

Introduction to Foundations Accounting & Investments



Foundations Accounting & Investments (FAI)

Who We Are

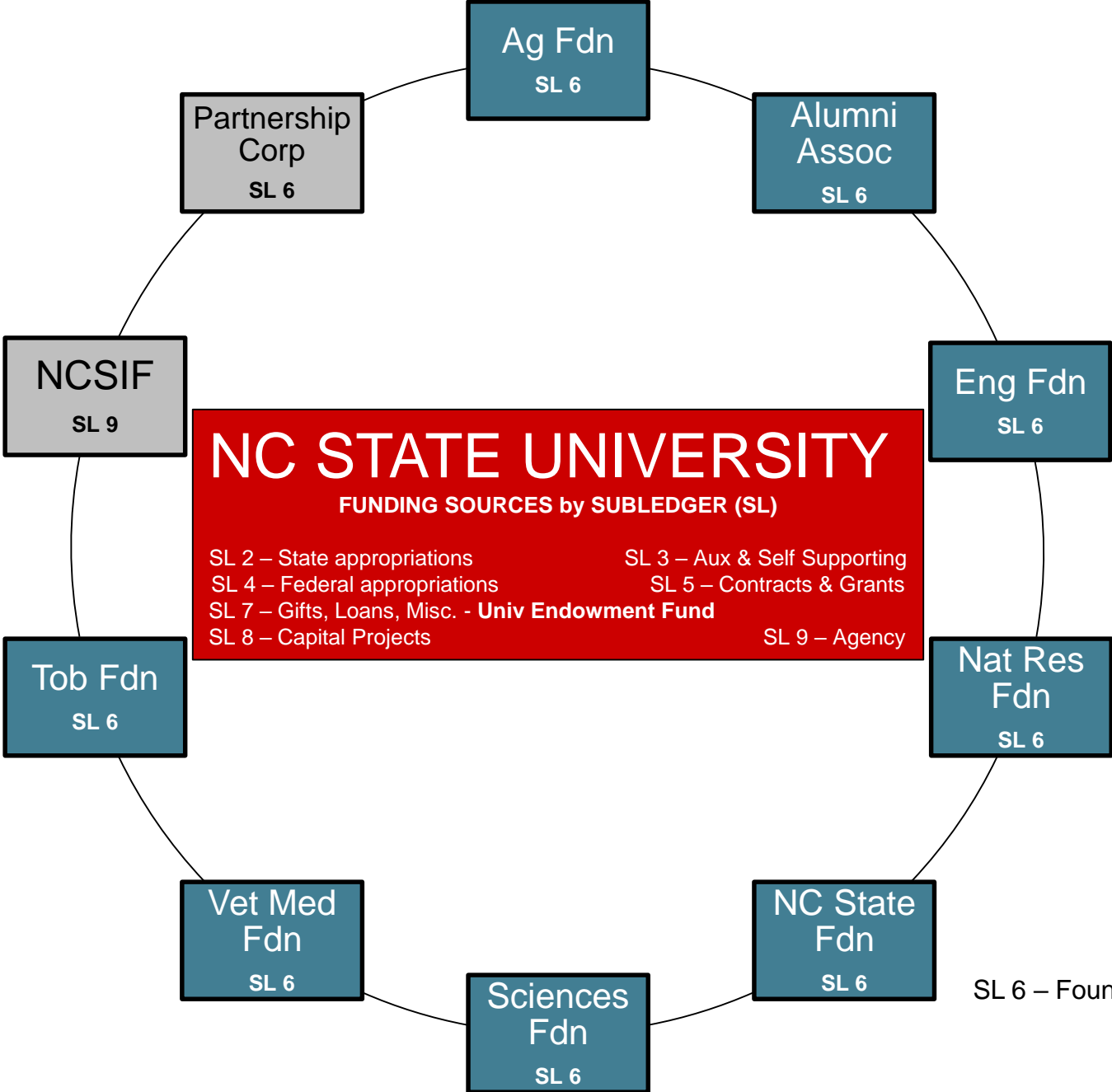
- Central office under Finance Division
- Report to Associate Vice Chancellor for Finance and University Treasurer

Entities We Serve

- NC State Investment Fund, Inc. (NCSIF)
- Seven University-affiliated foundations, including one subsidiary – the NC State Executive Education, LLC
- Alumni Association
- University Endowment Fund
- NC State Partnership Corp, along with its seven subsidiary LLC's
- Advancement Services and all college and departmental offices who receive support from these entities or funds

Services We Provide

- Set up new funds
- Deposit gifts & other income receipts
- Record all deposits, EFTs, wires, etc.
- Manage cash & investments
- Assist Foundation Office customers
- Routine accounting services (i.e. bank reconciliations, manual checks)
- Other: visit our website for a full list of services



SL 6 – Foundation Activities

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 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 may be unrestricted in nature.

What is Other Income?

- Non-gift income.
- Not tax deductible by the payer because it represents payment for some service or product received.
- Includes money received from fundraising events (e.g., football game tailgate event) for which there is no charitable deduction.
- FAI deposits and records Other Income received by the foundations.
- Send Other Income receipts and a completed “Other Income Transmittal” form directly to FAI for deposit

Miscellaneous

- Checks without a fund → 24-hour deposit rule
 - Use **CLEARING ACCOUNT**

- Pledges
 - Document & go through gift processing
 - Changes & write-offs need to be documented in Advance

- Event Considerations:
 - Marketing must display name of foundation in order for event funds to be deposited in a foundation
 - Event insurance
 - Other income versus gifts
 - Sponsorships
 - Raffles

- Gifts in kind

Development Officer's Toolbox



Foundations Accounting & Investments

Entity-Specific:

- Legal Names
- Bylaws
- Operating Agreements
- Audits/990s
- W9s

**Additional Resources/
Not Entity-Specific**

- [Home](#)
- [Foundations](#)
- [Investment Fund](#)
- [Endowment Fund](#)
- [Partnership Corp & LLC's](#)
- [Contact Us](#)

Welcome to Foundations Accounting & Investments Office!

