3.1.2 UNIVERSITY FUNDS

Last updated on:

Formerly Known As Policy Number:
34.1

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

Authority:
Approved by the Vice President for Business Affairs and Chief Financial Officer.

1. Fiduciary Responsibility for Fund Balances

Individual fund balances are controlled by the fund owner. This may be a faculty member or principal investigator, a department head, a university officer, or the university as a whole. The owner of the fund has the fiduciary responsibility for prudent management of fund balances. While at any time during the fiscal year a fund may go into deficit, by the end of the fiscal year, any fund with a deficit equal to or in excess of $1,000 in cash must be made whole by some other appropriate funding source. Exceptions to this policy must be approved by the University Budget Office and the Office of the University’s Chief Financial Officer.

2. Basis of Accounting

a. Fund Accounting
The University maintains its accounts in accordance with the principles of fund accounting. Because the University receives funding from a variety of sources, with different types of terms and restrictions, each source must be tracked as a separate accounting entity in a unique fund.

b. Restrictions on Use of Funds
Fund restrictions are classified differently for internal and external reporting purposes. While some of the terms overlap, they have different meanings depending on the reporting context. For external reporting purposes, the definitions are based on generally accepted accounting principles. For internal reporting purposes, the definitions are based on the use of the funds.

(1) Internal Reporting Definitions

"Restricted: When a donor makes a gift to the University, the donor may provide terms for the use of that gift. If the terms specify a particular purpose, the funds are restricted to that purpose. Income and appreciation produced by restricted endowments is also restricted as per the terms of the endowment. Funding provided by sponsored agencies or corporations
for specific grant or contract work is also considered restricted.

**Unrestricted:** Funds without donor terms or with terms that allow the funds to be used anywhere at the University. If donor terms allow a gift to be used broadly within a school or unit, it is deemed Unrestricted at the unit level, but Restricted by central University administration.

**Designated:** These are unrestricted funds that have been designated for a specific purpose by the Board of Trustees or senior management. Internal units in the University can designate unrestricted resources to any number of specific purposes, but from a broader analytical perspective those funds are unrestricted for purposes of internal reporting.

(2) External Reporting Definitions

**Permanently Restricted:** The University classifies as Permanently Restricted (a) the original value of gifts donated to the Endowment and (b) accumulations to the Endowment made in accordance with the direction of the applicable donor gift instrument.

**Temporarily Restricted:** Temporarily Restricted assets include gifts and pledges that are subject to donor-imposed restrictions that expire with the passage of time, payment of pledges, or specific actions to be undertaken by the University or the Hospitals; these assets are then released and reclassified as Unrestricted. In addition, appreciation and income on certain donor-restricted endowments funds are classified as Temporarily Restricted until authorized for spending. Donor-restricted resources intended for capital projects are initially recorded as Temporarily Restricted and released from their temporary restrictions and reclassified as Unrestricted when the asset is placed in service. Also included in this category is the University's net equity in split interest agreements, expendable at maturity.

**Unrestricted:** Funds that are not Permanently Restricted or Temporarily Restricted are treated as Unrestricted for external reporting purposes. This includes expendable gifts that have donor restrictions, so long as the University is free to spend the gift. Funds Functioning as Endowment, or FFE, are University resources designated by the Board or internal University units to be held as endowment. FFE is usually considered Unrestricted per accounting rules, as are most other expendable resources in the University.

c. Chart of Accounts

Stanford’s accounting system uses an alphanumeric code, or chart of accounts. The fund number, also referred to as the award number, is included in the chart of accounts. The University accounting system also records attributes assigned to each fund that further define the fund purpose and restrictions. For a detailed explanation of its structure, please see Stanford's Gateway to Financial Activities [1].

The Controller's Office, a unit in Financial Management Services (FMS), 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 other 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. Find information on the various kinds of expenditure accounts in Guide Memo 3.1.3 [2]: Expenditure Accounts (PTAs).

3. Fund Groups
The University combines funds with similar characteristics into fund groups for budgeting, planning, and reporting purposes.

a. Expendable Resources
Expendable resources are available for the current operation of the University; balances can be accumulated for future expenditure. Sources of funds include, but are not limited to, the following:

(1) Contracts and Grants
Funds provided by sponsors to reimburse the direct costs of contracts and grants are restricted per internal reporting definitions. The terms of the award and 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 [3].

