

## FAI Q&A

February 15, 2011

Visitors Center Multi-Purpose Room #153

Attendance:   34  

### TOPIC: GIFTS versus OTHER INCOME, and DEPOSIT ISSUES

*NOTE: This topic has been touched upon in previous sessions (2/18/07-What is a Gift?; 5/15/07-Other Income; and 2/19/08-Other Income). We reviewed points from those sessions. Notes from each of those sessions were distributed after each session, and are also posted on the FAI Website located at:*

[http://www.fis.ncsu.edu/foundations\\_accounting/quarterlysessions/meetingnotes.asp](http://www.fis.ncsu.edu/foundations_accounting/quarterlysessions/meetingnotes.asp)

### WHAT IS A GIFT?

It was noted that a gift is something that results from the charitable intent of a donor. There are specific IRS guidelines in determining what constitutes a gift, as well as receipting requirements associated with charitable contributions. The Gift Processing Office in Advancement Services serves in the role of capturing the gift information and generating the appropriate receipts. It was also noted that a new gift assessment program went into place effective October 1<sup>st</sup>, 2010 on assessable gifts.

Two definitions of gifts were read, as follows:

1. “A *gift* is a transfer that (1) is voluntary, and (2) is motivated by a detached and disinterested generosity. Where consideration in the form of substantial privileges or benefits is received in connection with payments by patrons of fund-raising activities, there is a presumption that the payments are not gifts.”
2. “A gift is an irrevocable transfer of personal property (e.g., cash, securities, books, equipment) or real property by a donor, either outright or through a planned/deferred gift vehicle (e.g., charitable gift annuity, retained life estate, charitable remainder trust or life insurance), for the charitable purpose designated by the donor and without expectation of a tangible or economic benefit to the donor except tax benefits and life income in the case of **some** planned/deferred gifts.”

If the person/entity receives something of value in exchange for the money provided, then that portion cannot be treated as a gift. It is not an unusual situation where a monetary receipt consists of both a ‘gift’ component and an “other income” component and it is important to properly distinguish between the two categories.

Treatment of certain specific items was discussed briefly:

- Proceeds from the “sale” of something such as a cookbook, t-shirts, luncheons, picnics, etc. would be considered Other Income, not a gift
- Proceeds from raffle sales are Other Income, not a gift [*Note: there are specific rules and processing instructions for raffles noted on the FAI website*]
- Royalties, copyright proceeds may or may not be a gift. It was first noted that additional information on this topic is on FAI’s website. Any such proceeds first require a review to make sure the funds do not belong to the University, and can legitimately be deposited to the foundation. Assuming the funds can be deposited in a foundation in order to be treated as a gift, the company should make the check payable to the individual. The individual can then endorse the check over to the foundation or could write a personal check for the amount. Under these circumstances it would be treated as a gift from the individual (generally a faculty member). If the company writes the check directly to the foundation it

would not be treated as a gift from the company since they received something of value (i.e. Whatever was patented, copyrighted, etc.) and would instead be treated as Other Income.

### **WHY DOES FAI QUESTION SOME OF THE ITEMS?**

From time to time FAI will question certain items and will ask for backup (or additional backup). For gifts, FAI will go through the Gift Processing Office to obtain additional backup. For Other Income, FAI will contact the college/unit directly. Why do we do this? FAI as a business unit is somewhat unique among universities. Many universities have a single fund raising foundation. For universities that have multiple foundations like NC State does, those foundations tend to operate on a completely stand alone basis – that is, they have their own accounting system, own employees, own space, own set of auditors, etc. Because NC State has a centralized unit that handles these functions for the majority of the University’s associated entities, it provides significant benefit from an economies of scale perspective. One of the biggest benefits is in cost savings as they relate to audits. Because one unit is performing the same set of tasks for all of the foundations, the outside auditors are able to significantly reduce their internal control testing (and therefore costs) since there is only one “set” of internal controls. The outside auditors rely on the procedures that FAI performs in order to insure that the internal controls are in place and are working. The way they do this is by reviewing “evidence” of the controls. Examples of such “evidence” include such things as reconciliations, review processes, and backup documentation. As it relates to questions that FAI may ask you on deposits, we are looking for appropriate documentation to insure that has been correctly classified and accounted for 1) as either “gift” or “other income” revenue; and 2) that it is being accounted for in the correct legal entity. These internal controls are important in obtaining a “clean” audit opinion, since the lack of a “clean” opinion could impair the ability to attract gifts.

### **TYPICAL REASONS FAI MAY QUESTION A DEPOSIT or ASK FOR ADDITIONAL BACKUP**

- Odd dollar amounts counted as gifts
- Experience with similar situations
- Other information such as notes, correspondence, etc. that indicate that something of value was received
- Notations in the Memo Line of the check indicating something of value was received
- Lack of clear evidence that the funds belong to the entity to which they are being deposited. Reminder: Just because the check is payable to a certain entity or fund does not always guarantee it belongs to that entity. The definitive answer lies in how the funds were solicited (see additional information on this topic below “WHERE SHOULD FUNDS BE DEPOSITED”).

