NC State University
Foundations Accounting & Investments

An Introduction to FAI, Ledger 6, and
The Endowment Fund of NC State University
## Agenda

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Foundations Accounting & Investments (FAI)

Who We Are

- Central office under Finance Division
- Report to Associate Vice Chancellor for Finance and University Treasurer
- [https://foundationsaccounting.ofa.ncsu.edu/](https://foundationsaccounting.ofa.ncsu.edu/)

We serve 22 separate legal entities, including:

- NC State Investment Fund, Inc. (NCSIF)
- Eight University-affiliated foundations, including one subsidiary – the NC State Executive Education, LLC
- Alumni Association
- University Endowment Fund
- NC State Partnership Corp, along with its nine subsidiary LLCs

We also serve:

- Advancement Services
- All college and departmental offices who receive support from these entities or funds
FAI Services

- Set up new funds in the financial system and in Advance (donor database)
- Deposit and handle accounting for gifts and other income receipts
- Manage cash and investments
- Assist Foundation Business Office customers
- Coordinate audits, and preparation of IRS Forms 990 and 1099
- Other routine accounting services (e.g., bank reconciliations, manual checks)

For a full list of services, please visit our website: http://foundationsaccounting.ofa.ncsu.edu
# Services Overview

## Foundations Accounting & Investments
*reports to AVC – Finance & University Treasurer*

- Manages NC State Investment Fund, SRI Fund, other long-term investments, and operating cash investments
- Oversees annual audits and 990 tax returns
- Sets up funds for and deposit gifts and other income
- Assists with general fund budget preparation
- Maintains endowment spending policy & computes spending budgets
- Prepares Treasurer’s Report and other materials for board meetings
- Accounts for planned giving
- Trains development officers and campus
- Provides accounting for University Endowment Fund, 11 associated entities, and 9 LLC’s

## Advancement Services
*reports to AVC – Advancement Services*

- Develops and maintains donor database
- Reviews new fund requests for adherence to University policies
- Provides training and operating procedures for Advance
- Processes gifts and donations to associated entities and to NC State University
- Responsible for donor recognition and stewardship reports
- Sets minimum endowment levels
- Maintains standard endowment gift agreements
- Manages correspondence and tracking for Distinguished Professorships

## Fund-Raising Associated Entities
*(each have separate governing boards)*

- Ag Fdn*
- Alumni Association
- Engineering Fdn*
- Natural Resources Fdn*
- NC State Fdn*
- Sciences Fdn*
- Tobacco Fdn
- Vet Med Fdn*
- Textiles Fdn*

*has own development office*
What is a Foundation?

- Separately incorporated legal entities with IRS classification 501(c)3, set up to support/benefit the University, each with own governing boards, but NOT part of the University

- Fundraising support to NC State University primarily through private and corporate gifts

- Scholarships, fellowships, professorships, and other activities (e.g., research) for which state funding is inadequate or unavailable

- University Treasurer serves as Treasurer or Assistant Treasurer
Foundation Operations

• Multiple foundations and associated entities, not one monolithic foundation

• Each foundation has its own bank account, financial statements, tax ID, etc.

• Most expenditures are processed through a University system (A/P, purchasing, OSFA, payroll, etc.) which uses University cash. FAI tracks expenditures and reimburses the University

• **Challenge for FAI:** maintain appropriate separation of cash between each foundation, and between the foundations and the University
Foundation Cash Accounting

- Every Ledger 6 fun has two projects – a “non-F” project and a “-F” project (see example below)

  ![Report P1 - Financial Balances by Project](image)

  - For campus users, the difference between the two is irrelevant. Transactions on both projects roll up into the “non-F” project in WRS
  - **“Non-F” Projects** - Expenses paid through a University System (University bank account)
  - **“-F” Projects** – Deposits made by FAI or manual checks written by FAI (Foundation bank account)

*All deposits to Ledger 6 funds should be made by FAI, not the Cashier’s Office*
Foundation Project Reference

- Each separate legal entity is assigned a unique Project Reference number.
- When you see a project number in WRS you will notice a second number after it – for example 692526 / 059022.

