



ADVANCES AND INVESTMENTS IN TRUST-FUNDED PROGRAMS

Background	1
Policy	2
Advances	2
Investments	5
Exhibit A: Summary of Guidelines	8
<u>Appendix 1</u> : Sample Request for Sponsored Projects	
<u>Appendix 2</u> : Advance Pledge Information Forms	
<u>Appendix 3</u> : Sample Request for Pledges	

Background

In prior years, “Risk Funds” were used to allow a Smithsonian unit to incur costs for a program or business before receipt of funding. Since approval of the 1992 version of SD 308 (entitled *Risk Funds Policy*), the operations of the Institution have evolved and the need for advance funding of programs and business (and other) investments has become more complex. This directive replaces the 1992 *Risk Funds Policy*, which is no longer adequate to meet the needs and practices of the Institution.

The term “Risk Funds” has been replaced with the terms “Advances” and “Investments,” which are more descriptive of the intended use of the funds.

- An **advance** is an advance of funds against almost certain revenues expected in the near future. Typically, such revenues are expected from confirmed grants or signed gift pledges.

Background
(Continued)

- An *investment* in a business or Institutional program typically has a much longer and more uncertain payoff. The expected payoff from a business investment is increased future income, while that from Institutional programs may be future fundraising opportunities or advancement of important Institutional priorities.

Policy

Each request must be appropriately labeled as an advance or an investment. The approval process depends upon the amount and intended use of the funds requested. In every case, however, the proposal should be prepared by the project manager and approved by his or her unit head prior to submission for Institutional approval. For large advances, Institutional approval includes approval by Executive Management. Institutional approval of an advance permits the unit to incur costs for the program before receipt of funding. Approval of an investment allows the use of funds to pursue a business opportunity or an important Institutional initiative.

Advances

Advances up to \$100,000

- If the advance is against a confirmed grant or contract, it will be approved by the Director of the Office of Sponsored Projects (OSP). The request should be from the Principal Investigator, routed through the unit head, and sent to the Director of OSP. It should include the amount of the advance required (including applicable overhead and interest), an explanation of the need to proceed with the project at this time, the timetable for use and repayment of funds, and the unit's guarantee of the availability of other funds to repay the advance if sponsor funds do not become available.

Advances
(Continued)

- If the advance is against a signed gift agreement, it will be approved by the Comptroller. The request should be from the project manager through the unit head to the Comptroller. It should include a copy of the signed gift agreement, completed Cover for Advance Pledge Information Form and Advance Pledge Information Form (included in Appendix 2) and written proof of the confirmed pledge(s).

Advances greater than \$100,000

Advances require the approval of the Chief Financial Officer (CFO). Advances in excess of \$1 million must also be approved by the Secretary. In cases when the advance requires external debt, concurrence of the Board of Regents is required.

- A request for an advance against confirmed grants or contracts should be sent by the unit head through the appropriate Under Secretary (or equivalent) to the Director of OSP. Appendix 1 contains a sample request for an advance against grants and contracts. It must contain the same information as for smaller advances. The Director of OSP will forward the request with his/her recommendations to the Treasurer for further processing and approvals.
- A request for an advance against signed gift agreements must be sent by the unit head through the appropriate Under Secretary (or equivalent) to the Treasurer for further processing and approval. It must contain a cover letter describing the project and explaining the need for the advance, a project budget, a summary of pledges, copies of signed gift agreements, a cash flow statement showing sources and uses of fund (including a calculation of interest), and completed pledge information forms (as required for small advances). Appendix 2 contains forms for pledge information and Appendix 3 contains a sample request.

Advances
(Continued)

All Advances

- Interest will be charged on all advances that are outstanding more than three months. Any exception will require the approval of the Secretary. The interest rate is established at the start of each fiscal year and, depending on market conditions and other factors, may be revised during the year. It is set at approximately 1% above the current yield on the Institution's short-term investment portfolio. It is the responsibility of the unit to provide for payment of the estimated interest charge when an advance is anticipated to be necessary.

Interest charged to the project will be recorded to the project accounting classification code. In cases where this is not feasible, the unit must identify other funds that will be used for interest. Projects with both grant/contract and other trust funding will have interest charged on the two parts separately. Projects with multiple sources of trust funding will be charged interest on the net balance of all the project accounting classification codes and all the interest will be recorded to one accounting classification code. Interest accrued on all advances (including grants and contracts) will be posted by the Comptroller on a quarterly basis.