ABOUT US

Foundations Accounting and Investments (FAI) is a multi-service office to nineteen 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 seven subsidiary LLC's – Centennial Development, LLC, (Lonnie Poole Golf Course), the Bell Tower Holdings, LLC, the CBC Land I, LLC, the NC State Upfit, LLC, the CC Holdings I, LLC, the Leaders in Innovation and Nonwovens Commercialization, LLC (LINC), and Wolfpack Investor Network, LLC (WIN). These entities provide services and resources to students, faculty, staff, alumni, donors, and other "friends" of the University.

**DEVELOPMENT OFFICER'S
TOOLBOX/RESOURCES**

- Endowments
- Forms
- FAI Newsletter
- Policies, Procedures & Governance
- Reporting Tools
- Routine Services

TRAINING

- Training

Reporting Tools

Advance

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

Financials/Wolpack Reporting System (WRS) – Individual Projects

- NC State's accounting and financial reporting system
- Funds are referred to as projects
- Use to look up restricted fund and endowment income fund balances, one fund at a time

FAI Foundation Campus Reports – All Projects for a Foundation

- Custom reports that compile WRS data for multiple funds by entity, by fund type, and/or by department
- Reports are designed for foundations SL 6 and for Endowment Fund SL 7

Fundriver – Endowments Only

- Endowment unitization and reports software
- Data source for financial information contained on annual stewardship reports
- Endowment MOU's can be viewed in Fundriver
- Only source for endowment market values

RELATIONSHIP: Advance and Financials

- Gifts flow through Advance and are recorded in Financials via an automated daily journal entry feed.
- Identifiable by “AD” in journal entry ID
- Advance drives 7% fee on current gifts
- Gift corrections must be routed through Advance to ensure:
 - correction of gift in WRS
 - correction of 7% gift fee on current gifts
 - adequate audit trail of gifts

Fundriver: Summary & Reports

Fund Summary

- Single Endowment lookup for:
 - Market Value
 - Spending Budget
 - Principle & Income project #s
 - MOU

Market Value

- Roll-forward of market value from one period to another for all endowments & BTEs
- Includes
 - department
 - Advance type
 - BTE?
 - Spend Corpus?
- Option to sort by department, constituent unit, or fund type

Corpus & Market Value

- All endowments & BTEs
- Includes
 - Corpus
 - Market value
 - Spending reserves

Building to Endowment

- Funds building to endowment that have been investment 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.*

