

University Funds

Authority This Guide Memo was approved by the Vice President for Business Affairs and Chief Financial Officer.

Summary This Guide Memo describes the University's funds and budgets. Section headings are:

1. BASIS OF ACCOUNTING
2. FUND GROUPS
3. BUDGETING
4. FUND TRANSFERS

1. BASIS OF ACCOUNTING

- a. **Fund Accounting** — The accounts of the University are maintained in accordance with the principles of fund accounting. Because the University's money is received from a variety of sources with different restrictions, it is tracked in individual funds and their related expenditure accounts. Each fund is a separate accounting entity with its own assets, liabilities and fund balance.
- b. **Restrictions on Use of Funds** — Depending on their source, funds may be:
 - **Restricted** by a source external to the University, such as a donor or a sponsoring agency. Funds can also be restricted internally by the recipient; however, restricted funds may only be used in accordance with the purposes established by the sources of such funds.
 - **Designated** for a specific purpose by action of the Board of Trustees.
 - **Unrestricted**, meaning they may be used for any institutional purpose.
- c. **Chart of Accounts** — Stanford's accounting system uses an alphanumeric code, or chart of accounts. For a detailed explanation of its structure, see <http://www.stanford.edu/services/oracle/coa/>.

The Controller's Office and the departments and individuals authorized to spend funds in an account share responsibility for using the chart of accounts appropriately. The Controller's Office is responsible for maintaining the integrity of the chart of accounts and for assigning fund and expenditure account numbers. Schools and departments are responsible for communicating any restrictions on use of funds so that Controller's Office staff can set up the account correctly. Information on the various kinds of expenditure accounts may be found in Guide Memo 34.2, Activities/Accounts, http://adminguide.stanford.edu/34_2.pdf.

2. FUND GROUPS

The University combines funds with similar characteristics into fund groups for planning and reporting purposes.

- a. **Current Funds** — Funds in the Current Funds Group are available for the current operation of the University, plus reserve balances for future expenditure. Sources of funds include:
 - (1) **Contracts and Grants** — Funds provided by sponsors to reimburse the direct costs of contracts and grants are restricted. The terms of the award and the applicable regulations determine how the money may be spent. To apply for a contract or grant the principal investigator for the project submits a proposal through the Office of Sponsored Research (OSR) or its delegate to the sponsor. OSR negotiates the award with the sponsor. For more information, see the OSR website at <http://ora.stanford.edu/ora/osr/default.asp>.

- (2) **Tuition and Fees** — The Board of Trustees sets tuition and fee rates. The Student Financial Services Office collects tuition and fee payments from registered students each quarter. Income from tuition and fees is unrestricted.
 - (3) **Gifts and Income From Previous Gifts** — The donor specifies the purpose of the gift and whether or not the principal may be spent. The principal of gifts that may not be spent becomes part of the University's endowment or student loan funds. Both the principal of expendable gifts and any income earned from endowment investment are restricted to the purpose of the gift. The Office of Development solicits and processes gifts to the University. For more information, see Chapter 4, Gifts, <http://adminguide.stanford.edu/ch4contents.html>. Stanford Management Company is responsible for investing monetary gifts and income from income-generating properties and for the sale, when appropriate, of nonmonetary gifts.
 - (4) **Reimbursement of Facilities and Administrative Costs (Indirect Costs)** — The Cost and Management Analysis Office calculates a rate percentage that is charged each contract and grant to pay for those costs, such as utilities, building maintenance, and administrative support, that cannot easily be identified for each individual project. The cognizant agency for the federal government approves the rates. The Office of Naval Research (ONR) is Stanford's cognizant agency. Indirect cost reimbursements are unrestricted funds. Information on rate calculations is on the web http://ora.stanford.edu/rates/rate_calc.asp.
 - (5) **Reimbursement of Facilities Costs (Infrastructure and Utilities Charges)** — Designated Unrestricted Funds and Restricted Funds (both Sponsored and Non-sponsored) which do not otherwise pay facilities-related costs (e.g., through Indirect Cost Recovery) are charged a fee to offset operations and maintenance and utilities costs paid by University unrestricted funds. The fee is a percentage of certain types of expenditures. For more information see Guide Memo 37.3, Infrastructure Charges, http://adminguide.stanford.edu/37_3.pdf.
 - (6) **Auxiliary Activities** — Auxiliaries are self-contained financial entities (see Guide Memo 34.2, http://adminguide.stanford.edu/34_2.pdf). Their income is used to support their own operating expenses.
- b. Endowment Funds** — Funds in the Endowment Funds Group include:
- (1) **True Endowment:** Gifts subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and only income and appreciation be made available for spending.
 - (2) **Funds Functioning as Endowment (or Quasi-Endowment Funds):** Expendable funds (both restricted and unrestricted) that are invested to function in a manner similar to endowment. The amount invested in the endowment must be \$500,000 or more. Because of the market risk, funds should only be so invested if they will remain for a long period (five years or more). Funds so invested can be made expendable again under certain conditions:
 - **Withdrawals of more than \$5,000,000** may be transferred out of the endowment only by action of the Board of Trustees.
 - **Withdrawals between \$500,000 and \$5,000,000** may be transferred out of the endowment with the approval of the school financial officer, the Provost and the Chief Financial Officer. Smaller amounts may be withdrawn only if the remaining balance is being withdrawn. Additional restrictions apply; departments should contact the Controller's Office for guidelines.

