Foundations Accounting
& Investments

Endowments
A Deeper Understanding
What is FAI???
Foundations Accounting & Investments (FAI)

• Reports to the University Treasurer, within the Finance and Administration Division

• University Treasurer serves as Treasurer or Assistant Treasurer to the Foundations and University Endowment Fund

• Centralized service unit providing accounting, investment and financial reporting services to seven (7) University-related foundations, the NC State Alumni Association, Inc., the Endowment Fund of North Carolina State University and the NC State Investment Fund, Inc.

• FAI also provides similar services to the NC State Partnership Corp., its seven (7) LLC’s, including the Lonnie Poole Golf Course, and the NC State Executive Education, LLC, a subsidiary of the NC State Foundation
In addition to the fundraising entities noted above, FAI also provides support to The Endowment Fund of NC State University, the NC State Investment Fund, Inc., and eight (8) limited liability corporations (LLC's).
What Does FAI Do?

- Deposit and record all gifts and other income receipts
- Manage long term investments, planned giving instruments, and operating cash
- Work with Foundation/College Business offices to provide data for Operating budgets
- Review all endowment and restricted fund Gift Agreements
- Unitization and accounting for all endowments
- Computation of endowment spending budgets
- Coordinate annual audit process and financial statement preparation
- Preparation of IRS tax forms – 990, 1099’s
- Board materials and presentations for the Treasurer
- Assist Foundations with monitoring corporate governance issues (primary responsibility lies with the Foundation, but FAI serves as a resource)
- Special analyses and reports
- Q&A sessions and other training opportunities
- Assist Foundation customers
- Other routine accounting services (e.g., bank reconciliations, manual checks, set up new funds)
NC State & Associated Entities
Investment Relationships

NC State

NC State Board of Trustees

Endowment Fund Board of Trustees

Associated Entities

Ag Fdn
NC State Fdn
Alumni Assoc.
Sciences Fdn
Tobacco Fdn
Vet Med Fdn
Nat. Res. Fdn
Eng. Fdn

NC State Investment Fund, Inc. (NCSIF)

NCSIF Members Board*

NCSIF Board of Directors**

*Endowment Fund and Associated Entities are represented on the Members Board, some with permanent seats and others with rotating seats based on relative market values. This Board provides governance oversight and authority.

** This Board provides investment oversight and management, and acts as the investment committee.
Endowments at NC State

- Endowments may be held in multiple legal entities:
  - Endowment Fund of NC State University
  - College-based foundations
  - Alumni Association
  - NC State Foundation

- Minimums
  - University established minimums, by type
  - Minimums recommended by University Advancement, approved by Board of Trustees

- Types of Endowments
  - ‘True’ endowment:
    - determination of endowment made by external party/donor
    - Determination is permanent. Cannot be unendowed
    - May be unrestricted or restricted in purpose
  - ‘Quasi’ endowment:
    - determination to create an endowment is internal
    - Follows the same spending policy as true endowments
    - May be partially or completely unendowed
    - May be unrestricted or restricted in purpose
**Types of Endowment Accounts**

### Endowment Principal
- Holds donor funds (gifts)
- Long Term Pool Net Investment Earnings
- Held in perpetuity
- Corpus = original value of gift(s)
- Spending Reserves = Cumulative net earnings after funding spending budgets
- Corpus +/- spending reserves = Market Value

### Endowment Income
- Holds spending budgets generated by principal fund, based on Board approved policy
- “Spending Account” for campus users
- Spending budgets are made available annually in July

### Building to Endowment (BTE)
- Holds donor funds until minimum required endowment level reached
- Will convert to endowment principal when minimum required level reached
- A corresponding “Current Use Fund” can be set up for annual gifts made before endowment fully funded
Endowment Legal Guidance

• Endowment **Gift Agreement**: outlines specific terms which the University/Foundation are required to follow. Terms could include restriction of purpose, prohibition of spending of corpus, and other requirements.
  – University has a standard gift agreement and review process that was implemented in 2015, but there are many older endowment agreements in place that did not follow the current standard practice.