Foundation Fund Types

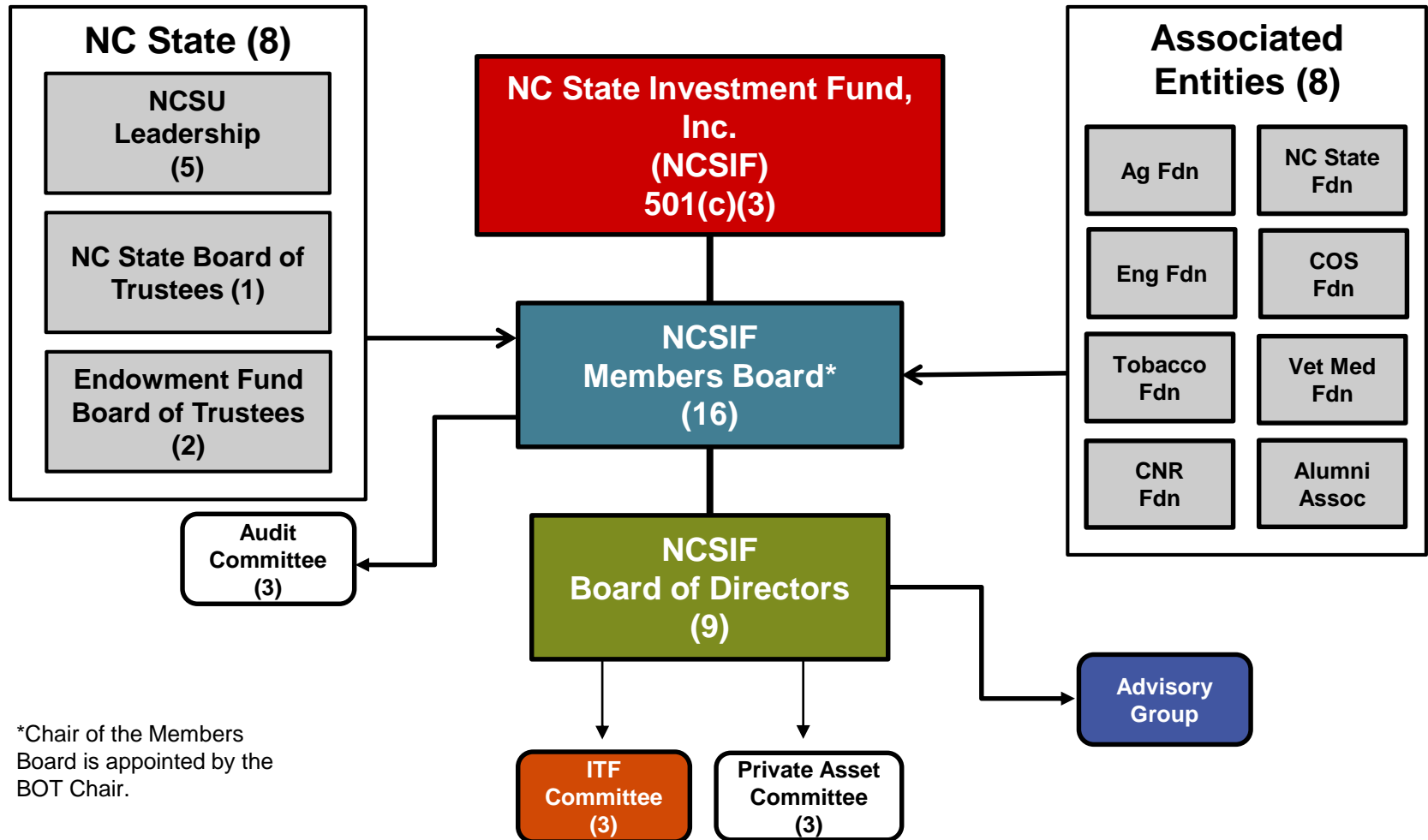
	GENERAL FUND	RESTRICTED FUNDS Regular	RESTRICTED FUNDS Endowment Income	RESTRICTED FUNDS Building to Endowment (BTE)	ENDOWMENTS True and Quasi	LIFE INCOME
Restrictions	Unrestricted gifts to foundation; ONLY fund type for which board controls use.	Donor-specified purpose	Specified by donor in endowment agreement	Specified by donor in endowment agreement; not spendable.	Specified by donor in endowment agreement; not spendable unless quasi or agreement permits per UPMIFA and board-approved spending policy	Supports income stream to designated beneficiaries named in trust or gift annuity.
Invested	Short –term to intermediate-term funds = Operating Cash Investment Pool.				Long-term investment pool = NC State Investment Fund, Inc.	Long-term investments managed by Kaspick.
Income Earned	Benefits the General Fund	Benefits the General Fund	Benefits the General Fund	Used in lieu of gift assessment; split 50/50 between College Dev. & Central Dev. for fundraising needs.	Used for spending budgets and assessments; excess reinvested.	Used for distributions to beneficiaries; excess reinvested.
Budgeting Process	Dean & Exec. Dir. prepare, Chancellor signs off. Board reviews, approves at spring meeting.	No board approval. Responsible persons (e.g., faculty) may spend at any time.	Board-approved spending policy.	N/A	Determined by board-approved spending policy. Spending budgets computed by FAI and communicated to campus in December of current fiscal year for next fiscal year.	N/A
Other	Supports both operational & programmatic needs. Budget lines do not roll over. Dean may use at his discretion	Can have an unrestricted purpose, typically restricted to a specific department or college.	Unused funds carry over to next fiscal year; option to return to principal if not needed.	Building to a minimum level. If not reached in 5 years, converted to restricted fund or added to general fund, based on donor agreement.	Underwater = market value less than corpus for true endowments. If underwater, no spending unless agreement permits.	Residuals mostly designated for specific endowment; donor may opt to leave as unrestricted.

Endowment Investments

- Investment goal: Earn a real net return that will preserve the purchasing power for future generations and provide an income stream to support the spending needs of NC State University and its associated entities.

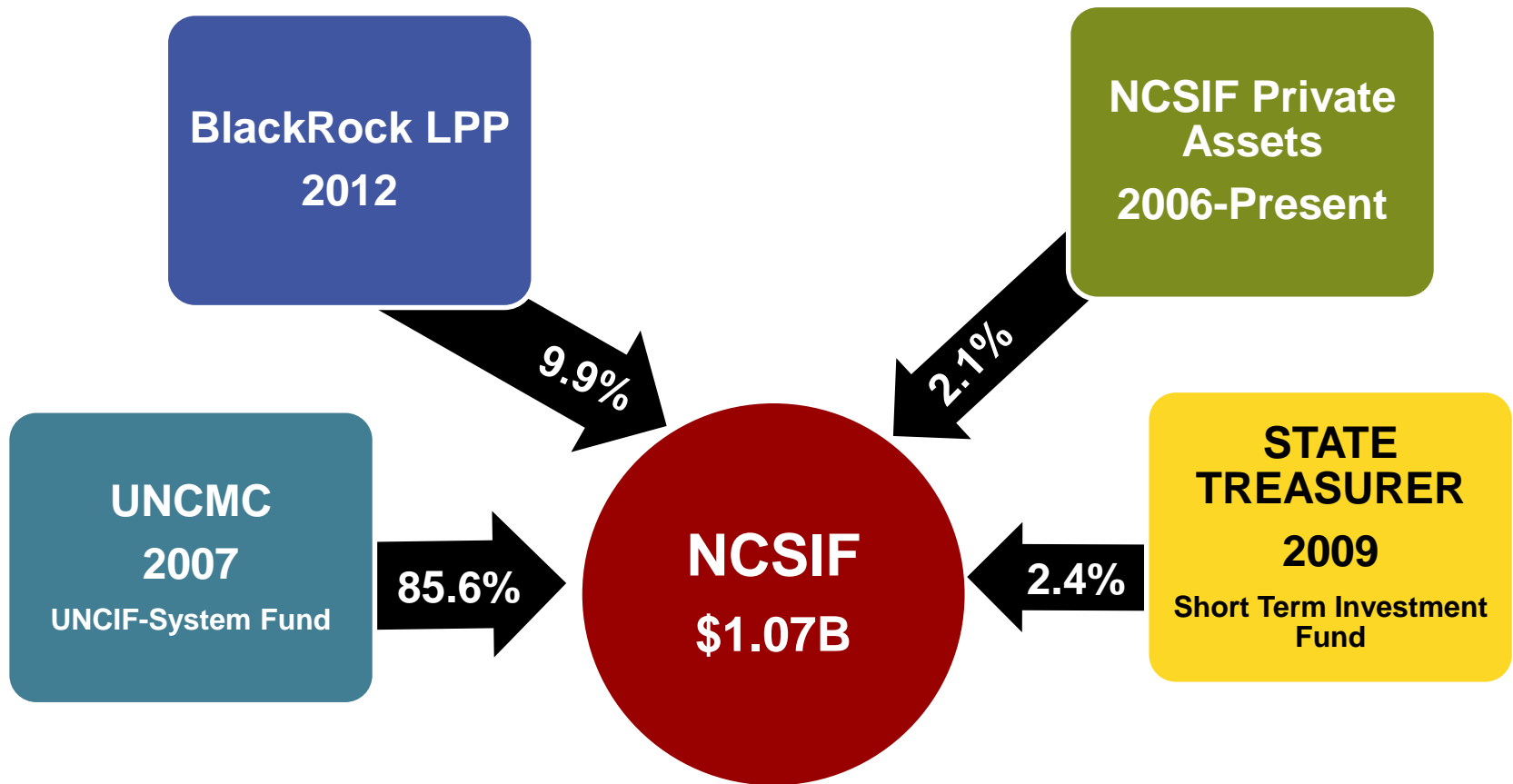
- Invested in the NC State Investment Fund (NCSIF):
 - Established April 1, 1999
 - External, long-term, pooled investment vehicle for the NC State University Endowment Fund and associated entities.

