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## SECTION 1: POLICY OVERVIEW

The Endowment Fund, formerly known as the “6-Book fund” because all of its general ledger accounts begin with the number six (6), accounts for and contains all of the University’s unrestricted, quasi-restricted, temporarily restricted, and permanently restricted net assets. These assets, liabilities and net assets are segregated from the University’s main operating funds to preserve their unique identity and ensure precise accounting for the internal and external restrictions placed on these funds.

A companion policy, 400.200P: Investment Policy Statement, is maintained by the University Board of Trustees (the “Board”) and details how the cash placed in the Endowment Fund investment pool should be held and invested.

## SECTION 2: FUND CREATION

- A. Upon receipt of a qualifying gift or pledge to endow (as defined in policy 405.001P4: Endowment Fund), University Advancement will complete necessary internal forms and legal documents required for the receipt of the gift(s) and establishment of the fund.
  1. **All** original documents related to the gift(s) will be scanned, combined into **one file**, and stored on the designated network drive shared by University Advancement and Financial Services.
- B. University Advancement will initiate form 405.001F1: Gift Restriction Summary & Request for Creation of Funds. University Advancement must complete all portions of Section 1 of the form, then forward it to the supervising dean or vice president most closely affiliated with the new fund(s).
- C. The supervising dean/vice president will complete all portions of Section 2 of the form, then forward the form to a Financial Services Accountant.
- D. Financial Services will establish the necessary funds as described below and complete Section 3 of form 405.001F1.
- E. Once the form is completed and all funds created, the Financial Services Accountant will send copies of form 405.001F1 to all parties listed on form.
- F. The Financial Services Accountant will then attach form 405.001F1 as a cover sheet to the original gift documentation stored in the University’s endowment Software as a Service (SaaS), and save it to the appropriate subfolder on the drive.

## SECTION 3: FUND COMPOSITION

- A. The establishment of an endowed fund creates sets of related accounts in the Endowment Fund and Restricted Operating Fund.
  1. The first component of each fund will be numbered according to its fund book: 6 – Endowment Fund or 2 – Restricted Operating Fund.
  2. The second and third components of each fund identify the funds’ restrictions (e.g., scholarship, program, chair, etc.) and will be numbered according to the University’s established formatting template.
  3. The fourth component will be numbered in a series based on the University’s established formatting template and the division/department to which the funds are most closely associated.
  4. A typical set of funds will have established at their inception a minimum of the following fifth components:
    - a. Endowment Fund

- 1) 6-xx-3xx-xxxxx-67600 New Gift Revenue
  - 2) 6-xx-3xx-xxxxx-67800 Net Distribution of earnings and endowment draw to/from fund
  - 3) 6-xx-3xx-xxxxx-79900 Transfer-out account
  - 4) 6-xx-3xx-xxxxx-99900 Temp Restricted Fund Balance (accumulation of undrawn earnings)
  - 5) 6-xx-3xx-xxxxx-95000 Perm Restricted Fund Balance (accumulation of gifts aka "Corpus")
- b. Restricted Operating Fund - Scholarship
- 1) 2-xx-xxx-xxxxx-60000 Income
  - 2) 2-xx-xxx-xxxxx-30100 Expenses
  - 3) 2-xx-xxx-xxxxx-69900 Transfer-in account for annual endowment draw
  - 4) 2-xx-xxx-xxxxx-95000 Temp Restricted Fund Balance
- c. Restricted Operating Fund – Non-scholarship
- 1) 2-xx-xxx-xxxxx-60000 Income
  - 2) 2-xx-xxx-xxxxx-23000 Supplies
  - 3) 2-xx-xxx-xxxxx-25100 Equipment – Computer Related
  - 4) 2-xx-xxx-xxxxx-25200 Equipment – Non-computer
  - 5) 2-xx-xxx-xxxxx-25700 Meals & Entertainment
  - 6) 2-xx-xxx-xxxxx-25900 Miscellaneous
  - 7) 2-xx-xxx-xxxxx-26100 Professional Development
  - 8) 2-xx-xxx-xxxxx-27200 Travel
  - 9) 2-xx-xxx-xxxxx-27500 Special Project
  - 10) 2-xx-xxx-xxxxx-27600 Special Project
  - 11) 2-xx-xxx-xxxxx-69900 Transfer-in account for annual endowment draw
  - 12) 2-xx-xxx-xxxxx-95000 Temp Restricted Fund Balance
- d. Additional fifth components may be added to provide greater specificity and detail via request to a Financial Services Accountant.

