



ENDOWMENT ACCOUNTING

ENDOWMENT ACCOUNTING

- 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

UK - ENDOWMENT OVERVIEW

- \$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.

AMENDED ENDOWMENTS

- 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:
 $60\% * (\text{Prior Year Spending} * [1 + \text{Annual Percent Change in CPI-U}])$
 $+ 40\% * (4\% * \text{Average Market Value for Preceding 36 Months})$
- 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

Display Fund: Basic Screen

Long text... Change history... Change documents Classification

FM Area: UK00 University of Kentucky
Fund: 0705000200 GENERAL ENDOWMENT FUND

Additional UK Common Fields

Research Priority Area: N
Business Area: 0101
Discipline: 00.
Department: 99000
Earning Pool ID: E
Cancer Research Match: N
Net Asset Class: RM
Contact Person: ANGELA MARTIN
Responsible Person: MARTIN, ANGELA
Functional Area: 0610
Loan type:

Capital Account Asset Flag
 Non Operating

Interest Override

Posting Object Type:
Posting Object:
Posting G/L Account:

Additional UK Fund Fields Add UK Endowment fields

FM Area: UK00 University of Kentucky
Fund: 0705000200 GENERAL ENDOWMENT FUND

Additional UK Fields for Endowment

Endowment type: 7 Non-Std Spending Distribution: S
Est. annual spending dist.: 5,377.79 State Funded Proportion: 0.00
Number of shares: 20,907.59 Adjusted Contributed Value: 0.00
Service fee: 0.5000 Next Yr Est Spend: 0.00
Share value: 7.1965 Endowment Category: R
Spending rule rate: 0.2573 Fund Currency: USD
RCTF: N First Deposit: 06/30/2005
Endowment Term:
Governing Document: X
Exempt from service fees:
Spending Agreement:

Cost Center and Fund cannot both be entered on the same line

| Delete | Cost Center | Fund | Distribution percent |
|--------|-------------|------------|----------------------|
| Add | | 0705000200 | |
| | 1023171020 | | 100.00 |

The total Distribution percent must be equal to 100 percent

TRANSACTION CODES

- zgl_trbr1_cum - endowment cumulative trial balance

University of Kentucky
Cumulative - General Ledger Trial Balance by Fund
Fiscal Year 2016
Period 1 Thru 12

Fund: 0705000200 GENERAL ENDOWMENT

| GL Account | Name | Beginning Balance | Current Debits | Current Credits | Ending Balance |
|------------------------------------|---|-------------------|----------------|-----------------|----------------|
| 110000 | Claim On Cash | 2,592.84- | 0.00 | 0.00 | 2,592.84- |
| 129100 | Investment - Pooled Endowment Fund | 152,633.86 | 0.00 | 0.00 | 152,633.86 |
| | FUND ASSETS | 150,041.02 | 0.00 | 0.00 | 150,041.02 |
| Fund: 0705000200 GENERAL ENDOWMENT | TOTAL FUND BALANCE | 150,041.02 | 0.00 | 0.00 | 150,041.02 |
| 425320 | Endowment Gifts - Non-RCTF - Non-expendable | 17,662.36- | 0.00 | 0.00 | 17,662.36- |
| 430050 | Investment Gain or Loss | 106,574.51- | 0.00 | 0.00 | 106,574.51- |
| 431100 | Endowment Actual Income | 54,366.10- | 0.00 | 0.00 | 54,366.10- |
| 431101 | Endowment Income Distribution | 50,212.44- | 0.00 | 0.00 | 50,212.44- |
| 433020 | Unrealized Gain and Loss - Endowment Pool | 46,625.71- | 0.00 | 0.00 | 46,625.71- |
| | FUND ADDITIONS | 275,441.12- | 0.00 | 0.00 | 275,441.12- |
| 545022 | Spending Rule Distribution | 109,195.98 | 0.00 | 0.00 | 109,195.98 |
| 750240 | Transfer for Management Fee | 16,204.12 | 0.00 | 0.00 | 16,204.12 |
| | FUND DEDUCTIONS | 125,400.10 | 0.00 | 0.00 | 125,400.10 |
| Fund: 0705000200 GENERAL ENDOWMENT | TOTAL ADDITIONS & DEDUCTIONS | 150,041.02- | 0.00 | 0.00 | 150,041.02- |
| | TOTAL FUND CONTRIBUTED VALUE | | 17,662.36- | | |
| | TOTAL FUND SPENDING DISTRIBUTION REINVESTED | | 50,212.44- | | |
| | 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 | | |

TRANSACTION CODES

- zgl_trbr1_fund - endowment current year trial balance

University of Kentucky
General Ledger Trial Balance by Fund
Fiscal Year 2016
Period 1 Thru 12

Fund: 0705000200 GENERAL ENDOWMENT

| Fund | GL Account | Name | Beginning Balance | Total Debits | Total Credits | Ending Balance |
|------------|-------------------|---|-------------------|--------------|---------------|----------------|
| 0705000200 | 110000 | Claim On Cash | 2,592.84- | 0.00 | 0.00 | 2,592.84- |
| 0705000200 | 129100 | Investment - Pooled Endowment Fund | 152,633.86 | 0.00 | 0.00 | 152,633.86 |
| | | TOTAL ASSETS | 150,041.02 | 0.00 | 0.00 | 150,041.02 |
| 0705000200 | 310000 | Fund Balance | 164,388.70- | 0.00 | 0.00 | 164,388.70- |
| | | TOTAL FUND BALANCE | 164,388.70- | 0.00 | 0.00 | 164,388.70- |
| 0705000200 | 425320 | Endowment Gifts - Non-RCTF - Non-expendable | 200.00- | 0.00 | 0.00 | 200.00- |
| 0705000200 | 430050 | Investment Gain or Loss | 1,261.19 | 0.00 | 0.00 | 1,261.19 |
| 0705000200 | 431100 | Endowment Actual Income | 1,089.13- | 0.00 | 0.00 | 1,089.13- |
| 0705000200 | 433020 | Unrealized Gain and Loss - Endowment Pool | 10,225.00 | 0.00 | 0.00 | 10,225.00 |
| | | TOTAL REVENUES | 10,197.06 | 0.00 | 0.00 | 10,197.06 |
| 0705000200 | 545022 | Spending Rule Distribution | 3,620.48 | 0.00 | 0.00 | 3,620.48 |
| | | TOTAL EXPENSES | 3,620.48 | 0.00 | 0.00 | 3,620.48 |
| 0705000200 | 750240 | Transfer for Management Fee | 530.14 | 0.00 | 0.00 | 530.14 |
| | | TOTAL EXPENSES | 530.14 | 0.00 | 0.00 | 530.14 |
| 0705000200 | GENERAL ENDOWMENT | FUND TOTAL: | 0.00 | 0.00 | 0.00 | 0.00 |
| | | GRAND TOTAL: | 0.00 | 0.00 | 0.00 | 0.00 |

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