<table>
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<tr>
<th>Report P1 - Financial Balances by Project</th>
<th>As of February 28, 2020</th>
</tr>
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<tbody>
<tr>
<td>Project/Project Reference: <strong>692526</strong> and <strong>692526-F / 059022</strong></td>
<td></td>
</tr>
</tbody>
</table>

- All projects within a legal entity will have the same project reference for reporting purposes.
The Endowment Fund of NC State University

• Statutorily created and subject to UNC System endowment policies
• Funds legally belong to the University
• Holds all endowments in the name of the University
• Has a separate Board of Trustees
• Housed in Ledger 7 (but only a subset of Ledger 7 funds)

For more information about The Endowment Fund, please visit our website: https://foundationsaccounting.ofa.ncsu.edu/endowment-fund/
Endowments vs. The Endowment Fund

Endowments
- A type of fund
- Can be held in The Endowment Fund or in one of the foundations

The Endowment Fund
- A statutorily created fund that holds endowments

Why are endowments held by more than one entity?
- By State law, bequests not made specifically to a foundation must be held in The Endowment Fund
- Distinguished Professorships, which qualify for matching from the Distinguished Professors Endowment Trust Fund (legislatively appropriated funds), must be held within The Endowment Fund
NC State Investment Fund, Inc.

- A North Carolina not-for-profit legal entity, subject to external audit
- Exempt from income tax under IRS Code Section 501(c)3
- Established in 1999 to support NC State by operating an investment fund for The Endowment Fund and other University-associated entities
- Endowment assets for entities managed by FAI are invested with the NC State Investment Fund, Inc.
- Allows for broader investment opportunities, as well as lower investment fees

For more information about the NCSIF, please visit our website: https://foundationsaccounting.ofa.ncsu.edu/investment-fund/
Other LLCs

• LLC = Limited Liability Company

• Separate legal entities set up to support/benefit the University

• Purposes are generally narrow in scope

• Legal structure provides for limited liability and operations run through an existing corporation or entity – either the NCSU Foundation or the NC State Partnership Corporation
Types of Foundation Funds

• Restricted Funds
  – Regular Restricted
  – Endowment income/spending
  – Building to endowment (BTE)

• Endowments

• General Fund

• Life Income Funds
Types of Foundation Funds

Examples

• Donor gives $100,000 to be used at the discretion of the Textile Engineering Dept. Head → Restricted Fund

• Donor gives $100,000, to be invested in perpetuity, to generate income used to fund scholarships for Textile Design students → Endowment

• Donor pledges $50,000, $10k per year for 5 years → BTE, until reaches $50k, then Endowment

• Spending budget from Endowment → Endowment Income/Spending
Restricted Funds

- Restriction is based on donor-specified purpose for which it can be spent
- No restriction on when it is spent (unless specified by the donor); can all be spent at once, or over period of years
- Balances automatically carryover from year-to-year
Restricted Funds

*Endowment Income*

- Also referred to as “Spending Projects” or “Income Projects”

- Restricted by a purpose specified by the donor in the endowment agreement. There is a legal obligation to adhere to a restriction in purpose

- Budget is determined by the foundation’s spending policy, subject to any additional donor stipulations

- Balances automatically carryover from year-to-year, with the option to return unused funds to principal

- Balances need to be monitored to ensure funds don’t build up – funds do not generate investment returns when they are left in the income account
Restricted Funds

Building to Endowment (BTE)

- Funds are building to the minimum endowment level
- Considered a restricted fund during the “building period”
- Fund may be invested in the long-term pool once the University endowment minimum is reached.
- Once the minimum endowment level stated in the gift agreement is reached, funds will be endowed and spending may begin.
- May not spend from a restricted BTE fund. The donor may provide additional gifts to be used for spending while the fund is building (called a “current use” fund)
Endowments

• A gift that is intended to last in perpetuity. Corpus (donor gift amount) may not be spent if prohibited by the gift agreement.

• Value grows over time through investment returns

• A portion of earnings is allocated for spending to support the endowment purpose as specified by the donor (e.g., scholarship, fellowship, professorship)

• Endowments provide a steady income stream for support of NC State University

• Most colleges/units have endowments in one or more foundations as well as The Endowment Fund
Parts of an Endowment

- Corpus
- Unrealized Appreciation
- Net investment earnings (interest, dividends, realized gains)
- Return of Unused Spending
- Spending Reserves
- Donor Gifts to Endowment

Donor Gifts to Endowment
FAI Fund Type

FAI Fund Type is an attribute assigned to all funds. It can be used to identify funds of a specific type in many different areas in the financials system. Below is an example of an available search in FAI Foundation Campus Reports.
Where are Foundation Funds Recorded?

- University Financials system

- Projects* begin with ‘6’
  - Foundation funds are often called “Ledger 6” funds
  - ALL Ledger 6 funds are Foundation funds

- Individual funds monitored via Wolfpack Reporting System (WRS) Report P1
  - Fiscal Year-to-Date Financial Status column on the Total (Net) line shows available balance to spend for all non-endowment principal funds

- Expenses usually paid through University systems (A/P, payroll, student financial aid, etc.)