## SECTION 4: BOOKKEEPING

- A. The University engages a third-party vendor to provide a Software as a Service (SaaS) platform which maintains and tracks the quarterly investment value of each fund included in the Investment Pool.
- B. The criteria on which the University draws funds from the endowment (based on policy 400.200P: Investment Policy Statement) are entered into the software, which will then calculate each fiscal year's draw.
- C. Financial Services will enter into the software at least quarterly any investment changes (from fund statements) and new gifts, in order that the University may keep accurate records of fund balances and endowment draws.
- D. Staff are responsible for entering into the General Ledger at least quarterly any journal entries generated by the software, in order that the software and General Ledger remain in sync.
- E. As part of the closing of each fiscal year, Financial Services will reconcile the SaaS platform to University Advancement's fundraising software to ensure that General Ledger account numbers and fund balances remain in sync.

## SECTION 5: ENDOWMENT DRAW CALCULATION AND EARNINGS DISTRIBUTION

- A. Spread of Gains/Losses

1. Gains/losses from University investments are updated in the SaaS platform as statements are received, at least once per quarter.
  2. Once per quarter, investment gains/losses are calculated and distributed to the individual endowment funds.
- B. Endowment Draw & Draw Distribution
1. Based on the criteria specified in policy 400.200P: Investment Policy Statement, the SaaS platform calculates annually the amount of funds the University is allowed to draw from the endowment.
    - a. The following restrictions apply to new endowment funds:
      - 1) No draw will be taken from a fund during the first fiscal year in which it is created.
      - 2) In a fund's second year, the University may draw 33% of the annual draw rate from the fund.
      - 3) In a fund's third year, the University may draw 67% of the annual draw rate from the fund.
      - 4) Beginning in a fund's fourth year, the University may draw 100% of the annual draw rate from the fund.
    2. Within the first quarter of each fiscal year, the Controller and/or a Financial Services Accountant will transfer the calculated endowment draw to the appropriate funds.
- C. The Chief Financial Officer will make all transfers of funds between University investment and banking accounts.

## SECTION 6: UNDERWATER FUNDS

- A. During a time of negative market returns, the Chief Financial Officer, in consultation with the Senior Leadership Team and approval from the Board of Trustees Financial Affairs Committee, may elect to "borrow" from unrestricted funds in order to fund scholarships and other programs that otherwise would have to be covered by the University budget.
1. In such circumstances, a set of payable/receivable accounts are established in the General Ledger to track the borrowing and repayment of funds between unrestricted net assets and temporarily restricted net assets. These are:
    - a. 6-65-300-61001-95000      Excess Temporarily Restricted NA Losses to Unrestricted NA
    - b. 6-65-100-31007-00700      Allocation of Excess Temp Restricted NA to Unrestricted NA
    - c. These two accounts must net to zero (\$0) at all times.
  2. As **total returns** improve and temporarily restricted net assets increase, the "borrowing" must be repaid in an amount that is the lesser of:
    - a. The amount of "borrowed" funds OR
    - b. An amount sufficient to bring the temporarily restricted net assets in aggregate back to zero (\$0).
  3. Any "borrowing" transacted by the University will be reported on the GAAP Statement of Financial Position, showing on the Endowment Temporarily Restricted Net Assets line as zero (\$0).

## SECTION 7: FUND REPORTING

- A. Financial Services staff will review quarterly reports from the third-party institutional investment consultant and the third-party SaaS platform to ensure that activity is in sync (with allowances for timing differences in reporting).
1. Copies of all reports from the third-party institutional investment consultant will be stored according to policy 404.003: Document Retention.
- B. Staff will prepare reports based on data in the General Ledger and the SaaS platform for annual review as requested by the University's external auditors.

1. The entire Endowment Fund is reported as its own column in the annual audited financial statements, with numerous related footnotes detailing more in-depth analysis.