Accounting Services

Information Session: Gift & Endowment

Thursday March 20th 2014 – Chicago Campus
Tuesday March 25th 2014 – Evanston Campus

NORTHWESTERN UNIVERSITY
Gift & Endowment Topics

• Types of gifts NU receives
• Overview of how NU’s endowment fund operates
• Roles and responsibilities of Gift Administration and Contribution Processing
• Fiduciary responsibilities for department’s restricted funds
• Resources and contacts available to help administer restricted chartstrings
Types of Gifts Received

• **Unrestricted**: Gifts that can be used for any purpose
  – Example: donor transfers 400 shares of XYZ stock to Northwestern University “without further restriction” or “to support the areas of greatest need”.

• **Restricted**: Donor designates a gift for a specific purpose
  – Example: “to support scholarships at the Kellogg School of Management”.

• **Endowment**: Gifts that the donor designates to be invested and held in perpetuity with only the investment returns available to be spent
  – Example: “to establish an endowed fund to be known as XYZ Foundation Fellowship Fund....expendable income from the “fund” shall be use to provide support for a fellowship in Hematology/Oncology.”
Endowment Benefits & Obligations

• Endowments provide Northwestern with a significant and permanent source of funds to support professorships, research, financial aid, capital projects, Schools, Departments, Institutes, Centers, and more.

• Endowments impose upon Northwestern contractual, legal, ethical, financial, management and reporting responsibilities.

• The proper management and administration of our endowment accounts helps maintain and enhance the confidence of Northwestern’s constituents, especially its donors.
How Endowments Work for Northwestern?

- Generate income that provides annual support for a wide range of University purposes.

- By providing this dedicated stream of income, an endowment gift ensures stability (e.g., scholarship fund or professorship).

- Endowing an existing program frees up money that Northwestern can redirect to other areas of need.

- As of August 31, 2013, Northwestern’s Long Term Balanced Pool stood at approximately $7.8 billion of managed assets and is comprised of approximately 3,000 unit-holders/projects.
Endowments: Top 15 Schools
Source: 2013 NACUBO Endowment Study

U.S. and Canadian Institutions Listed by Fiscal Year 2013 Endowment Market Value and Change* in Endowment Market Value from FY 2012 to FY 2013

*Note: The change in market value does NOT represent the rate of return for the institution’s investments. Rather, the change in the market value of an endowment from FY 2012 to FY 2013 reflects the net impact of:
1) withdrawals to fund institutional operations and capital expenses;
2) the payment of endowment management and investment fees;
3) additions from donor gifts and other contributions; and
4) investment gains or losses.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Institution</th>
<th>State/Province</th>
<th>2013 Endowment Funds ($000s)</th>
<th>2012 Endowment Funds ($000s)</th>
<th>*Change in Market Value (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Harvard University</td>
<td>MA</td>
<td>32,334,293</td>
<td>30,435,375</td>
<td>6.2</td>
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<tr>
<td>2</td>
<td>Yale University</td>
<td>CT</td>
<td>20,780,000</td>
<td>19,345,000</td>
<td>7.4</td>
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<tr>
<td>3</td>
<td>University of Texas System</td>
<td>TX</td>
<td>20,448,313</td>
<td>18,263,850</td>
<td>12.0</td>
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<tr>
<td>4</td>
<td>Stanford University</td>
<td>CA</td>
<td>18,688,868</td>
<td>17,035,804</td>
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<tr>
<td>5</td>
<td>Princeton University</td>
<td>NJ</td>
<td>18,200,433</td>
<td>16,954,128</td>
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<tr>
<td>6</td>
<td>Massachusetts Institute of Technology</td>
<td>MA</td>
<td>11,005,932</td>
<td>10,308,274</td>
<td>6.8</td>
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<tr>
<td>7</td>
<td>Texas A&amp;M University System and Foundations†</td>
<td>TX</td>
<td>8,732,010</td>
<td>7,638,555</td>
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<tr>
<td>8</td>
<td>University of Michigan</td>
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<td>7,691,042</td>
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<tr>
<td>9</td>
<td>Columbia University</td>
<td>NY</td>
<td>8,197,880</td>
<td>7,654,152</td>
<td>7.1</td>
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<tr>
<td>10</td>
<td>Northwestern University</td>
<td>IL</td>
<td>7,883,323</td>
<td>7,118,595</td>
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<tr>
<td>11</td>
<td>University of Pennsylvania</td>
<td>PA</td>
<td>7,741,396</td>
<td>6,754,658</td>
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<tr>
<td>12</td>
<td>University of Notre Dame</td>
<td>IN</td>
<td>6,856,301</td>
<td>6,329,866</td>
<td>8.3</td>
</tr>
<tr>
<td>13</td>
<td>University of Chicago</td>
<td>IL</td>
<td>6,668,974</td>
<td>6,570,875</td>
<td>1.5</td>
</tr>
<tr>
<td>14</td>
<td>University of California</td>
<td>CA</td>
<td>6,377,379</td>
<td>5,962,906</td>
<td>7.0</td>
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<tr>
<td>15</td>
<td>Duke University</td>
<td>NC</td>
<td>6,040,973</td>
<td>5,555,196</td>
<td>8.7</td>
</tr>
</tbody>
</table>
Types of Endowments