*Projects may also be referred to as “accounts” or “funds”*
Where are The Endowment Fund projects recorded?

- University Financials system

- Projects begin with ‘7’
  - And a Class = 72xx
  - University Endowment Fund funds are only a subset of Ledger 7 funds
  - Non-endowment Ledger 7 funds have a Class of 7x
  - Principal funds begin with 774xxx
  - Income funds begin with 76xxxx

- Individual funds monitored via Wolfpack Reporting System (WRS) Report P1
  - Balance on 1100 Cash line represents amount available to spend for endowment income projects

- Questions/issues for non-endowment Ledger 7 funds should be addressed to the Office of Cost Analysis
Ledger 6 vs Ledger 7
Which to Use?

Ledger 6 – Foundation Funds

Ledger 7 – University Funds (Endowment Fund; gift funds; loan funds)
- Endowment Fund (FAI) - Distinguished Professorships
- Any gift or devise to NC State University [ex. college, department, or program]

Considerations
- Which ledger is determined by legal requirements based on MOU, will, proposal, payee, correspondence, etc.
- All gifts, regardless of ledger:
  - Must be captured in Advance
  - “Count” and are reflected in development reports
- Purchases
  - Most processed through University A/P and comply with University Purchasing Guidelines regardless of ledger
  - Purchases greater than $5,000:
    - If paid from Ledger 7 – must comply with purchasing guidelines
    - If paid from Ledger 6 – in rare circumstances, if a valid business case can be made, a manual check can be written by FAI outside of the normal purchasing guidelines
What is the Difference?

**SL 6**
- Foundation Funds
- Purchases > than $5k that are paid through A/P must also comply with guidelines
- If a valid business case can be made, a manual check can be written by FAI outside of the normal purchasing guidelines

**SL 7**
- Belong to the University (Endowment Fund; gift funds; loan funds)
- Purchases > than $5k must comply with purchasing guidelines
- Ledger determined by legal requirements based on MOU, will, proposal, payee, etc.
- All gifts must be captured in Advance
- All gifts “count” and are reflected in development reports
- Purchases less than $5,000 follow same guideline
“Are funds held by a foundation subject to less restrictions?”

No - The only difference between foundation funds and university funds is that university purchases greater than $5,000 must follow state purchasing guidelines.*

*FAI, on behalf of the University Treasurer, strongly recommends that state purchasing guidelines always be followed regardless of where funds are housed, unless there is a compelling reason not to
Systems/Reporting Tools

Financials/Wolfpack Reporting System (WRS) – Individual Projects

• NC State’s accounting and financial reporting system
• Funds are referred to as projects
• Access to enter, approve and review journals, IDTs, Chartfield Requests, etc.
• Use WRS to look up restricted fund and endowment income fund balances, one fund at a time (Report P1)
• Located under MyPack Portal

FAI Foundation Campus Reports – All Projects for a Foundation

• Custom reports that compile WRS data for multiple funds by entity, by FAI fund type, and/or by department
• Reports designed for foundations SL 6 & for The Endowment Fund SL 7
  https://webappprdrd.acs.ncsu.edu/scripts/fdn/nc_fd_main2

Questions/issues for non-endowment Ledger 7 funds should be addressed to the Office of Cost Analysis
Other Systems/Reporting Tools

**Advance**
- NC State’s central donor recognition database
- Tracks gifts by donor and by Advance allocation

**Fundriver – Endowments Only**
- Endowment unitization and reporting software
- Data source for financial information contained on annual stewardship reports
- Endowment Gift Agreements can be viewed in Fundriver
- Only source for endowment market values
Advance & Financials Relationship

• Gifts flow through Advance and are recorded in the Financials system via an automated daily journal entry feed

• Identifiable by “FAD” in journal entry ID

• Advance drives 7% fee on non-endowment gifts

• Gift corrections should be routed through Advance to ensure:
  – correction of gift in Financials
  – correction of 7% gift fee on current gifts
  – adequate audit trail of gifts
# Fundriver

<table>
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<th>Market Value Report</th>
<th>Corpus &amp; Market Value Report</th>
<th>Building to Endowment Report</th>
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</table>
| • Single Endowment lookup for:  
  • Market Value  
  • Spending Budget  
  • Principle & Income project numbers  
  • Gift Agreement | • Roll-forward of market value from one period to another for all endowments & BTEs invested in the long term pool  
  • Includes  
    • Department  
    • Advance type  
    • BTE status  
    • Spending Corpus status | • All endowments & BTEs invested in the long term pool  
  • Includes  
    • Corpus  
    • Market value  
    • Spending reserves  
  • Updated annually at June 30 | • Funds building to endowment that have been invested in the long-term pool.  
  • Includes  
    • Market value  
    • End date of 5-year building period |

