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
NC STATE UNIVERSITY

FUNDING SOURCES by SUBLEDGER (SL)

SL 2 – State appropriations
SL 3 – Aux & Self Supporting
SL 4 – Federal appropriations
SL 5 – Contracts & Grants
SL 6 – Foundation Activities
SL 7 – Gifts, Loans, Misc. - Univ Endowment Fund
SL 8 – Capital Projects
SL 9 – Agency

NC State Fund
SL 6

Tob Fdn
SL 6

Eng Fdn
SL 6

NCSIF
SL 9

Nat Res Fdn
SL 6

Vet Med Fdn
SL 6

Ag Fdn
SL 6

Alumni Assoc
SL 6

Partnership Corp
SL 6

Sciences Fdn
SL 6
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

https://foundationsaccounting.ofa.ncsu.edu/services/other-income/
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

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

Additional Resources/Not Entity-Specific

Welcome to Foundations Accounting & Investments Office!

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.

https://foundationsaccounting.ofa.ncsu.edu/
Reporting Tools

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

**Financials/Wolfpack 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

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

NC State (8)
- NCSU Leadership (5)
- NC State Board of Trustees (1)
- Endowment Fund Board of Trustees (2)
- Audit Committee (3)

NC State Investment Fund, Inc. (NCSIF) 501(c)(3)
- NCSIF Members Board* (16)
- NCSIF Board of Directors (9)
- ITF Committee (3)
- Private Asset Committee (3)

Associated Entities (8)
- Ag Fdn
- Eng Fdn
- COS Fdn
- Tobacco Fdn
- CNR Fdn
- Vet Med Fdn
- Alumni Assoc

Advisory Group

*Chair of the Members Board is appointed by the BOT Chair.
NC State Investment Fund, Inc. Managers

- **BlackRock LPP 2012**: 9.9%
- **NC State Investment Fund (NCSIF)**: $1.07B
- **UNCMC 2007**: 85.6%
- **NCSIF Private Assets 2006-Present**: 2.1%
- **STATE TREASURER 2009**: 2.4%

As of June 30, 2019
NC State University & Associated Entities
Total Endowment Support

$1.3 billion as of June 30, 2018
Endowment Principal Defined

- Corpus
- Unrealized Appreciation
- Net investment earnings (interest, dividends, realized gains)
- Reinvested Spending Budgets
  - Spending Reserves: Customary funding source for endowment spending budgets
  - Donor Gifts to Endowment

Endowment Principal
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


- 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


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

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

Foundation Spending Budget: Total of endowment spending budgets in Foundation
Endowment Spending Budgets Timetable

Time period used for calculation of twenty quarter average

- 2015
- 2016
- 2017
- 2018
- 2019

Fiscal year for which budget is being prepared

- Nov-Dec 2019
- Before Dec 31, 2019
- FY2021

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

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

Initial Endowment Gift

Not Assessed

Annual Assessment: Based on 20-quarter average market value

125bps

Annual Assessment Split

Central Advancement

Benefiting College/Unit*

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

*For endowments without a specific benefiting unit, the full 125bps goes to Central Advancement.
# 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.

<table>
<thead>
<tr>
<th>Endowment</th>
<th>Initial Contribution</th>
<th>Initial Units</th>
<th>MV/Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment A</td>
<td>$100,000</td>
<td>100.00</td>
<td></td>
</tr>
<tr>
<td>Endowment B</td>
<td>$100,000</td>
<td>100.00</td>
<td></td>
</tr>
<tr>
<td>Endowment C</td>
<td>$100,000</td>
<td>100.00</td>
<td></td>
</tr>
<tr>
<td>Endowment D</td>
<td>$100,000</td>
<td>100.00</td>
<td></td>
</tr>
<tr>
<td>Total in Pool</td>
<td>$400,000</td>
<td>400.00</td>
<td>$1,000</td>
</tr>
</tbody>
</table>

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.

($408k/400 units = $1,020)
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.

<table>
<thead>
<tr>
<th>Endowment</th>
<th>Market Value</th>
<th>Units</th>
<th>MV/Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>$102,000</td>
<td>100.00</td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>$102,000</td>
<td>100.00</td>
<td></td>
</tr>
<tr>
<td>C</td>
<td>$102,000</td>
<td>100.00</td>
<td></td>
</tr>
<tr>
<td>D</td>
<td>$102,000</td>
<td>100.00</td>
<td></td>
</tr>
<tr>
<td>E</td>
<td>$100,000</td>
<td>98.04</td>
<td></td>
</tr>
<tr>
<td>Total in Pool</td>
<td>$508,000</td>
<td>498.04</td>
<td>$1,020</td>
</tr>
</tbody>
</table>
### Calculating the Average Market Value/Unit

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

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

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

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.
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%).

<table>
<thead>
<tr>
<th>Avg Previous 20 Quarters MV/Unit</th>
<th>x Programmatic Spending Rate</th>
<th>Spending Rate/Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>$</td>
<td>1,215</td>
<td>4.00%</td>
</tr>
</tbody>
</table>
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.

<table>
<thead>
<tr>
<th>As of 6/30/19</th>
<th>Units</th>
<th>Spending Rate/Unit</th>
<th>Programmatic Spending Budget FY 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment A</td>
<td>100.00</td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Endowment B</td>
<td>100.00</td>
<td></td>
<td>4,859</td>
</tr>
<tr>
<td>Endowment C</td>
<td>100.00</td>
<td></td>
<td>4,859</td>
</tr>
<tr>
<td>Endowment D</td>
<td>100.00</td>
<td></td>
<td>4,859</td>
</tr>
<tr>
<td>Endowment E</td>
<td>98.04</td>
<td></td>
<td>4,764</td>
</tr>
<tr>
<td>Total in Pool</td>
<td>498.04</td>
<td>$ 48.59</td>
<td>$ 24,202</td>
</tr>
</tbody>
</table>

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).
Calculating Effective Programmatic Spending Rate

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

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

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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https://foundationsaccounting.ofa.ncsu.edu/