Please keep in mind that when FAI questions something, or asks for backup (or additional backup) on something we are complying with the set of internal controls that we have indicated to the auditors. We are making sure that when the auditors look at it there will be “evidence” to support how it was treated, and that it belongs to the entity into which it was recorded.

### **QUICK OVERVIEW OF HOW GIFTS AND OTHER INCOME SHOULD BE PROCESSED**

ALL gifts should be processed through ADVANCE, including gifts to University trust funds (Ledger 7 funds). This is accomplished by completing the BA151 and submitting to Gift Processing. Checks for deposit to Ledger 7 funds should be deposited through the University Cashiers Office and the BA151 form should be forwarded to Gift Processing. Checks for deposit to foundation (Ledger 6) funds should be forwarded with the BA151 to Gift Processing directly.

Checks for Other Income should be forwarded along with the Other Income Control Log (available on the FAI website) directly to FAI for deposit and recording. Backup should be provided supporting that the funds properly belong to the entity into which they are being recorded.

Checks for receipts that have both a 'gift' and an 'other income' component should be forwarded to Gift Processing. A BA151 should be completed for the gift portion, and the Other Income Control Log should be completed for the Other Income portion. Gift processing will process the gift portion through ADVANCE, and will forward the check, along with the Other Income documentation to FAI for deposit and recording.

Attendees were encouraged to be proactive in including documentation up front. This will save everyone time if Gift Processing and FAI have what is needed at the time the gift or other income is being processed.

## **WHERE SHOULD FUNDS BE DEPOSITED?**

For audit purposes (state, internal, and foundation auditors) it is critical that the funds be recorded to the correct legal entity. It is important to understand that even though the associated entities/foundations are here to 'support' the University, they are separate legal entities. Funds that belong to the University are considered State funds. If funds belonging to a State agency are put somewhere else, it could be construed as a diversion of State funds. This is the situation we are trying to avoid by insuring that proper backup exists. It has been an increased area of focus over the last five years from the state auditors, and in times of increased budgetary pressures, there could be even more focus. FAI's efforts in this area are for the purpose of demonstrating that we have strong internal controls in place (that is, we are trying to Keep Everyone Out of Trouble!).

Regardless of whether funds are 'gift' funds or 'other income' funds, the key to where the funds **MUST** be recorded is dependent on how those funds have been **solicited, or how the event/activity has been held out/marketed/promoted**. "Solicitations" come in a variety of ways. Examples of "solicitation" include:

- Brochures
- Flyers
- Websites
- Announcements
- Letters/memos
- E-mail
- Proposals

A meeting was held in late 2007, and again in the spring of 2010 with University Legal Counsel to get input on this topic. Their response was that the foundation must be "prominently" featured in the solicitation. This would include being prominently mentioned on the main page of the materials, not buried at the bottom, in a footnote, or in fine print. It should also be included on the Registration page/form (if applicable). Examples of wording could include: "Sponsored by the XYZ Foundation"; "Supported by the XYZ Foundation"; "an XYZ Foundation fund/project"; "a fund within the XYZ Foundation". It should also be requested to make the check payable to the XYZ Foundation... however, without proper indication elsewhere in the solicitation, simply saying to make the check payable to the foundation is not adequate (in fact, it can even create a more negative impression from an audit standpoint if everything else about the solicitation references the College/Department/University, and it states to make the check payable to the XYZ Foundation).

The important thing to keep in mind is that it must be clear that the **activity/solicitation is by the foundation in support of the college/unit/department**. With a lack of proper support an auditor will make the presumption that the funds belong to the University, not the XYZ Foundation. As a result, if the funds are to be deposited into a foundation, it becomes critical to provide the "evidence" supporting the deposit.

Attendees were reminded that FAI is available to review marketing/solicitation materials prior to printing them to ensure they can be deposited into a foundation project.

### **WHAT IF THERE IS NO DOCUMENTATION?**

- Checks, especially those of significant value, coming into an associated entity are typically the result of solicitations, events or other activities/interactions for which some sort of documentation already exists.
- It is important to note that just because a check has been made payable to a foundation does not necessarily mean that it belongs to the foundation. Similarly, because a check has been made payable to NC State/NCSU does not necessarily mean that it belongs to the University.
- It may sometimes be necessary to go back to the donor. It is not unusual for a donor to “accidentally” make a check payable to NCSU, NC State, etc. when they really mean the foundation. However, with no documentation to back this up, such as the solicitation or other fundraising materials, the funds must be deposited with the University. An example of a simple communication to donors to obtain such evidence was read aloud. A request was made to provide a copy of the communication to the attendees.
- FAI and Advancement Services are working together to insure that proper documentation exists. Requests for additional backup could come from either Advancement Services for gifts or from FAI primarily for other income.