Endowment Investment Relationships



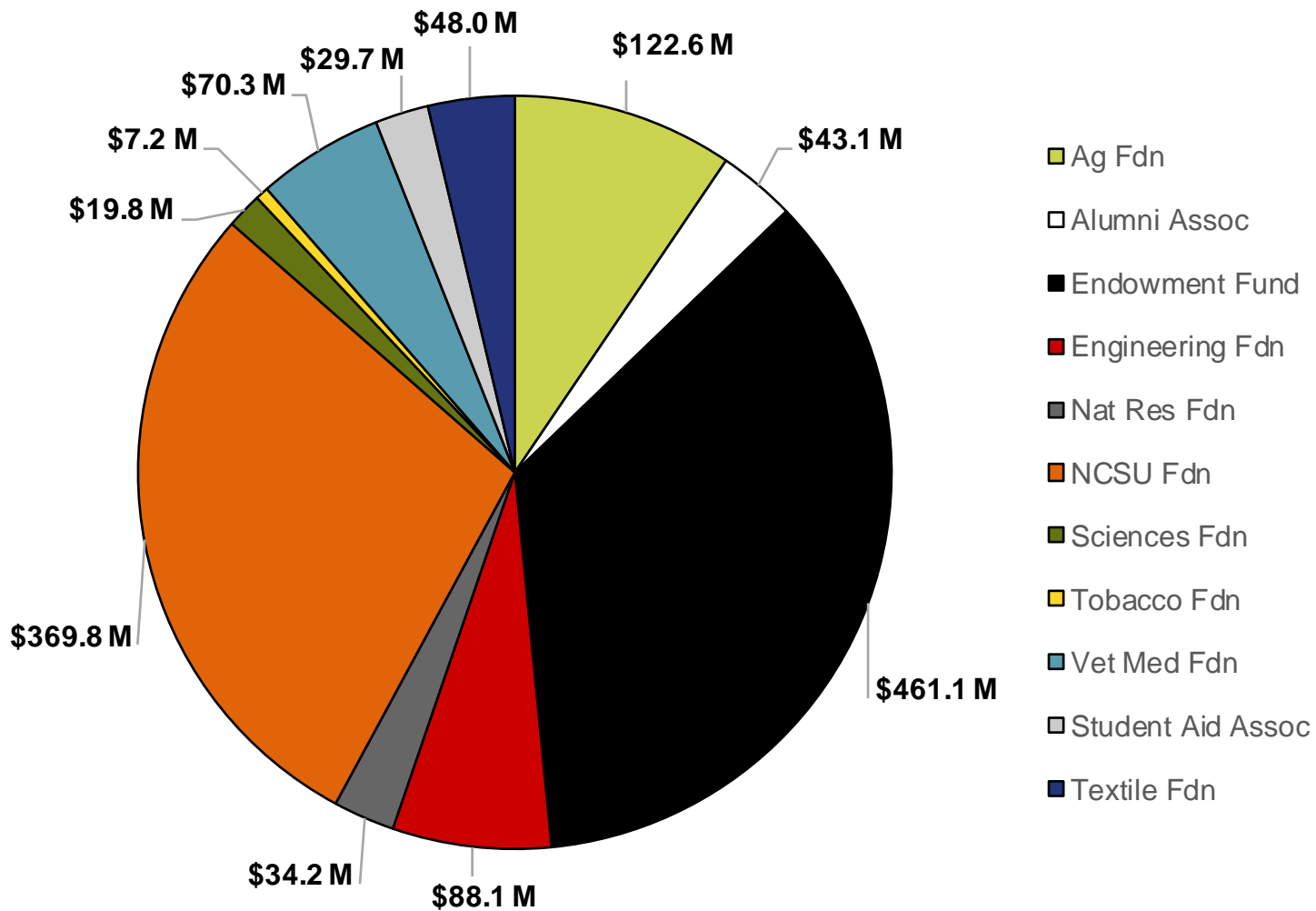
*Chair of the Members Board is appointed by the BOT Chair.

