Investments Cycle Control Narrative

Investments

Gifts
When a gift is received by the University, it is entered into the gift system (see Gifts narrative). Based on donor instructions, the gift is recorded in the appropriate fund (plant fund, restricted fund, endowment fund, etc.).

Gifts allocated to the endowment fund, are held temporarily in the UA operations investment fund and then transferred into the System pooled endowment fund the next month.

Gifts of stocks or other securities are sold immediately upon receipt unless they are government-type securities (treasury notes, treasury bills, municipal bonds, etc.) with attractive yields or highly rated corporate debt securities with attractive yields or if the donor requires the security be held.

Operating Cash
Income from tuition and fees, state appropriations, auxiliary income, investment income, and other sources are used for operating expenses, payroll, and various other expenses. On each day of the week the Senior Accountant responsible for cash prepares a cash projection report for the day. This report shows the current cash position, any expenditures that will be charged that day, and any anticipated deposits or wires.

This cash projection report is given to the Director of Financial Accounting and Reporting who examines this cash projection report for cash position to determine whether the University should make any new investments. The client uses a zero balance disbursement account and all non-invested funds earn interest daily. After the daily cash is analyzed, excess cash is wired to the Federated system wide investment account or withdrawn from this account if needed. If excess cash is large, investments are made in the System Intermediate fund, where earnings are larger, but the investment is slightly less liquid than the common fund investment in Federated.

In the common fund system wide investment account, Federated, investments are maintained on a unitized basis. The investments for the University and the other UA campuses are maintained together and tracked in total based on the number of units. The investments are then segregated between the respective entities based on the number of units each entity owns.

If the Director makes an investment or withdrawal, the Senior Accountant will prepare an Investment Transaction Authorization which describes the security, key dates, amounts, rates, safekeeping arrangements, etc. This authorization must be signed by the Associate Vice President for Financial Affairs. The signed original is forwarded back to the Senior Accountant who then prepares an entry to record the investment or withdrawal and attaches the authorization. The Director reviews and approves the Senior Accountant’s
entries. All journal entries are in Banner Finance. The original authorization and approved journal entry are then given to the Office Associate Senior, to be prepared for Imaging (our web-based document management system). The accountant responsible for reconciling the bank statement insures that all transactions are properly recorded.

The Senior Accountant – Investments prepares an investment detail that calculates a new book value at the end of each month for all debt securities based on its calculation of discount/premium amortization. The client does not use the interest method of amortization but instead amortizes the discount/premium over the remaining life of the security. It is the policy of the University to hold investments until maturity so the failure to use the interest method of amortization is not a material departure from GAAP. The accountant's detail also calculates the interest income which should be accrued for the month and the total accrued interest at month end for each security. Accrued interest is based on a 365 day year. Based on the accrued interest calculated, the accountant prepares a journal entry by account number at the end of the month and also prepares a journal entry to amortize the discount/premium at the end of each month. The two part journal entries for interest accrual and amortization of premium/discount are approved by the Assistant Director and uploaded. The original approved copy of the uploaded entry and copy of the amortization/accrual spreadsheet is given to the Office Associate to be prepared for Imaging. A copy of the amortization/accrual spreadsheet is kept by the accountant and filed with the monthly investment details.

The actual securities are held in safekeeping at Compass Bank and UBS. The Senior Accountant keeps a schedule of all coupon redemption dates. When a redemption date arrives, the safekeeping institution sends a notice that interest will be deposited into the University’s operating account. The accountant then records this information on the University’s books with a journal entry which is approved by the Director. The original notice from the bank is filed with the approved entry and given to the Office Associate to be prepared for Imaging.

As stated earlier, the spreadsheet accrues interest income monthly. At the end of the accrual period (annual, semiannual, quarterly, monthly), the accrued interest income is compared to the interest income received. Any differences due to rounding or a timing difference in the accrual period are taken to the interest income earned account and the accrued interest account is taken to zero for that security. Zero coupon bonds are amortized monthly to bring them to par. No accrual is made for stock dividends. They are taken into income when received.

