

## Expendable Funds Investment and Payout

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

**Summary** This Guide Memo covers policy for operation of the University's Expendable Funds Pool (EFP) and the Endowment Income Funds Pool (EIFP). Section headings are:

1. DEFINITION OF EXPENDABLE FUNDS
2. INVESTMENT POLICY
3. OPERATION OF EXPENDABLE FUNDS AND ENDOWMENT INCOME FUNDS POOLS
4. PAYOUT OF INVESTMENT INCOME

### 1. DEFINITION OF EXPENDABLE FUNDS

Expendable Funds include all University funds that are not endowment funds. There are over 31,000 separate Expendable Funds. They represent a significant component of University investment capital and are predominantly invested in the Expendable Funds Pool (EFP) or Endowment Income Funds Pool (EIFP). Types of Expendable Funds include:

- Endowment Income Funds – Unexpended payout from pure endowment funds and quasi-endowment funds (also known as Funds Functioning as Endowment or FFE)
- Revolving Debt Pool – Debt principal payments collected internally and held in reserve
- Insurance Reserves – Reserves held for claims within self-insurance programs
- Student Loan Funds – Funds available for student loans
- Plant Funds – Gifts raised for facilities, not yet expended
- Agency Funds – Funds held by the University on behalf of third parties (e.g., Stanford Hospital and Clinics, Lucile Packard Children's Hospital)
- Gift Pending Designation – Non-endowment gift funds received for which the purpose has not yet been designated
- Restricted Funds – Gifts or other restricted expendable funds not yet expended
- Designated Funds – Funds designated for a specific school, department, faculty or purpose, not yet expended
- Unrestricted Funds – University, school, department, auxiliary or faculty funds held in reserve or pending expenditure

### 2. INVESTMENT POLICY

University policy provides for the investment of certain expendable funds in the EFP and for the investment of pure endowment income funds that are being held for later expenditure in the EIFP. Funds so invested share in the interest earnings of the respective Pools.

- a. **Endowment Income Funds** – Funds holding unexpended payout from pure endowments (but not from quasi-endowments) will be invested in a segregated, but merged investment pool called EIFP. All of the assets in this pool are invested by Stanford Management Company (SMC) in money market instruments.
- b. **Expendable Funds Pool** – All other Expendable Funds are invested in a single, merged investment pool, the EFP. The assets in this pool are invested by SMC in money market instruments and cross-invested in the Merged Endowment Pool (MEP).

### 3. OPERATION OF EXPENDABLE FUNDS AND ENDOWMENT INCOME FUNDS POOLS

- a. **Investment of Funds** – Eligible funds are invested automatically by the Controller's Office. Interest is earned on unspent funds; the fact that the funds have been "budgeted" or made available for expenditure does not affect eligibility for investment.
- b. **Overdrafts** – Any fund eligible for EFP or EIFP that is allowed to go into overdraft will be charged interest at the EFP or EIFP rate. The total overdraft must be covered by other available departmental funds.
- c. **Availability of Invested Funds** – Investment in the EFP or EIFP does not restrict the availability of funds for expenditure.

### 4. PAYOUT OF INVESTMENT INCOME

#### a. Endowment Income Funds

- (1) **Payout on Funds Invested in the EIFP** – Each endowment income fund will receive an annual payout on its average fund balance equal to the actual total return on the EIFP. The principal value of a fund is not guaranteed.
- (2) **Calculation of Average Fund Balances Invested in the EIFP** – Average fund balances will be determined by taking the actual fund balances entitled to payout at the end of each month during the fiscal year.

Month-end balances are determined as follows:

- Current year MEP payout and operating budget support spread equally throughout the year, i.e., 1/12<sup>th</sup> booked each month.
- All other activity including other expenses and transfers recorded in the month booked.
- Current year EIFP payout recorded in the following fiscal year.

#### b. Funds Invested in EFP Earning Money-Funds Rate (MFR) –

- (1) **Funds Eligible for Money-Funds Rate (MFR) Payout** – The following types of expendable funds will receive a payout equal to the current money-market rate on each month's ending balance. Interest will be computed monthly and paid out annually. The principal value of the fund will be guaranteed:
  - Revolving Debt Pool
  - Insurance Reserves
  - Student Loan Funds
  - Plant Funds, only for individual gifts exceeding \$1 million
  - Agency Funds
  - Gifts Pending Designation, excluding class gift funds and donor funds of less than \$100,000
  - Restricted Funds, only when stipulated by donor requirement
  - Designated Funds, only with approval of both Provost and the Chief Financial Officer
- (2) **MFR Rate** – For funds held in the EFP, the payout rate will normally be based on the MFR Money Funds Taxable 30 Day Index or comparable index. The Chief Financial Officer may recommend an alternative payout rate if extraordinary market conditions result in a distortion in the MFR.

- (3) **Calculation of MFR Funds Balances** – Interest will be computed monthly based on end-of-month balances and current money-market funds rate.

Month-end balances are determined as follows:

- All activity including operating budget support, expenses and transfers recorded in the month booked
  - Current year EFP payout recorded in the following fiscal year
- c. **Zero Payout to Other Funds** – All other expendable funds will not receive payout, but the principal value of the fund will be guaranteed. For purposes of this policy, these funds are referred to as “zero-return funds.”