(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 per internal reporting definitions.

(3) Gifts
Donor gifts that are not ultimately directed to the endowment are usually considered expendable; exceptions include cases where the funds are not available for the current operation of the University, such as Pending funds and Donor Advised Funds. Donors typically specify the purpose of gifts, which will determine whether the gifts are assigned to expendable, capital, or endowed purposes. The Office of Development solicits and processes gifts to the University. For more information, see Chapter 4 [4]: Giving to Stanford.

(4) Reimbursement of Facilities and Administrative Costs (Indirect Costs)
The Cost and Management Analysis Office calculates rates that are charged to each contract and grant to pay for facilities and administrative overhead costs associated with sponsored research. These costs include utilities, building maintenance, and administrative support. The responsible agency for the federal government, which for Stanford is the Office of Naval Research (ONR), approves the rates. Indirect cost reimbursements are unrestricted funds per internal reporting definitions. Information on rate calculations and policy is available on the DoResearch [5] website.

(5) Reimbursement of Facilities Costs (Infrastructure and Utilities Charges)
Designated Funds and Restricted Funds that do not otherwise pay facilities-related costs (both Sponsored and Non-sponsored) are charged an infrastructure fee to offset operations, maintenance, and utilities costs paid by University unrestricted funds. The fee is a percentage of certain types of expenditures, and these reimbursements are unrestricted funds per internal reporting definitions. More information is available in Guide Memo 3.3.1 [6]: Infrastructure Charges.

(6) Auxiliary Activities
Auxiliaries are self-contained financial entities (see Guide Memo 3.1.3 [2]: Expenditure Accounts (PTAs)). Income is used to support operations, including overhead, and all income is considered unrestricted per internal reporting definitions.

(7) Special Program Fees & Other Income
Income from outside sources related to programs, patents and royalties, program activities, affiliations, ticket income and the like are collected throughout the institution. Much of this income is subject to the Infrastructure and Utilities Charge. All of it is considered unrestricted per internal reporting definitions.

b. Endowment Funds
Funds in the Endowment include:

(1) True Endowment:
Endowment funds created pursuant to the terms of a donor’s gift. These funds are generally intended to last in perpetuity. Funds established with gifts directed to the endowment are typically used to purchase “pure” shares in the Merged Pool, and in rare circumstances are held in assets specifically directed by the donor. True Endowment and payout from True Endowment are considered restricted per internal reporting definitions if the donor terms specify a particular purpose.

The Board of Trustees establishes an annual payout rate for distributions from the University’s endowment funds. Payout may be made from True Endowment without limitation to income as long as the payout rate is prudently established and the gift terms do not provide otherwise. There is a group of funds referred to as “Pool A” funds that are established by gifts with terms that specify something like the following: “income but no appreciation” may be paid out of the fund. These types of funds are typically no longer established by the University. There are also funds that contain what are known as “Pool B Limited” shares. This situation arises where the donor specifies something like the following: only income and appreciation above the original gift value may be paid out. These types of funds are also typically no longer established by the University. Funds without such terms of limitation are referred to in the University accounting system as “Unlimited.”

Payout generated by a true endowment fund that cannot be used for operational purposes can be redirected back to the principal of the fund for investment if provided for in the donor’s gift agreement, or at the request of an internal University unit. When the funds are reinvested pursuant to a provision in the donor’s gift agreement, they add “pure” shares to the Endowment; when they are reinvested at the request of an internal unit they add “quasi” shares to the Endowment. In both cases, reinvestment takes place at year end unless the provision in the donor’s gift agreement specifically provides that all payout be reinvested until the True Endowment fund reaches a certain level, in which case reinvestment is made monthly. All such reinvestment is subject to the same donor terms as the original Endowment gift, and is restricted per internal reporting definitions if the donor terms specify a particular purpose. Any reinvestment of unused payout by an internal University unit must be requested by July 31 for the given fiscal year.