Interest income checks are received directly at the safekeeping institution and are deposited directly into the University’s account. The bank forwards a report of interest income received to the Senior Accountant. The report is matched to the accrued interest calculations and the difference is posted to the interest income earned account as described earlier. Some dividend income checks are received in the accounting department and forwarded to the Senior Accountant. For these, the accountant endorses the checks with a stamp (For Deposit Only The University of Alabama Account No.
Financial Accounting) and prepares a cash receipts report (CRA), attaches the checks, and forwards them to student receivables.

It is the general policy of the University to hold securities purchased until maturity. However, if the Director decides to sell an investment, the Senior Accountant will type an Investment Transaction Authorization as stated above. The accountant calculates the gain or loss on the transaction based on the amortization from the spreadsheet for that security. The gain or loss is allocated to the fund that holds that security. Based on this calculation, the Senior Accountant prepares a journal entry to record the sale and the gain or loss. The proceeds received from the sale are transferred into their account by wire transfer. A confirmation of the wire transfer is received by the Senior Accountant and attached to the journal entry approved by the Director. The approved journal entry and attachments are given to the Office Associate to be prepared for Imaging as noted above. The accountant responsible for reconciling the bank account insures the transaction was recorded properly.

When separately held endowments securities reach maturity, the Associate Vice President for Finance determines whether the cash can be sent to the UASPEF or if another type of security must be purchased, depending on donor stipulations.

When a security matures, the safekeeping department at the financial institution credits the University’s account for the maturity value. Interest income is recognized the same as noted earlier.

The University records all investment transactions at settlement date value instead of trade date value. This is not usually material because the settlement date for debt securities is usually only one day after the trade date and only three days after the trade date for equity securities. This should be considered at year-end to insure that the transactions are recorded in the proper period.

Operating Pool – Market Value Calculations

At the end of each month, the Senior Accountant - Investments prepares a detailed market value listing for all securities held. This listing is prepared for the system office and the Associate Vice President for Finance so that the portfolio can be reviewed for potential weaknesses or strengths. She prepares this using an on-line portfolio created in Excel through MSN Money for market prices of those securities listed. For those not listed, she obtains market value quotes from the brokers they use to purchase securities. All information for this market value listing is keyed by the senior accountant into a spreadsheet and the formulas in the spreadsheet calculate the actual market value based on the market price entered and the number of shares. An investment detail is printed from Banner through Crystal Reports. This detail is used to update the book values on the market value listing, named the Schedule of Investments by Financial Statement Category. This schedule serves as reconciliation between the book values recorded in the Banner accounting system and the statements provided to the University, as well as a calculation of the unrealized gain or loss amount to be booked.
The investments are reported in the financial statements at market. Securities received as a gift are recorded at their market value on the date of the gift.

**Allocation of System Endowment Pool Income**

The University receives income each month from the system pooled endowment fund. The Senior Accountant – Investments is responsible for allocating this income to the individual endowments.

Each endowment has a number of units based on the size of the gift and the market value of all endowments at the time the gift was made. Each endowment is allocated income based on its number of units as a percentage of the total of the endowments. The number of units in each fund may change monthly due to additional contributions and income distributions.

The Senior Accountant maintains all of this information for each endowment through Fundriver, a web-based endowment administration system. She updates Fundriver monthly for cash invested and any changes to current endowment funds. Fundriver is also used at the UA System Office level, and information entered into the program from the System office is retrieved and reconciled before income and gains are recorded into the Banner Finance system.

The system endowment pool was changed during fiscal year 1994, after the state legislature amended a state law, so that the pool is now allowed to spend transaction gains and losses. In the past, the pool was only allowed to pass on interest and dividend income to the participants in the pool. Since the pool is now allowed to pass along transaction gains, the investment objectives of the pool have changed somewhat. In addition, the University now receives a quarterly distribution from the pool based on a spending rate established by the Board of Trustees, currently 5% of the three year average market value. Prior to January 2009, each fund was analyzed to verify that market value was greater than book value. If the book value was higher, the gains allocated to that fund were returned to the system office for reinvestment. The true book value of the fund did not change. With the enactment of UPMIFA (Uniform Prudent Management of Institutional Funds Act), effective January 1, 2009 and approved by the Board of Trustees in February 2009, the underwater gain provision was removed and all gains are now distributed regardless of the relation of market value to book value.

**Comments:**
Updated 7/02/2013 by Marcia Stanley