NC State Investment Fund, Inc. Managers

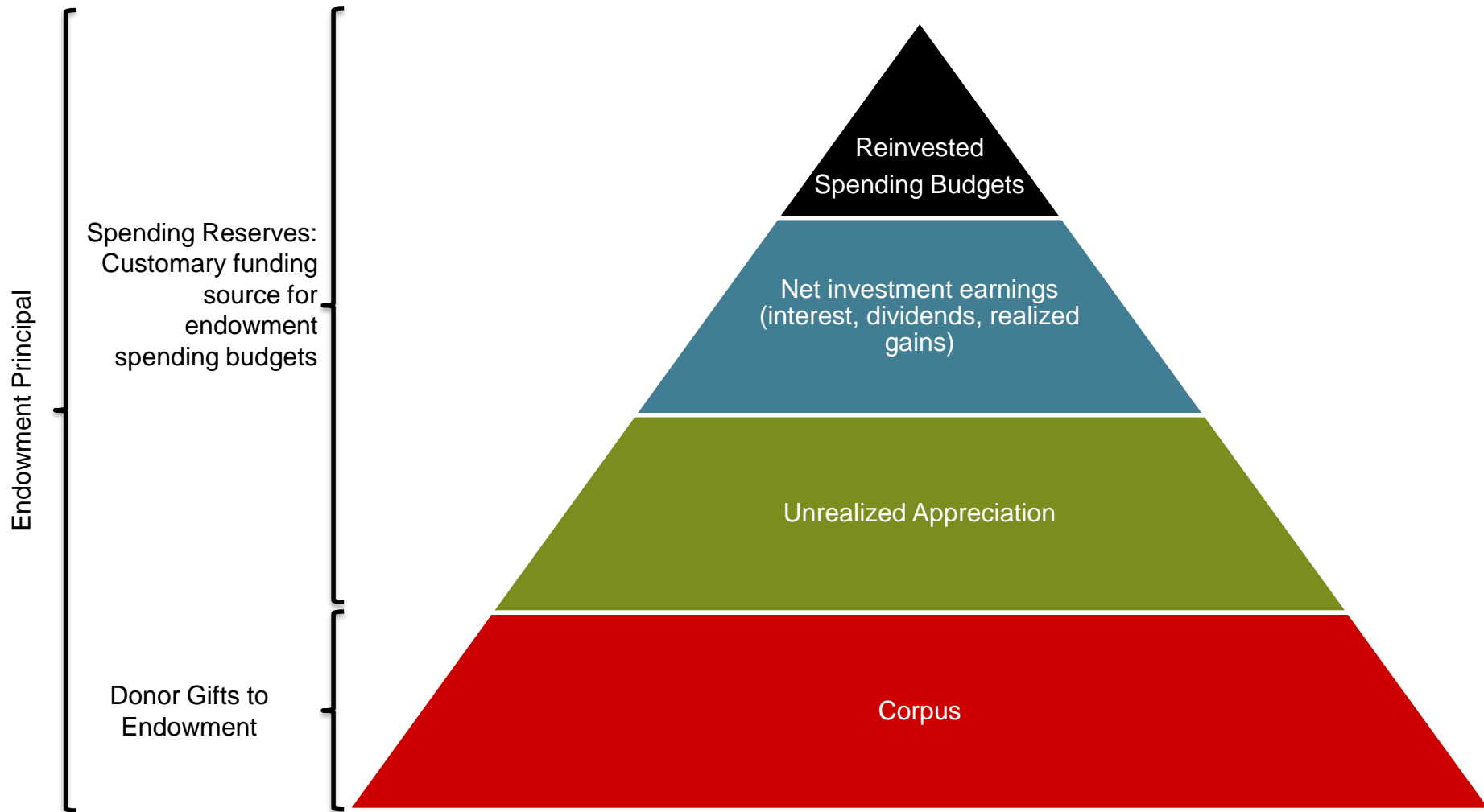


NC State University & Associated Entities Total Endowment Support

\$1.3 billion as of June 30, 2018



Endowment Principal Defined



Other Terminology

- **Endowment Income Funds**

- “Spending Accounts” or “Income Accounts”
- Amounts currently available for spending by campus
- Restricted by purpose specified by endowment agreement
- Balances automatically carry over from year to year
- Annual budget determined by spending policy, subject to donor stipulations

- **Directly-Owned Assets**

- Assets owned by a specific endowment rather than shared by all endowments
- Several endowments own real estate or hold stock in addition to having funds invested in the long-term pool.

UPMIFA

- March 2009: North Carolina adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA).
- UPMIFA eliminates the historic gift value concept which prohibited spending below the corpus, or original gift value, of an endowment.
- UPMIFA is considered a “default” statute, which applies only in the absence of specific donor requirements.