For True Endowment funds that contain Pool B Limited shares, payout is limited to income and appreciation in any year. Withdrawals in excess of income and appreciation are only permitted if that fund also contains quasi shares, in which case up to the full value of all quasi shares can be sold to make the full regular payout for that year (or as much of the full regular payout as possible). Requests for such withdrawals must be made by July 31 for the given fiscal year; refer to the form Withdrawal Guidelines for True Endowment [7].

(2) Funds Functioning as Endowment (or Quasi-Endowment Funds):
Funds Functioning as Endowment (FFE) are expendable resources (both restricted and unrestricted per internal reporting definitions) that are invested in the Merged Pool (MP) and are
considered part of the University’s Endowment. These are created at the request of an internal University unit (department, school, etc.). In order to create a new FFE, the unit must invest a minimum of $1 million. The minimum addition of “new” money to an existing FFE is $250,000. The University’s Chief Financial Officer and Provost are jointly authorized to make an exception to these minimums. Requests to create FFE must be approved by both the Dean or Chair, and the school’s or unit’s Senior Financial Officer. Requests to approve the creation of FFE involving gift funding must be reviewed by the Office of Planned Giving.

To optimize investment returns, the University takes a long term perspective of its investments in the MP which requires minimal unplanned cash flow volatility in the portfolio. Thus, the MP should not be used by individual fundholders to support short term needs. Accordingly, FFE invested in the MP these funds are subject to the following guidelines:

**Lock-up Periods:**

- Any FFE investment made on or after September 1, 2016, is subject to a 7-year initial “lock-up” period, during which it cannot be redeemed.
- Any FFE investment made prior to September 1, 2016 is subject to the previous 5-year initial “lock-up” period, during which it cannot be redeemed.

**Annual Withdrawal Limits:**

Once the “lock-up” period is met, FFE can be withdrawn under the following conditions:

- FFE invested on or after September 1, 2016 are subject to an annual withdrawal limit, which is the greater of:
  - $5 million, or
  - 10% of an individual fund’s market value. The 10% limit will be calculated as 10% of the fund’s market value which is eligible for withdrawal at the time the request is made, less any amount that has been redeemed or is pending redemption during the same fiscal year.
- FFE invested prior to September 1, 2016 are grandfathered under the previous FFE policy, and are not subject to an annual withdrawal limit.

**Required Approvals:**

Withdrawals are also subject to the following approval authority:

- **Withdrawals in keeping with these guidelines** may be transferred out of the endowment with the approval of the school financial officer, the University Chief Financial Officer and the Provost. Smaller amounts may be withdrawn only if the remaining balance is being withdrawn.
- **Withdrawals outside these guidelines** are not typically allowed and extraordinary exceptions require an action of the Board of Trustees.

**Notification Periods:**

In order to provide the Stanford Management Company with sufficient time to divest assets, requests for withdrawals must be received by Fund Accounting based on the following minimum notification requirements prior to anticipated month of withdrawal:

- Up to $150 million – 90 days
- $150 million-$250 million – 150 days
- Greater than $250 million – 270 days
Please refer to the "Investment and Withdrawal Guidelines for Funds Functioning as Endowment Greater than $500,000" [8] form for further details.

Reinvestment of Payout:

Even if the amount is less than the minimum for new principal investments, at the request of the creating unit, all unused payout from FFE may automatically be reinvested back in to the principal of the fund at year end; this election can only be made upon the formation of the fund or when additions of $500,000 or more are made to the fund. If a unit chooses not to request the automatic year end reinvestment, they may contact Fund Accounting by July 31 to specify the amount that should be reinvested for the given fiscal year.

(3) Term Endowments: Endowment created at the request of a donor, but intended to be fully spent down on a timeline established by the donor. These monies are used to purchase “quasi” shares in the Endowment. Regular withdrawals are made as per the donor terms.

c. Non-Endowment Funds invested in the Merged Pool

Funds in this group include, but are not limited to:

(1) Life Income Gifts: A life income gift allows donors to give assets to Stanford while providing themselves or others with income for a period of time before Stanford is permitted to use the gift; until that period has ended, the gift is not counted as part of the University Endowment. The university, as trustee, manages the investment of the assets and pays a specified income to the donor, the donor’s designated beneficiaries, or both. Income payments continue for the beneficiaries’ lives or, in some cases, for a term of up to 20 years.

