

# Welcome to Endowment Training

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# Training Session Overview

- How do endowments benefit an institution?
- What is an endowment? What are the types of endowments?
- Explanation of Chartfield Setup in PeopleSoft
- Examples of budget calculations
- Resources and references for everyday use
- Question and Answer Session

# Endowment Statistics

- ULF endowment market value –
  - \$592.8 million @ Jun 30, 2009
  - \$679.8 million @ Dec 31, 2009
  - \$672.6 million @ Jun 30, 2010
  - \$768.7 million @ Dec 31, 2010
  - \$772.9 million @ Jun 30, 2011
  - \$714.3 million @ Dec 31, 2011
  - \$721.1 million @ Jun 30, 2012
- National Ranking: 101st out of 843
- U of L ranks third in Kentucky

# Gifts vs. Endowments

- **Direct Gifts (Current Use)**
  - Total amount available for spending
  - No earnings
- **Endowments**
  - Intended to last forever
  - Only a portion of earnings are spent
  - Intergenerational equity

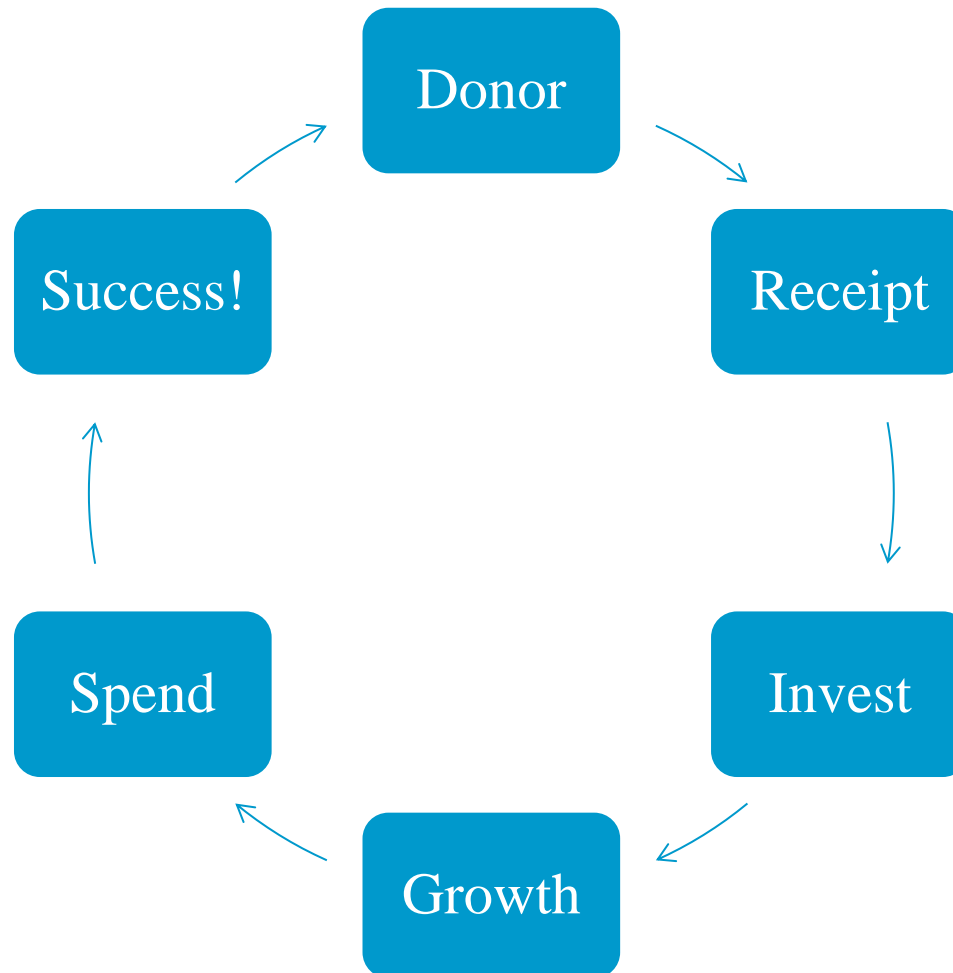
# Types of Endowments

- **TRUE**
  - Permanently Restricted
    - Donor imposed restriction that never expires
  - Temporarily Restricted
    - Donor imposed restriction that expires upon passage of time or some event
- **QUASI**
  - Board imposed restriction that can be reversed upon approval
- **SEPARATELY HELD (E78xx)**
  - Funds held elsewhere, UofL receives earnings
  - No spending policy, directly budgeted

# Appropriate Activities

- Underlying document is necessary! (i.e., charitable gift agreement)
- Cash Transfers not allowed with endowments
- New gifts are credited to the endowment Principal, not to the Spending (i.e., the “ExxxxP speedtype, instead of “Exxxx”)
- Minimum amounts – \$10,000
- 80% max salary expenditures; cash carried forward cannot be spent on salary

# The “Big” Picture



# Comprehensive Example

- Donor signs endowment agreement
- Department requests program
- Advancement approves and sends necessary documentation to Controller's Office
- Advancement thanks donor for support
- Chartfield assigned



# Comprehensive Example (continued)

- Funds deposited
- Funds invested
- After funds have been in the pool for one full calendar year, a spending budget is calculated (Note: the clock starts on January 1!)
- Department spends funds according to donor's wishes
- Stewardship report sent to donor annually