UPMIFA (*continued*)

Endowments that prohibit spending of corpus:

- Can only spend from spending reserves
- If no reserves exist, regardless of the size of the endowment, no awards for spending can be made

Endowments that do not prohibit spending of corpus:

- NC State has established 15% as the prudent level for spending of corpus if spending reserves are insufficient

Endowment Gift Agreement/ MOU (Memorandum of Understanding)

- Standard endowment Gift Agreement/MOU
 - Follows spending policy permitting prudent spending of corpus
- Review and approval process
- Key considerations when drafting purpose:
 - Simplicity & Flexibility
 - Should be achievable in perpetuity.
- CHANGES – Amendment vs. New MOU – contact Donor Services

BREAK

Upcoming: Endowment Spending Budgets

Endowment Spending Budgets

- OBJECTIVE: Ensure that the endowment maintains its purchasing power over time to support future generations
- Endowment spending policy is set by the board, upon recommendation of the Treasurer, and administered by Foundations Accounting & Investments.
- Under UPMIFA, NC State has adopted a prudence standard allowing expenditure of corpus up to 15% IF not prohibited by the endowment agreement.
- Spending budgets for next fiscal year must be provided to campus by December 31st of current fiscal year.

To read the Endowment Spending & Distribution Policy Statement in its entirety, please visit:
https://projects.ncsu.edu/project/fdns-acct/dev_officers_toolbox/EF_SpdPolicy_2017.pdf

Programmatic Spending Guidelines

- 4% of the average market value for the previous 20 quarters, with the most recent quarter being June 30th
- Rolling, multi-year quarters help smooth out the impact of market fluctuations on spending budgets
- Total pooled spending for each entity is reviewed to ensure that it falls within 3-5% of the entity's pooled market value.

Calculating Programmatic Spending

Example: Spending Budget for FY 2021. Calculated in Fall 2019. Communicated to campus by December 2019.

$$\text{MV of Endowments} \div \text{Units Owned by Endowments} = \text{MV/Unit}$$

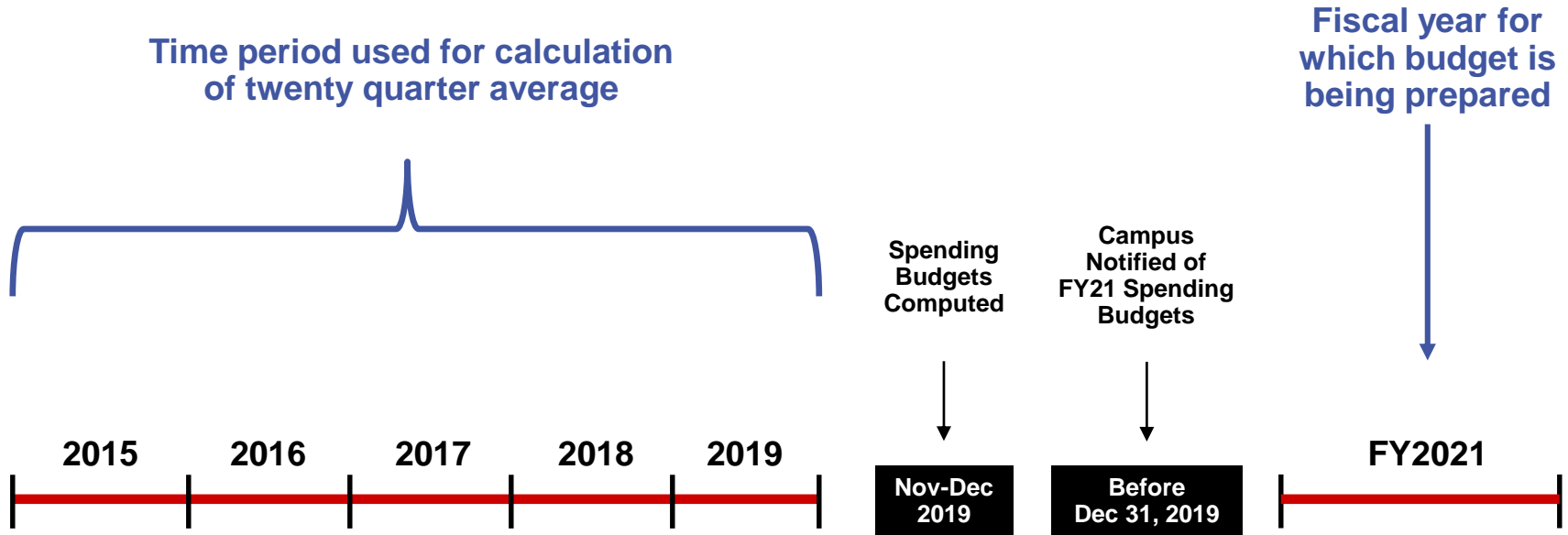
Calculated **at the entity pool level** for each of the previous 20 quarters, with the most recent quarter end being June 30, 2019

$$\text{Avg previous 20 quarters' MV/Unit} \times 4\% \text{ Programmatic Spending Rate} = \text{Spending Rate/Unit}$$

$$\text{Spending Rate per Unit} \times \text{Units Owned by Endowment} = \text{Endowment Spending Budget}$$