To protect the intrinsic value of the endowment against the expected impact of inflation, the Board of Trustees sets a payout rate for endowment funds income that provides a prudent rate of real growth of endowment funds while also funding a relatively constant portion of the University's current funds expenditures. Income in excess of the payout rate is reinvested. If the payout rate exceeds the yield, then previously reinvested yield and/or accumulated realized gains are transferred to current funds to make up the difference.

- c. **Student Loan Funds** — Student Loan Funds are not meant to be expensed, but rather are loaned to students as a portion of the financial aid package. As these loans are repaid, the principal and accumulated interest become available for new loans to students.

NOTE: Scholarships to students are expensed within the current funds group.

- d. **Plant Funds** — Plant Funds are funds that have been received or designated by the Trustees for facilities and retirement of indebtedness. They also include all of the University's investments in long-lived capital assets and related liabilities.
- e. **Agency Funds** — This fund group includes funds that are held for others, with Stanford acting as the custodian. Funds in this group represent liabilities owed by the University.

3. BUDGETING

Each year the University prepares a consolidated budget based on estimates of income and expenses. Budgeting enables the University to verify fund availability when processing expenditures. Stanford University uses the Hyperion Planning system for budgeting.

a. Responsibilities —

- (1) **Provost** — The Provost is the University's chief academic officer and chief budget officer. The development of the University's Consolidated Budget is a principal responsibility of this officer.
- (2) **The Vice-Provost for Budget and Auxiliaries Management** directs and manages, on behalf of the Provost, the process leading to the development of the Consolidated Budget.
- (3) **Budget Officers** within schools and departments coordinate all budget activities within their respective organizations in collaboration with the University Budget Office in the Provost's Office and the Controller's Office.
- (4) **The University Budget Office** in the Provost's Office maintains the budget system, approves the budget submissions of all schools and departments, and monitors and reports on variances from the approved budget.

b. Annual Budget Process/Cycle — The budget process is directed by the University Budget Office.

- (1) **Forecasts** — In the spring, budget officers prepare income and expense forecasts for the following year. These forecasts are used by the University Budget Office to prepare the University consolidated budget forecast that is presented to the Board of Trustees for approval.
- (2) **Consolidated Budget** — Following the approval of the Stanford University Budget Plan (Consolidated Forecast) by the Board of Trustees, budget officers record the final, detailed, account-by-account budget for both revenues and expenses (salary and non-salary) in the budgeting system. As of September 1, it is the official University Consolidated Budget.

- (3) **Variance Reporting** — Periodically through the year, as determined by University management, budget officers provide analysis and explanation of the variance between actual income and expense (or projected income and expense) and the Consolidated Budget in accordance with the guidelines provided by the University Budget Office. The University Budget Office uses this information to prepare high-level variance analysis for the Board of Trustees and University management.

4. FUND TRANSFERS

Fund transfers are accounting entries which move all, or a portion of, a fund's fund balance to another fund. The appropriateness of a fund transfer is dependant on the characteristics of the source and destination funds, including the type of fund, the restrictions of the fund, whether the source and destination fund share the same infrastructure and EFP (Expendable Funds Pool) treatment, etc. Generally, fund transfers are allowed when the characteristics of the source and destination funds conform to one another and the terms of each fund does not preclude such a transfer. These transfers are used to:

- Transfer money between designated funds or between restricted funds (generally transfers between a restricted fund and a designated fund are not allowed nor are transfers with a sponsored project fund)
- Transfer money into or between plant funds
- Increase or decrease the budgeted funds of an Operating Budget account

Most fund transfers are accomplished by authorized central office staff. However, some distributed users are authorized to make certain types of fund transfers, generally as a step within the iBudget process. These users are required to take the iBudget/Fund transfer training.