*Reminder: Use Fundriver for Endowment Principal Funds. Use WRS for Income Funds.*
Project Information

• New projects must be requested using the Chartfield Request System (CFR) – included in the financial portal. (Training for setup using CFR available from FAI upon request)

• Funds cannot be transferred from a University project to a foundation project
  – Transfers can occur in the other direction, because foundations exists to support the University

• The primary point of contact for foundation funds is generally someone in your College Business or Development Office
Project Modifications

• To change a project attribute (Description, Responsible Person, Department ID, Purpose, etc.) you must complete a Chartfield Modification Request

• Form must be signed by the “Responsible Person”

• Submit the request to FAI. Depending on the request, FAI will work with Advancement Services to ensure all coding changes in both Advance and Financials/WRS are correct

For the Chartfield Modification Request form, please visit our website:
https://foundationsaccounting.ofa.ncsu.edu/additional-resources/policies-procedures-governance/
Food & Entertainment Exemption

• Follow the same rules as all University funds regarding food, alcohol, and entertainment expenditures

• By default all Ledger 6 funds are set up as “Non-exempt”
  – REASON: majority of ledger 6 funds are for scholarships/fellowships, and such costs would not be allowable

• Can request an exemption during the initial set up of a new fund (via Chartfield Request System)

• Fund purpose must allow for such expenditures

• For existing projects, the ‘Responsible Person’ needs to request the exemption and provide justification. Request can be sent via email to Michelle Phillips in FAI (mpphilli@ncsu.edu)

• Exemption code is an attribute in project maintenance in financials. Also included on several reports, including P1 and FundList.
Financial Account Codes

- Account codes and account code descriptions are determined/approved by the State Controller’s Office.
- As a result some of the descriptions are misleading as they relate to Ledger 6 funds.
- In particular, transfer account codes are used in a unique manner for Ledger 6. This is necessary for financial reporting purposes.

The link below contains a listing of FAI’s Use of Account Codes on Foundation Transactions: [https://projects.ncsu.edu/project/fdns-acct/dev_officers_toolbox/Account_codes.pdf](https://projects.ncsu.edu/project/fdns-acct/dev_officers_toolbox/Account_codes.pdf)
Financials/WRS

Beginning Balance Rollover

• The process of rolling over Ledger 6 balances at fiscal year end is different than other fund sources at the University

• This is a manual process completed with two entries made by FAI:

  1. The first is made in July to roll forward the system balance as of June 30 into the new fiscal year.

  2. The second is made by December once all audits have been completed and consists of all year-end adjusting entries (period 998).

     ➢ Transfer account code 40985 is used for this entry.

     *Note: For endowments, 40985 is used for corpus and 40987 is used for spending reserves.*
Types of Revenue Received by the Foundations

Gifts

Other Income
What is a Gift?

- **Voluntary** and non-reciprocal donation provided by a non-governmental donor for which **no goods or services** are expected or provided

- Charitable contribution with IRS implications (must provide gift receipt)

- Captured in Advance (donor database system)

- May be restricted to a specific purpose or unrestricted in nature

For more information about the definition of a gift, please visit our website:
https://foundationsaccounting.ofa.ncsu.edu/additional-resources/policies-procedures-governance/
**Gift Recording & Accounting**

* Each college has their own procedures, but it is strongly recommended the College/Foundation Business Office at least be notified if a gift is received within a department.

**Gift Transmittal forms and BA-151 forms are located here:**

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**Foundation Gifts**

- If received in a department, send to the Foundation/College Business Office*
- Foundation/College Business Office will complete a Gift Transmittal Form** and submit to Advancement Services

**University Gifts**

- Complete BA-151** and submit to the Foundation Business Office. Check deposited directly with Cashiers Office

**Fundraiser (Development Officer)**

- Money received from donor

**Gift Processing (Advancement Services)**

- Prepare receipt for donor and enter donor information into Advance

**FAI**

- Deposits money and reconciles Advance to Financials
Gift Considerations

Questions to Ask Yourself

• Is it really a gift? Or is it other income, a sponsored research project, a grant, etc.?  
  – Non-specific “grants” (i.e. there are no deliverables) are treated as gifts. These usually come from external foundations ([https://3dmemos.ncsu.edu/memo/definition-of-gifts-grants-and-contracts-2/](https://3dmemos.ncsu.edu/memo/definition-of-gifts-grants-and-contracts-2/))

• Does the gift belong to a foundation or to the University?