As of 6/30/19

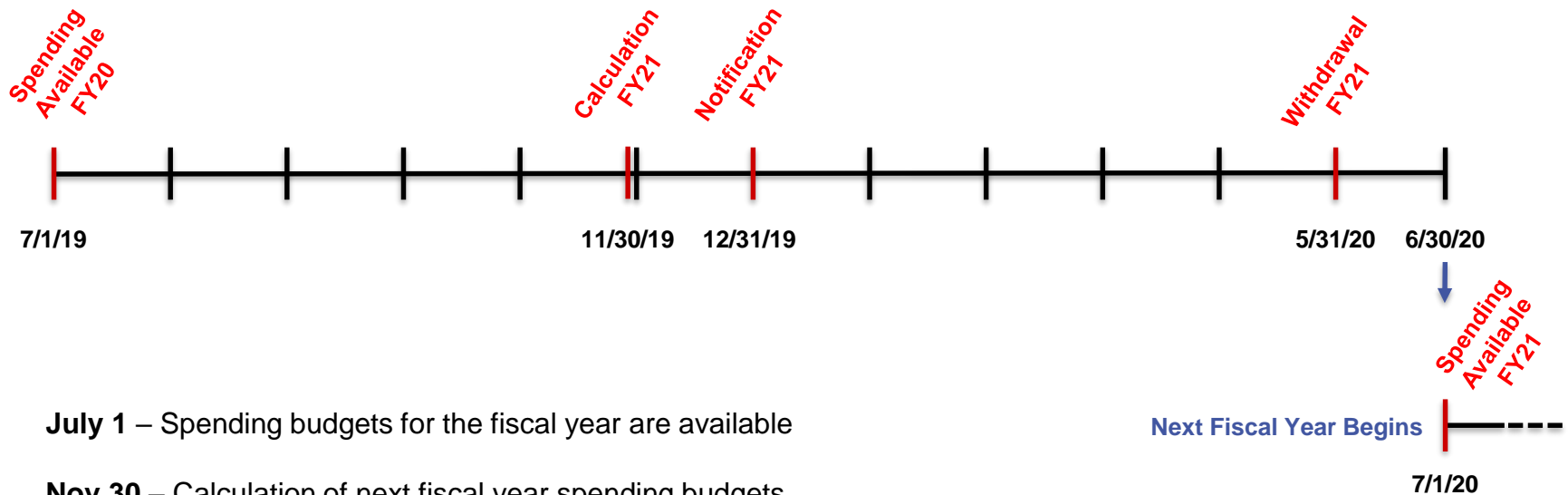
Endowment Spending Budgets Timetable



To spend in FY2021, endowments must have adequate spending reserves at June 30, 2019 OR an UPMIFA compliant agreement and a market value greater than 85% of corpus.

Endowment Spending Budgets Fiscal Year Cycle

20-Quarters used for FY21
Spending Budget Calculation:
FY2015-FY2019



July 1 – Spending budgets for the fiscal year are available

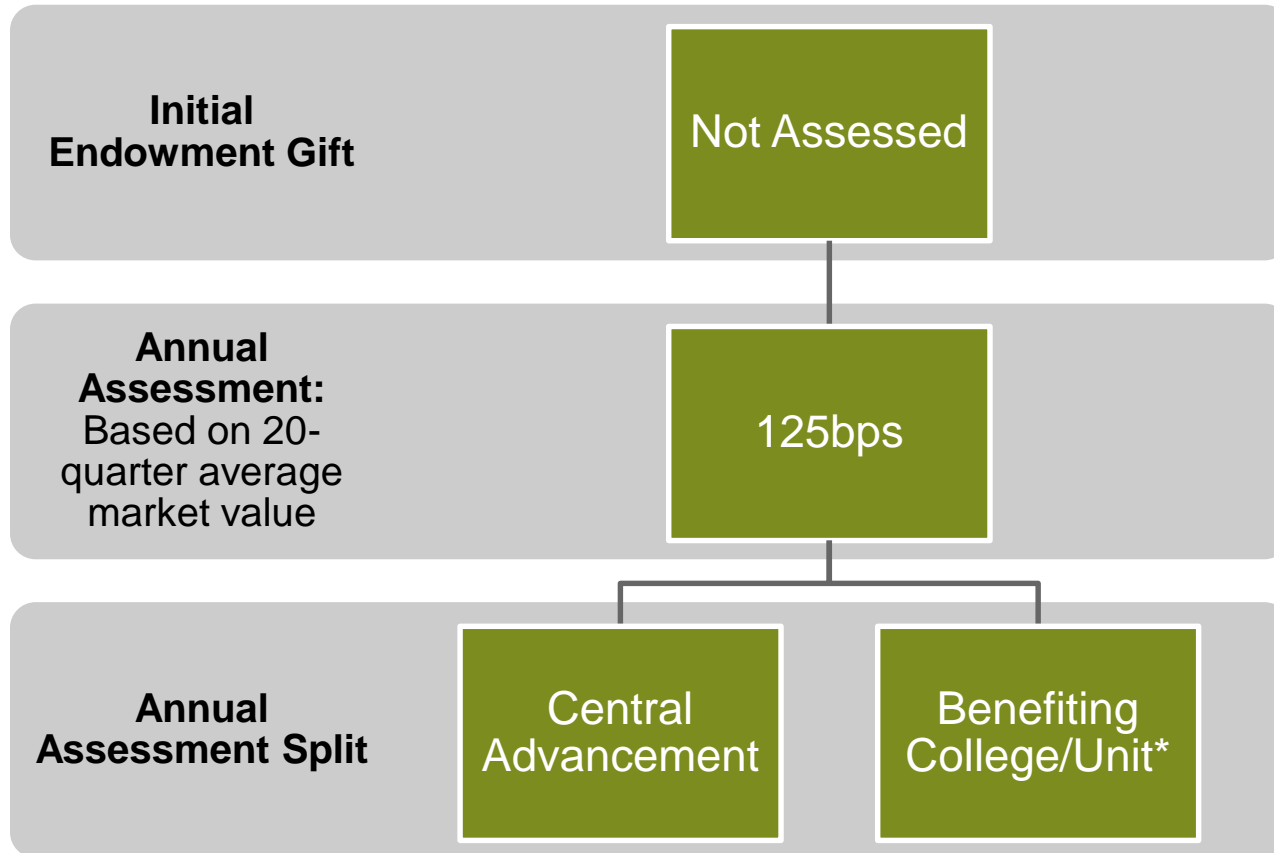
Nov 30 – Calculation of next fiscal year spending budgets

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 again.

