

## Procedure 90500: Foreign Currency Exchange Fluctuations

Conducting business globally requires the university to consider the impact of foreign currency exchange fluctuations. It is important that the university mitigates potential financial loss and capitalizes on opportunities to conduct business internationally. This procedure provides guidance on managing foreign exchange fluctuations by forecasting potential risks and responding to changes in exchange rates to safeguard financial resources.

Foreign currency fluctuations must be considered when planning and making strategic decisions related to academic programs and international business. The university invests significant resources toward international activities such as study abroad programs, sponsored research, and international operations including business travel and the procurement of goods and services.

Risk management efforts such as currency futures should be coordinated by departmental business units and central administrative offices such as the Controller's Office, the Bursar's Office, Sponsored Programs, Procurement, and Outreach and International Affairs (OIA).

### A. Planning and Budgeting

Planning and budgeting for international disbursements are key in mitigating financial risks. Documenting the nature and timing of these transactions will help identify concerns with currency fluctuations. A budget should be developed that includes the following:

- Date of international program or timing of international payment
- Amount of transaction in US dollars
- Currency that will be utilized for foreign currency transaction
- Description of business purpose to include academic mission and participants
- Supplier that will be the beneficiary of the transaction
- Fund source (E&G, overhead, sponsored research, private funds, etc.) and Banner fund number to be utilized for the transaction

Departments can refer to the OANDA Currency Converter for information on current exchange rates. Planning the timing of the disbursement to take advantage of conversion rates is encouraged and will minimize the potential for unexpected currency fluctuations. Additionally, it may be possible to make advance payments when financially prudent. The Controller's Office will prepare a cost justification to support the allowability of a pre-payment.

The budget prepared for international programs and disbursements should be closely monitored and adjusted as needed to reflect expected costs of the programs. Increased costs associated with these transactions must be allowable on the funding provided or departmental

discretionary funds will be utilized. The expense that posts to the Banner fund will reflect the exchange rate on the date the transaction is processed by Accounts Payable.

## B. Line of Credit

There are situations where the university desires to provide advance funding for established international activities such as Steger Center operations. These activities sometimes require a Virginia Tech Board of Visitors approved line of credit to finance international operations abroad. In these cases, departments will work with the Controller's Office to execute the line of credit promissory note in US dollars.

As expenses are incurred, the operating unit would submit expense documentation to Accounts Payable for reimbursement. Reimbursement is issued at the current exchange rate. To close a line of credit, the amount due is based on the current exchange rate in US dollars. Any currency conversion gains/losses will be credited/charged to departmental discretionary funds.

For example, a line of credit is approved for \$100,000 when the exchange rate was 1 USD = 0.85 EUR (Euros). The line of credit results in a transfer of €85,000 to the operating unit. At the time the line of credit is closed and the €85,000 is returned to the university, the exchange rate was 1 USD = 0.90 EUR resulting in a transfer of \$94,444.44. This transaction results in a loss of \$5,555.56 (\$100,000 - \$94,444.44) which will be charged to a department discretionary fund. If the same €85,000 was returned at an exchange rate of 1USD = 0.80 EUR, it would have been repaid at \$106,250 resulting in a gain of \$6,250 that would be credited to a department discretionary fund.

It is prudent to submit reimbursement requests to Accounts Payable in a timely manner (at least monthly). Environments with volatility in the foreign currency exchange rate can result in significant currency gain or loss. The department may consider keeping a log of transactions that will monitor the line of credit balance in both US dollars and the foreign currency.

<u>Date</u>	<u>Description</u>	<u>Amount (USD)</u>	<u>Exchange Rate (Current Rate)</u>	<u>Amount (Euros)</u>
01/01/2024	Initial draw from line of credit	\$100,000	1 USD = 0.85 EUR	€85,000
01/15/2024	Purchase of office supplies purchased in euros	<\$555.56>	1 USD = 0.90 EUR	<€500>
01/29/2024	Travel expenses	<\$3,750>	1 USD = 0.80 EUR	<€3,000>
01/30/2024	Reimbursement at exchange rate on this date	\$4,666.67	1 USD = .75 EUR	€3,500
	Balance as of 1/31/2024	\$100,361.11		€85,000
	Close line of credit	\$94,444.44	1 USD = .9 EUR	€85,000
	Loss on currency exchange	\$5,555.56		

### C. Compliance

The Controller’s Office has an international tax specialist that provides support to departmental personnel in determining documentation requirements for all international payments. Supplier invoices are reviewed and approved before payments are initiated by Accounts Payable.

In all cases, Controller’s Office and Procurement policy and procedure must be followed including costs associated with transport options, methods of payments, currency conversion, and export controls. Departments should identify resources needed to effectively conduct international business including currency conversion and conducting business in a foreign language.

If sponsored program funds are utilized, all federal regulations including 2 CFR 200.440 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and any specific terms and conditions written into a sponsor agreement must be followed. Any questions regarding terms and conditions for exchange rates for sponsored programs should be directed to the assigned grants management post award associate in the Office of Sponsored Programs.