• How was the gift solicited and who was the check written to?
Gift Considerations

Key Facts

• Due to unusual nature of odd dollar gift amounts, gift submissions in odd dollar amounts must include backup documentation supporting the fact that it is a gift.

• Gifts **must** be processed by the Gifts and Records Management team (Advancement Services) in Advance, via a Gift Transmittal Form (for foundation gifts) or a BA-151 (for University trust funds).

• Non-endowment gifts are subject to a 7% assessment fee (to be used for fundraising activities only).
Gift “Grants” from a Proposal

- Proposals are often generated by faculty, rather than fundraisers, directly to the funding entity.

- In order for the gift to be deposited into a foundation project, the proposal must be in the name of the foundation and there must be no deliverables.

  Issue: Because these are most frequently generated by faculty, who are used to generating proposals for sponsored research projects, they often issue the proposal in the name of the University, college or department. In these cases the proceeds cannot be deposited into a foundation project.

Gift Checks

• Checks should be made payable to the foundation to be deposited in the foundation
  – For example, to be deposited in the North Carolina Textile Foundation, payee should read “North Carolina Textile Foundation” rather than “NCSU” or “College of Textiles”

• Checks payable to NC State University* and submitted for deposit in a foundation require sufficient written back-up from the donor to support the donor’s intent that the funds were for the foundation
  – Checks without sufficient donor documentation will be deposited to clearing until documentation, or another fund type, is provided

*Or a college, academic or administrative department of the University (e.g., Textiles, CHASS Dean’s Office, Biology Department)
What is Other Income?

- **Non-gift income**
- Not tax deductible because the person/entity receives something of value in return
- Includes money received from fundraising events (e.g., football game tailgate event, ARTS Gala, or the sale of merchandise) for which there is no charitable deduction
- FAI deposits and records other income received by the foundations
- Other income receipts: send directly to FAI for deposit, along with a completed “Other Income Transmittal” form located on our website

For more information about other income, please visit our website: [https://foundationsaccounting.ofa.ncsu.edu/services/other-income/](https://foundationsaccounting.ofa.ncsu.edu/services/other-income/)
Other Income Considerations

• Must be **prominently** marketed/promoted as being hosted by/sponsored by the foundation
  – If materials only indicate the University, a college, or a department they must be deposited in a University fund
  – If hosted by the foundation, must ensure adequate insurance coverage (University insurance does not cover Foundation events)

• Must provide support (e.g., copies of marketing materials) that an other income receipt belongs in a foundation project. (Not adequate to simply state “Make checks payable to XYZ Foundation”)

• Associated expenses must be paid from the same fund where the other income receipts are deposited
Other Income & Gift Combinations

“How are funds processed that include both gift and other income?”

1. Complete a “Gift Transmittal” form for the gift portion

2. Complete an “Other Income Transmittal” form for the other income portion

3. Send the check(s), along with both forms, to the Foundation Business Office for further processing. All documentation will be sent to Advancement Services for processing.
Gifts & Other Income

Key Takeaways

• In order to properly report gifts and other income, it is important that:
  – Money goes to the correct legal entity
  – Money is recorded correctly (IRS implications)

• All money should be deposited **within 24 hours** – FAI can record to a “clearing” account if proper documentation is pending
Endowment Spending
Budgets Timetable

Time period used for calculation of twenty quarter average

Fiscal year for which budget is being prepared

To spend in FY2022, endowments must have adequate spending reserves at June 30, 2020 **OR** an UPMIFA compliant agreement and a market value greater than 85% of corpus
Endowment Spending Budgets
Fiscal Year Cycle

20-Qarters used for FY22
Spending Budget Calculation:
FY2016-FY2020

July 1 – Spending budgets for the fiscal year are available

Nov 30 – Calculation of next fiscal year spending budgets

No later than Dec 31 – Campus notified of next fiscal year spending budgets

Early June – Spending budgets for next fiscal year are withdrawn from the long-term pool

July 1 – Spending budgets for the fiscal year are available. Annual endowment spending cycle begins
Additional Resources

Entity-Specific:
- Legal Names
- Bylaws
- Operating Agreements
- Audits/990s
- W9s

Not Entity-Specific

Welcome to the Foundations Accounting & Investments Office!

About Us
Foundations Accounting & Investments (FAI) is a multi-service office to twenty entities including the NC State Investment Fund, Inc. (NCSIF), seven University-affiliated foundations including one subsidiary, Executive Education, LLC, the Alumni Association, the University Endowment Fund, and the NC State Partnership Corporation along with its eight subsidiary LLC’s – Centennial Development, LLC, (Lonnie Poole Golf Course), the Bell Tower Holdings, LLC, the CBC Land I, LLC, the NC State Upfit, and...
Questions?