  – Requires that Distinguished Professorships be held in the University Endowment Fund in order to qualify for matching funds
DPETF
(Distinguished Professors Endowment Trust Fund)

- Funds must be held in the University Endowment Fund to qualify for matching ($1 for every $2 of private funds, at $500k, $1m, $1.5m, and $2.0 levels)

- A ‘Chancellor’s Plan’, outlining the general requirements and benefits, must be submitted to the UNC System at the time that matching funds are requested.

- Once matching funds have been requested the endowment will be considered ‘in the queue’, waiting for matching funds to be allocated. Can take 1-3 years for matching funds to be received, depending on available funds, and demand for matching.

- The Provost Office and Donor Communications unit of Advancement Services work together on drafting of the endowment gift agreement and Chancellor’s Plan for Distinguished Professorships.

- Spending may not begin until matching funds have been received, and under the current UNC System Policy, corpus cannot be spent. Endowment spending follows the normal spending policy.
Components of an endowment

- Corpus = historical gift amount(s). Prior to passage of UPMIFA, corpus could not be spent

- Spending Reserves = accumulated net investment earnings, plus any reinvested spending amounts

- Market Value = Corpus +/- Spending Reserves

Note: if spending reserves are negative, the endowment is considered ‘underwater’.
Endowment Investments

- **Endowment principal** funds are invested in the long-term pool managed by the NC State Investment Fund, Inc.

- Funds remain fully invested, including earnings, throughout the fiscal cycle.

- Spending budgets are calculated and communicated to campus customers in December of each year for the following fiscal year. This timing is necessary in order to begin making scholarship commitments in the January/February timeframe.

- In June of each year the spending budget for the next fiscal year is withdrawn from the long-term pool and placed in the endowment income fund for campus to spend starting in July.

- **Endowment income** funds (along with unrestricted and restricted funds) are invested in an operating cash pool, made up of short-to-intermediate term investments.

- Earnings on **endowment income** funds benefit the foundations’ general fund.

- Unused endowment spending budgets may be carried over from one fiscal year to the next, or may be reinvested in principal.
Endowment Spending Policy

- Endowment spending policy is set by each respective board, upon recommendation of the Treasurer.

- Spending Policy is related to investment strategy. Since all entities managed by FAI are invested with the NCSIF, they have the same spending policy

- UPMIFA permits the prudent spending of corpus, IF not prohibited by the endowment agreement. NC State has adopted a prudence standard allowing expenditure of corpus of up to 15%.

- A sustainable spending rule is total net investment return minus inflation. The goal is to ensure that the endowment maintains its purchasing power over time to support future generations – *Intergenerational Equity*
Endowment Spending Budgets

• Spending budget: Mutual fund concept – each endowment owns ‘units’. The spending budget is the Spending Rate per unit (4% of the long-term pool 20-quarter average pooled market value per unit) multiplied by number of units owned at June 30th.

• Rolling, multi-year quarters help smooth out market “ups and downs” that could have a negative effect on spending budgets. Especially important for scholarship endowments.

• The programmatic spending rate per unit will be measured as of the prior fiscal year end to ensure that, when multiplied by the total investment pool units, the resulting spending amount falls within a band of 3% to 5% of the ending pooled market value. Any year in which the effective pooled spending measurement falls outside of this band, the spending rate (4%) will be adjusted as necessary to fall within this band.

• Spending budgets for the next fiscal year must be provided to campus by December 31st of the current fiscal year. Budget amounts are calculated by FAI, based on the board approved policy.

• Note: as mentioned earlier, each endowment must stand on its own, adhering to the specific terms and conditions of the underlying agreement.
To spend in FY2020, endowments must have had adequate spending reserves at June 30, 2018 OR an UPMIFA compliant agreement and a market value greater than 85% of corpus.

Note: Periods used in the computation are based on the fact that campus users must be notified of spending budgets before the end of December of each year. This is necessary because commitments (in particular for scholarships) start being made the following January.
Questions?