

INVESTMENT INCOME DISTRIBUTION

In general, net investment earnings are credited to the funds source used to generate the revenue. Applicable external investment management, trust, custody, bank, and internal fees reduce the amount of investment income returned to a given fund. Individual University funds which are combined to form an investment pool have income distributed back to the funds source based on each fund's participation in the pool. The Office of Cash Management and Investments ensures the proper recording of all investment income and related expenses and the allocation of net investment income to the appropriate fund groups.

Short-Term Funds Investment Pool (Consolidated Group) Income Distribution

The consolidated group investment pool is the investment of available University working capital from University operations. In general, University cash receipts and cash disbursements are centralized through University-wide banking arrangements. Sufficient cash balances are maintained in bank accounts to provide for anticipated disbursements. Funds over the amount needed to meet disbursements are invested according to Board of Trustees' policy.

Total accrued investment income earned on consolidated group investments is adjusted for the following activities:

- Bank and trust service fees not allocated to a specific fund or campus
- The operating budget of the Office of Cash Management and Investments

Net accrued investment income of the above expenditures is allocated quarterly in the following manner based on average end-of-the-month cash balances:

- Reimburse interest paid State of Illinois on tuition deposits
- Campus specific bank service charges
- The following fund groups (and related entities):
 - Auxiliary enterprises under indenture
 - Auxiliary enterprises not under indenture
 - Federal grants (see *Section 14.4 – Endowment Funds*)
 - Federal loan funds
 - Non-federal loan funds
 - Renewal and replacement
 - Restricted gifts (net of gift management fee)
 - Unit activities
 - Unrestricted gifts (net of gift management fee)

Deficit cash balances reduce the total cash balance for a given campus, fund group, or entity. Any campus, fund group, or entity in a total deficit position will not receive an income distribution, except to the extent required by federal, state, or University regulations or policies.

Debt Service Funds Income Distribution

Debt service funds are normally held by the University as a requirement of bond covenants for outstanding University bond issues. The specific bond covenant determines the type of funds required to be held by the University and any limitations on the income earned on those funds. In general, construction funds represent the deposit and expenditure of the bond proceeds and receive interest from the investment of these funds before expenditure. Debt service reserve funds are retained in the event the University defaults on a bond payment. Bond and interest sinking funds accumulate the investment earnings of the debt service reserve and mandatory transfers from operating units for payment of principal and interest on the outstanding bonds. All investment income earned on debt service reserve and bond and interest sinking funds must be used for debt payments.

Endowment Pool Income Distribution

The University endowment pool is invested with an emphasis on long-term growth and return and uses the total return concept for performance evaluation. This means that growth in the endowment pool is evaluated on the total investment return which includes both capital appreciation and income generation. External managers are not required to meet cash flow needs of the University with dividend and interest receipts. Investments may be liquidated to meet such needs.

The University endowment pool spending policy is based on a percentage of the three-year moving average market value of the endowment pool. The spending rate is reviewed annually by the Vice President for Business and Finance and the Vice President for Academic Affairs who forward recommendations to the President for approval. The rate is applied to each endowment fund based on the fund's participation in the pool at March 31 of the previous fiscal year. Additions and withdrawals from the fund after March 31 will increase or decrease the income distribution on a *pro rata* basis. The full amount of the income distribution will be reflected in the appropriate endowment income accounts in the first month of the fiscal year for which the distribution was calculated.

Separately Invested Funds Income Distribution

Funds are separately invested by the University either because of specific donor or legal restrictions, or because it is in the best interest of the University not to commingle the funds. Separately invested funds hold investments which are specifically identified to the fund. All revenue earned by these investments is deposited directly into the fund which held the investments.