# PeopleSoft Chartfield Assigned (finally)!

- **Why are 2 SpeedTypes necessary?**
- **Exxxx** – for **SPENDING**
  - Fund 1300 – designated
  - Fund 1301 – undesignated
  - Fund 132x – temporary endowment
  - Fund 1323 – purpose restricted
- **ExxxxP** – for **PRINCIPAL**
  - Fund 1310 – permanent endowment
  - Fund 1315 – quasi endowment
  - Fund 132x – temporary endowment

# How Budgets are Calculated

- **Current Year Budget** = current year spending policy + prior year cash carryover
- **Spending Policy:** 5.5% of the 3-year moving average of market value
- **Cash Carryover:** Unspent cash from prior year are carried over to future years (unlike general funds)
- **Formula:**  
$$\text{Assets} - 190\text{xxx} - 195\text{xx} - \text{liabilities} (2\text{xxxxxx}) = \text{Cash Carryover}$$

# How Budgets are Funded

- Endowment Income
  - Account 456310
- Endowment Residual Funding
  - Account 456115
- Prior Year Endowment Income + Current Year Endowment Residual Funding = Current Year spending policy
- Cash = Budget (!!)

# Calendar

- **July** – Endowment cash carryover from prior year calculated
- **August** – Residual funding posted to fund current year budget
- **August** – Endowment income and Residual funding posted to fund current year budget
- **February** – Spending policy calculated for next fiscal year's budget

# Case Study

## Spending Policy Calculation

12/31/2010 Market Value	\$11,188,450
12/31/2011 Market Value	\$12,008,645
12/31/2012 Market Value	<u>+ \$12,825,740</u>
<b>TOTAL</b>	<b>\$36,022,835</b>
Three year moving average of market value	\$12,007,612
Multiply by average Spending Rate	5.5%
<b>EQUALS: FY13 Spending Policy</b>	<b>\$660,419</b>

# Case Study

## Carryover Calculation

FY12 Cash	\$	501,444
FY12 Liabilities		-
FY12 Income (456310)		<u>(178,164)</u>

**Equals: Cash Carryover to FY13** 323,280

Plus: FY13 Spending Policy 660,419

**Equals: Total FY13 Budget** \$ \$983,699

# Case Study

## Funding Calculation

FY2012 Income (456310)	\$ 178,164
FY2012 Residual (456115)	482,255
FY2012 Cash Carryover	<u>323,280</u>
Equals: FY13 Beginning Cash	\$ 983,699



# Underwater Endowments

- Market Value < Historic Dollar Value
- Historic Dollar Value = Original Donation  
+ Subsequent Donations + Reinvestments  
– Liquidations
- Cannot not spend from market gain
- Can spend income and carryover cash

## Endowment Spending Policy Estimator

9/23/2009

E0492 Shen Fellowship

Investment Return Estimate for 2009: 0.00%

Investment Return Estimate for 2010: 5.00%

	Market Values			3-year Moving Avg Market Value	Est. Spending Policy
	12/31/05	12/31/06	12/31/07		
FY 2009	72,248	83,386	92,847	82,827	4,555
FY 2010	83,386	92,847	69,122	81,785	4,498 *
FY 2011	92,847	69,122	69,122	77,031	4,237
FY 2012	69,122	69,122	72,578	70,274	3,865

\* NOTICE: THIS ENDOWMENT IS CURRENTLY UNDERWATER AND IS NOT ELIGIBLE FOR SPENDING POLICY. PLEASE CONTACT FOUNDATION ACCOUNTING IF YOU NEED MORE INFORMATION.

Any questions should be directed to: [fdnaccts@gwise.louisville.edu](mailto:fdnaccts@gwise.louisville.edu)

# Stewardship

## Completing the Circle

- Endowment Activity Reporting System (EARS)

<https://advancement.louisville.edu/EARS/>



# Miscellaneous Information

- Bucks for Brains policies/procedures
- Reinvestment can maximize funds!
  - Must be written into charitable gift agreement
- Speedtype Series:
  - Gifts, Gxxxx
  - Endowments, Exxxx
  - Separately held endowments, E78xx
- UPMIFA (*Uniform Prudent Management of Institutional Funds Act*)

# University Reports

- **CONT - 15A** (15B- grants)
  - Summary information, shows two fiscal years
- **CONT - 13A** (13B – grants)
  - Detailed transaction information for selected year
- **CONT - 03A** (03B – grants)
  - Budget summary (including encumbrances)
- **UBM - 18**
  - Speedtype Listing by Department

# University Reports

- UBM-03C Budget With Exp. By Period
- Endowment Spending Policy Estimator
  - UR - Financials – Listings - Estimator
- Endowment Spending Policy Estimator – Department List
  - UR – Financials – Department Detail - Estimator

# Useful Resources

- General policy
  - <http://www.louisville.edu/vpf/budget/policies/index.html>
- Gift vs. Grant?
  - <http://louisville.edu/research/policies-procedures> then click on “Designating Funding, Gift or Sponsored Program”
- Endowment listing
  - <http://louisville.edu/vpf/controller/foundationacctrpt/endowment/index.html>
- New program request
  - <http://www.louisville.edu/vpf/budget/newacct.html>
- Copy of this presentation
  - University Reports-Financials-Listings-Endowment 101 Training 2009

# Where to Get More Information

- **Controller's Office** ([fdnacctg@louisville.edu](mailto:fdnacctg@louisville.edu))
  - Steve Sprague, Acct III, ext. 8247
  - Mike Kramer, Dir., ext. 8252
- **Budget Office**
  - Karen Wilkerson, Policy & Bud. Analyst, ext. 5414
- **Office of University Advancement**
  - Judy Singleton, Gift Admin Coordinator, ext. 7021
  - Francie Russell, Donor Relations, ext. 6900



# Questions?