Endowment Assessments



Note: Use of the assessment revenue is restricted to advancement and development activities.

Unitization Example

A new long-term pool is created with the following endowments.

In this example, the initial price per unit is \$1,000 per unit, so each endowment purchases 100 units.

	Initial Contribution	Initial Units	MV/Unit
Endowment A	\$100,000	100.00	
Endowment B	\$100,000	100.00	
Endowment C	\$100,000	100.00	
Endowment D	\$100,000	100.00	
Total in Pool	\$400,000	400.00	\$1,000

Units = Market
Value/Unit Price

Unitization Example

Due to market performance, the market value of the pool increases to \$408,000 at the end of the first quarter.

The new unit price is calculated by dividing the pool market value by the number of units owned by the pool.

$$(\$408\text{k}/400 \text{ units} = \$1,020)$$

	Market Value	Units	MV/Unit	Total Value after Income Distribution
Endowment A	\$100,000	100.00		\$102,000
Endowment B	\$100,000	100.00		\$102,000
Endowment C	\$100,000	100.00		\$102,000
Endowment D	\$100,000	100.00		\$102,000
Net Investment Increase	\$8,000			
Total in Pool	\$408,000	400.00	\$1,020	\$408,000

Unitization Example

At that point in time, a new endowment (E) enters into the pool with a contribution of \$100k.

Because the unit price is now higher (\$1,020/unit), \$100k will only buy 98 units (\$100,000 contribution/\$1,020 unit price).
The total in the pool is now 498 units.

	Market Value	Units	MV/Unit
Endowment A	\$102,000	100.00	
Endowment B	\$102,000	100.00	
Endowment C	\$102,000	100.00	
Endowment D	\$102,000	100.00	
Endowment E	\$100,000	98.04	
Total in Pool	\$508,000	498.04	\$1,020

Calculating the Average Market Value/Unit

**20-Quarter Average, Calculated
in Fall 2019 for FY 2021 Spending**

Quarter Ended	Market Value	# Units in Pool	MV/Unit
9/30/14	\$ 400,000	400.00	\$ 1,000
12/31/14	508,000	498.04	1,020
3/31/15	518,160	498.04	1,040
6/30/15	528,523	498.04	1,061
9/30/15	539,094	498.04	1,082
12/31/15	549,876	498.04	1,104
3/31/16	560,873	498.04	1,126
6/30/16	572,091	498.04	1,149
9/30/16	583,532	498.04	1,172
12/31/16	595,203	498.04	1,195
3/31/17	607,107	498.04	1,219
6/30/17	619,249	498.04	1,243
9/30/17	631,634	498.04	1,268
12/31/17	644,267	498.04	1,294
3/31/18	657,152	498.04	1,319
6/30/18	670,295	498.04	1,346
9/30/18	683,701	498.04	1,373
12/31/18	697,375	498.04	1,400
3/31/19	711,323	498.04	1,428
6/30/19	725,549	498.04	1,457

Unitization is done for the pool every quarter.

In the fall, spending budgets for the **next fiscal year** are calculated using the pool's average market value per unit from the past 20 quarters, with the most recent quarter ended June 30th.

Avg Market Value/Unit \$ 1,215 To be used for FY 2021 Spending Budget

Calculating Spending Rate/Unit

The spending rate per unit is calculated by multiplying the average previous 20 quarters market value per unit by the policy programmatic spending rate (4%).

Avg Previous 20 Quarters MV/Unit	x Programmatic Spending Rate	Spending Rate/Unit
\$ 1,215	4.00%	\$ 48.59

Calculating Endowment Programmatic Spending Budget

To calculate an endowment’s programmatic spending budget, the spending rate/unit is multiplied by the number of units owned by an endowment.

As of 6/30/19	Units	Spending Rate/Unit	Programmatic Spending Budget FY 2021
Endowment A	100.00		\$ 4,859
Endowment B	100.00		4,859
Endowment C	100.00		4,859
Endowment D	100.00		4,859
Endowment E	98.04		4,764
Total in Pool	498.04	\$ 48.59	\$ 24,202

Note: Programmatic spending budgets are calculated, tracked, and spent at the individual endowment level. An endowment’s spending budget must be used for the purpose stated by the donor in the endowment’s Memorandum of Understanding (gift agreement).

Communicated to campus Dec 2019.
Available July 1, 2020.

Calculating Effective Programmatic Spending Rate

To calculate an endowment's programmatic effective spending rate, the spending budget is divided by its market value.

As of 6/30/19	Units	MV/Unit	Market Value	Spending Rate/Unit	Programmatic Spending Budget FY 2021	Programmatic Effective Spending Rate
Endowment A	100.00		\$ 145,681		\$ 4,859	3.34%
Endowment B	100.00		145,681		4,859	3.34%
Endowment C	100.00		145,681		4,859	3.34%
Endowment D	100.00		145,681		4,859	3.34%
Endowment E	98.04		142,825		4,764	3.34%
Total in Pool	498.04	\$ 1,457	\$ 725,549	\$ 48.59	\$ 24,202	3.34%

The effective spending rate can also be calculated by dividing the spending rate/unit by the MV/unit.

Note that the effective spending rate is less than the policy rate of 4.00% due to the 20-quarter Average MV/Unit used to calculate the Spending Rate/Unit (see previous slide).



Questions?

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