(2) Donor Advised Funds: Stanford has Donor Advised Funds. For more information on the size and type of gifts required to create a Donor Advised Fund at Stanford, and the amount of the fund that must ultimately be designated for the use of the University, please refer to the Office of Development’s website [9]. In cases where all or part of a Donor Advised Fund is later used to establish or add to an Endowment fund, it is not counted as part of the Endowment until the funds are explicitly transferred to the endowed fund for use per the terms of the donor’s request.

(3) Pending Funds: These are gifts where the purpose is pending final designation by the donor and the university. In cases where all or part of a Pending Fund is later used to establish or add to an Endowment fund, it is not counted as part of the Endowment until the funds are explicitly transferred to the endowed fund for use per the terms of the donor’s request.

d. 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 student loans.

e. 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.

f. Agency Funds

These are funds held for others, with Stanford acting as the custodian. Funds in this group represent liabilities owed by the University.
4. Intermediate Pool Funds

Intermediate Pool Mechanics

The Intermediate Pool (IP) functions as a unitized pool with shares and share prices, similar to the Merged Pool. The net return of the portfolio, less the cost to administer the portfolio, is allocated to the individual participating funds. Returns are not distributed on a scheduled basis, but are reinvested and accumulated in the participating funds.

Shareholder Policies

The Intermediate Pool is open to the following types of shareholders:

- New Pending Funds not intended for endowment
- New Donor Advised Funds (DAFs), or portions of DAFs, not intended for Stanford’s endowment
- New additions to the Land Development Fund
- Hospital investments
- School and Department Funds (SDF) (e.g. The Stanford Business School Trust, Stanford Engineering Venture Fund, DAPER Investment Fund, etc.)
- Intermediate term reserves from school and units
- A portion of the Expendable Funds Pool (EFP), at the discretion of the University’s Chief Financial Officer
- Debt recycling pool and unexpended debt proceeds
- Other centrally managed funds, at the discretion of the University’s Chief Financial Officer

Requests to invest school and unit reserves in the IP made by a school or academic department must be approved by both the Dean or Chair, and the school’s Senior Financial Officer.

Requests from an auxiliary must be approved by a University Vice Provost or Vice President.

Requests from an administrative unit must be approved by the Provost.

Minimum Investment Amounts and Lock-up Periods

Pending Funds invested in the IP require an initial investment amount of at least $500,000. Exceptions to this policy must be approved by the Vice President for Development.

All other investments in the IP, including both initial investment and additions, must be in increments of at least $1 million. Exceptions must be approved by the University’s Chief Financial Officer.

School and unit reserves invested in the IP are subject to a four year lock-up period, during which the school or unit may not withdraw from the fund.

SMC’s Intermediate Pool Investment Policy Guidelines

SMC manages the investment policy of the IP with the intention of replicating the debt and equity exposure of a well-balanced global investment portfolio, investing in passive index funds.
5. 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.

a. Responsibilities

(1) 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 in 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 high-level income and expense forecasts for the following year. The University Budget Office uses these forecasts to prepare the University consolidated budget forecast that they present, via the Stanford University Budget Plan, 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. As necessary, analysis and explanation of changes from the previous fiscal year to the current fiscal year are also provided by the budget units. The University Budget Office uses this information to prepare high-level variance analysis for the Board of Trustees and University management.

6. Fund Transfers
Fund transfers are accounting entries that move all, or a portion of, a fund's balance to another fund. The appropriateness of a fund transfer is dependent 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:

- Move money between designated funds or between restricted funds (generally transfers between a restricted fund and a designated fund are not allowed, nor are transfers to/from a sponsored project fund)
- Transfer money into or between plant funds
- Allocate and reallocate general (unrestricted) funds among budget units
- Increase or decrease restricted funds’ support of an Operating Budget account

Authorized central office staff typically performs fund transfers.

As transfer of funding creates an initial disconnect between where the funds were collected and where they were used (appropriated), strong controls and audit trails of fund transfers are required by the University and is responsible business practice.