Audit cSubeC Committee on an annual basis. If modifications are made, they shall be promptly communicated to all investment managers and other interested persons.

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In addition, the review shall include an assessment of the rate of return achieved as compared to the liquidity and risk assumed for investments in managed fixed income accounts. The review should incorporate a comparison of the portfolio to the guidelines contained in the investment policy, sections B and C1.

**Management recognizes that payments may also be based on vendor's terms*

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