

# CHICO STATE | ENTERPRISES

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## POLICY ON PROJECT CASH MANAGEMENT AND LOANS

### BACKGROUND

- This policy addresses the way Chico State Enterprises (CSE) projects utilize General Fund cash, and establishes guidelines for dealing with project overdrafts and loans.
- Chico State Enterprises depends on earnings from its General Fund cash investments to fund the overhead costs of operating the corporate headquarters office. Good cash management is therefore an important player in CSE's ability to generate discretionary funds to support the University.
- It is a long-standing CSE policy that project accounts are not allocated interest on their individual cash balances. The rationale behind this policy is that interest earnings are used to offset part of the expense of providing administrative services to CSE projects (e.g., accounting services and reports, annual audit, on-line computer access to accounts, human resources management, employee benefits package, payroll services and insurance coverage). The cost of providing administrative services to CSE projects is estimated to be an average of 10-12% of project expenses. Because projects are charged an administrative fee of 8% of expenses, the remaining cost must be made up in interest income earned by the General Fund.

### GUIDELINES FOR OVERDRAFT AND LOANS

- Cash Flow Services
  - By their very nature some CSE projects are required to make cash expenditures in advance of receiving revenues. For example, externally funded projects, such as grants and contracts or some performing arts events, receive funding in arrears from funding agencies or ticket sales. In the case of these projects, which are approved in advance by appropriate campus personnel when contracts are signed, it is CSE policy to provide needed cash flow, with no interest expense charged to the project, in those situations where:
    - There is an expectation of revenues within the project's normal business cycle and where a schedule exists for the timely processing and deposit of revenues.
    - Appropriate administrative staff in Chico State Enterprises has approved the expenditure (by approving the expenditure request form).
    - Project staff follows through with the timely deposit of funds needed to cover project deficits.
  - Other CSE projects are expected to have sufficient cash balances on deposit before submitting expenditure requests. However, in special circumstances staff is authorized to approve account overdrafts in those situations where:
    - The project director has identified funds to cover the deficit and has a plan and timeline for the timely deposit of revenues
    - The dollar amount of the deficit spending is reasonable given the circumstances.
    - The deficit is cleared in a short period of time, usually less than three months.

- Short-Term Loans
  - In those situations where a CSE project or University department requires an advance of funds in larger dollar amounts or for a longer period of time (as, for example, when seed money is needed to fund an enterprise), administrative staff is authorized to loan money to the project at a rate of interest that covers the CSE's short-term cost of money, plus a premium in the range of .5% to 2% (depending on the amount and duration of the loan), subject to the following:
    - The business plan for the repayment of the funds is less than three years.
    - The financing arrangement is formally documented and signed by the appropriate CSE or University official.
    - The interest rate used is a win-win proposition for the project and CSE: that is, it is less than the project would pay on the open market, but more than CSE would earn on its short-term cash investments.
- Long-Term Loans
  - Loans in excess of three years or amounts in excess of \$100,000 will require the approval of CSE Board or Executive Committee.

## ADMINISTRATION

- The foregoing principles are intended as guidelines, and staff is authorized, in consultation with the Provost and CSE Treasurer, to use discretion in their application depending on the circumstances.
- Because CSE cash is normally invested to provide General Fund operating income, in those situations where funds are advanced to a project, the opportunity cost of funds will be reflected on the CSE budget as a Board-approved program expense, and not a hidden offset to interest income.

## OTHER CASH MANAGEMENT POLICIES

- It is the policy of CSE, following campus policy, that all funds for which CSE has fiduciary and compliance obligations (e.g., grant funds or gift funds) shall be maintained in and administered from an on-campus account.
- CSE staff, in consultation with the Provost and Treasurer, is authorized to invest a portion of its cash pool in longer-term securities, including equity mutual funds, in those situations where:
  - The funds remaining in CSE's short-term cash pool are sufficient to meet current and expected obligations.
  - It is expected that the amount invested in the long-term securities will not be required for a period of at least five years.