- Once an advance has been approved, for advances against gift pledges, the Pledge Information Form must be updated each quarter by the unit and sent to the Treasurer and Comptroller within five working days of the end of the quarter.
 - For advances against grants and contracts, OSP provides the Treasurer and Comptroller with an updated report within five working days of the end of the quarter.
 - The Treasurer issues a consolidated report on all advances each quarter.
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Investments***Investment in important new Institutional projects or programs that are not yet funded***

- Requests are processed through the Institution's normal budgeting process and, as a result, are approved by the Secretary and the Regents.
- In cases where fundraising or other sources of revenue are expected to cover the cost, the source(s) must be identified.
- Interest is determined on a case-by-case basis.

Business investments. Each business investment must be justified on the basis of its projected internal rate of return (IRR). Generally, investments should have a minimum expected IRR of 12.5%. Investments that are especially low risk and/or have special programmatic importance to the Institution may be approved with a lower expected IRR, while especially risky projects should have a much higher projected IRR.

- **Smithsonian Business Ventures (SBV).** The process for approval of investments in SBV is as follows:
 - Before the start of each fiscal year, SBV presents its investment plan for the coming year for review and recommendations by the SBV Board of Directors and approval of the Secretary. The plan will be submitted to the Finance and Investment Committee of the Smithsonian Board of Regents (F&I Committee).
 - Within the investment plan, at the time of execution, each project requiring an investment in excess of \$100,000 must also be approved separately.

Investments
(Continued)

Individual investments up to \$500,000 can be approved by the Chief Executive Officer (CEO) of SBV, investments greater than \$500,000 must also be endorsed by the SBV Board, and investments greater than \$1 million require approval of the Secretary. Projects requiring an investment greater than \$5 million require the approval of the F&I Committee and concurrence of the Board of Regents.

- The Treasurer coordinates the reviews and approvals by the F&I Committee and Regents, supervises the tracking of the investments, and issues a report on them periodically.

Major projects (i.e., larger than \$100,000) that are developed outside the SBV planning cycle must be approved separately. Investments up to \$300,000 can be approved by the CEO of SBV, investments greater than \$500,000 must also be endorsed by the SBV Board, and investments greater than \$500,000 require the approval of the Secretary. If the request is larger than \$5 million, approval by the F&I Committee and concurrence of the Board of Regents is required.

- **Other business investments.** These must be included in unit strategic plans. Each investment in excess of \$100,000 must be approved by the appropriate Under Secretary (or equivalent) and the CFO, and investments greater than \$1 million must be analyzed and presented to the Capital Planning Board and the Secretary for approval. Investments greater than \$5 million require approval of the F&I Committee and concurrence of the Board of Regents.

Investments (Continued)	Any investment requiring external debt requires approval of the Finance and Investment Committee and concurrence of the Board of Regents.
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CANCELLATION:	SD 308, June 2, 1992
INQUIRIES:	Office of the Treasurer
RETENTION:	Indefinite. Subject to review for currency 24 months from date of issue

Exhibit A: Summary of Guidelines

Advances

Advances against	Approval	Interest
Confirmed Grants & Contracts	<ul style="list-style-type: none"> • <\$100 thousand: Director OSP • \$100 thousand to \$1 million: Appropriate US & CFO • >\$1 million: Secretary (and Regents if external debt required) 	Short-term interest rate set by CFO (after 3 months)
Confirmed Fund-raising Pledges	<ul style="list-style-type: none"> • <\$100 thousand: Comptroller • \$100 thousand to \$1 million: Appropriate US & CFO • >\$1 million: Secretary (and Regents if external debt required) 	Short-term interest rate set by CFO (after 3 months)

Investments

Investments in	Approval	Interest /Required Return
Institutional Programs	Normal Budget Process	Interest on a Case-by-Case Basis
SBV Investments	<ol style="list-style-type: none"> 1. Annual Investment Plan: Approved by SBV Board & F&I Committee. 2. Each Investment: <ul style="list-style-type: none"> • <\$500 thousand: SBV CEO • \$500 thousand to \$1 million: SBV CEO & SBV Board • \$1 million to \$5 million: Secretary • >\$5 million: F&I Committee 3. Investment requiring external debt: Approved by F&I Committee. 	Internal Rate of Return > 12.5%
Unit Business Activities	<ol style="list-style-type: none"> 1. Unit Strategic Plan 2. Investments >\$100,000: <ul style="list-style-type: none"> • <\$1 million: Appropriate US & CFO • \$1 million to \$5 million: Capital Planning Board & Secretary • >\$5 million: F&I Committee 3. Investment requiring external debt: Approved by F&I Committee. 	Internal Rate of Return > 12.5%