• Endowment accounting is administered by Accounting and Financial Reporting Services (AFRS) (formerly General Accounting)

• In University Financial Services (UFS) (formerly The Office of the Treasurer)

• Kim Lush, Director of Endowment Accounting

• Amanda Henderson, Endowment Accountant
$1.3 billion endowment pool market value

2,200 + endowed funds

Approximately 40 colleges/area

New campaign in 2018
WHAT IS AN ENDOWMENT?

• *Endowment Fund*: A fund established with gifts from donor(s), appropriations from the Commonwealth of Kentucky or grants from an agency, with the requirement that they be held and invested in perpetuity to generate annual distributions for support of University programs.

• *Endowment Agreement*: An agreement between the University and the donor(s) outlining the purpose and administration of an endowment fund. All endowments require an endowment agreement.
TYPES OF ENDOWMENTS

• **True Endowment**
  • Established by an external donor
  • With the requirement that the principal be held and invested in perpetuity
  • Total return of the fund’s investments is distributed in accordance with the endowment investment policy approved annually by the Board of Trustees

• **Term Endowment**
  • Established by an external donor
  • With the requirement that the principal be held and invested until the passage of a specified period of time or the occurrence of a particular event
  • Total return of the fund’s investments is distributed in accordance with the endowment spending policy approved annually by the Board of Trustees
TYPES OF ENDOWMENTS

• *Quasi Endowment*
  • A fund established by the Board of Trustees with current unrestricted or restricted resources that are otherwise expendable
  • A quasi endowment fund may be liquidated and returned to operating funds for expenditure with approval of the Board of Trustees
  • Total return of the fund’s investments is distributed in accordance with the endowment spending policy approved annually by the Board of Trustees
HOW TO ESTABLISH AN ENDOWMENT

• Endowed gifts are formalized with an endowment agreement.
  • The Office of Philanthropy maintains current templates for endowment agreements.

• To establish an endowed gift in SAP, a fund must be created.
  • The form to create or modify an endowed fund is the Endowment Create and Change Form.
  • Instructions for completing the form can be found with the form on the University’s e-forms page.
HOW TO ESTABLISH AN ENDOWMENT

• Each endowment requires at least one cost center to be established for spending distribution allocation.

• The form to establish a cost center is the Cost/Funds Center Request Form.

• Endowment cost centers are used only for spending distribution.
  • Non-endowed gifts should not be deposited into an endowment cost center.
Over time, an endowment agreement may be amended.

Amendments can include the following changes:
- Endowment name
- Endowment type
- Purpose (could impact functional area)
- Department
- College/Area

If an endowment agreement is amended, an Endowment Fund Create and Change Form and/or a Cost/Funds Center Change Form may need to be submitted.
ENDOWMENT ACCOUNTING

- Monthly endowment accounting is performed by AFRS.
  - Entries are based on reporting for the prior month.
  - Entries include spending distribution, management fee, actual income and gains/losses.

- JV’s for other accounting entries are prepared by the college/area.
  - Examples could include depositing funds or transferring funds.

- Most JV entries are standard and guidance for preparing them can be found in the document Common JV Transactions found on the AFRS webpage.
ENDOWMENT VALUES

- Contributed Value
  - Gifts and additions

- Principal
  - Contributed value + reinvested spending distribution

- Market Value
  - Principal +/- all other transactions

- A GL Hierarchy that lists all endowment related GL codes can be found on the AFRS webpage.
  - The GL codes are categorized by contributed value, principal and market value.
UNDERWATER ENDOWMENTS

• An endowment is underwater if the market value is less than the contributed value.
• Therefore, the gift is worth less today than it was when it was given.
• If an endowment is > 10% & < 20% underwater, the college/area will review the fund and make a determination regarding whether or not to utilize spending distribution.
• If an endowment is > 20% underwater, spending distribution will cease.
UNDERWATER ENDOWMENTS

• In order to build a reserve, spending distributions are delayed on new endowment funds for at least one year.

• When a new endowment fund is established, spending distribution goes into the fund and is not available to spend.

• After 12 months, if the college/area wishes to allocate spending distribution to the cost center, an Endowment Fund Create and Change Form should be submitted.
ACTIVE MANAGEMENT OF ENDOWMENTS

• Spending distribution can be allocated to the cost center(s), back into the fund or a mixture

• Review current balances and expected expenditures to determine best approach for the fund

• Available balances are a resource and can provide funding, particularly as budgets tighten
ENDOWMENT INVESTMENT POLICY

• The guiding policy for the investment of endowed funds

• Set forth by the Investment Committee of the UK Board of Trustees

• Addresses major endowment related policies including
  • Spending Policy
  • Management Fee
  • Underwater Endowment Funds
SPENDING POLICY

• The formula for UK’s hybrid spending policy:
  \[ 0.60 \times (\text{Prior Year Spending} \times [1 + \text{Annual Percent Change in CPI-U}]) + 0.40 \times (0.04 \times \text{Average Market Value for Preceding 36 Months}) \]

• The annual calculated spending rate must fall between 3% and 6% of the current market value of the Endowment.

• Spending distribution is allocated monthly during the endowment accounting processing cycle.

• Spending distribution may be allocated to a cost center or into the fund.
MANAGEMENT FEE

- Eligible endowments are assessed an annual management fee to support administrative costs.

- The annual fee is spread out over twelve months and assessed monthly during the endowment accounting processing cycle.

- The current management fee assessed at the University of Kentucky is 0.50%.
TRANSACTION CODES

- FM5S - Display Fund master data information
### University of Kentucky
Cumulative - General Ledger Trial Balance by Fund
Fiscal Year 2016
Period 1 thru 12

**Fund: 0705000300 GENERAL ENDOWMENT**

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<tr>
<th>GL Account</th>
<th>Name</th>
<th>Beginning Balance</th>
<th>Current Debits</th>
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**TOTAL FUND CONTRIBUTED VALUE** | 17,662.36- |
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**SPENDING DISTRIBUTION REINVESTED AVAILABLE TO SPEND** | 50,212.44- |
**TOTAL FUND PRINCIPAL** | 67,874.80- |
**TOTAL FUND MARKET VALUE** | 150,041.02- |
**TOTAL FUND LIABILITIES** | 0.00- |
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REPORTING

- There are six endowment reports in BW.
  - Favorites
    - Endowment Snapshot
    - Endowment Base Report

- Generate the same type of information as the annual spending distribution budgeting report

- Instructions for running the reports can be found on the AFRS webpage.
ENDOWMENT POLICIES

• Endowment Investment Policy (Amended 12/12/16)

• Soliciting, Receiving, Recording and Acknowledging Gifts (Revised 11/1/16)

• Administrative Regulation 8:4 - Endowment and Naming Policies for Faculty Support, Undergraduate and Graduate Student Support, and Program, Unit, and Research Support (Currently being revised)
COMMONLY USED TRANSACTIONS AND TRANSACTION CODES

• A list of commonly used endowment transactions can be found on the AFRS webpage.

• Also, a list of commonly used transaction codes can be found on the AFRS webpage.
RESOURCES

• AFRS webpage

• Annual meetings with colleges/areas to review endowed funds

• Endowment class in Captivate available through HRTD
ON THE HORIZON

• Campaign

• Review & utilization of balances in cost centers & funds

• Policy benchmarking of amount of time needed to spend distribution

• More reportable data
QUESTIONS?

• Contacts for endowment accounting

  ➢ Amanda Henderson, Accountant Principal
    • amhe236@uky.edu
    • 257-7394

  ➢ Kim Lush, Endowment Accounting Director
    • kim.lush@uky.edu
    • 257-6465