• **True Endowment**
  – Permanent endowment established by a donor-restricted gift.
  – Original gifts are preserved.
  – Spending distribution provides a permanent stream of funds for Northwestern.

• **Quasi-Endowment**
  – Typically, funds that Northwestern, internally, decides to treat as an endowment, without having a legal obligation to do so.
  – Principal may be spent in accordance with Northwestern policy and procedure.
  – Three-year rule to invade principal.
Role and Responsibilities for Department Gift Administrators

• Familiarize yourself with donor documents and restrictions of all funds within your department.

• Distribute Fund Memos, which detail donor restrictions, to those involved in administering.

• Need to make sure that all expenses comply with donor restrictions.

• Assist with the preparation of any donor reporting for which your area is responsible.
Each unit is responsible for:

• Ensuring that the expenditure of endowment funds complies with:
  – Terms of the gift agreement
  – Applicable legal and accounting standards
  – University policy

• Fulfilling any reporting and stewardship obligations - The unit benefiting from endowments will work with Development to facilitate voluntary reporting to donors on the use of endowment funds as needed.

• Attaining proper approvals and maintaining documentation.

• Asking questions about interpretation and scope terms and restrictions as needed:
  – Office of Gift Planning
  – Accounting Services
Compliance with Endowment Fund Restrictions – Pooling

• Expenses incurred for endowment purposes should be charged, whenever practical, directly to the applicable spending account.

• Pooling or aggregation of funds from different endowment accounts should be avoided

• Situations where pooling may occur:
  – Pooling endowment accounts restricted to the same purpose may be appropriate after a thorough review of the restrictions of each fund
Exercise - When can income from endowment funds be pooled?

Fund A: Fund to support research in breast cancer.
Fund B: Fund to support research in liver cancer.
Fund C: Fund to support research in cancer.
Fund D: Fund to support medical research.

1) Which of these funds can be pooled?
2) Why can’t they all be pooled?
Monitoring Fund Balances

- Each school and/or department is responsible for monitoring fund balances.
- A deficit in one or more spending accounts must be covered by moving expense to another chartstring of appropriate designation.
- Endowment spending accounts should be expended regularly.
- Options of surplus spending:
  - Support the next fiscal year’s activities
  - Commit the funds for the future planned and approved programs that conform to donor restrictions
  - Reinvestment- consult with your Budget Office contact and Accounting Services
Exercise: Gift Purposes

“If I can't use the gift exactly for the purposes specified in the gift agreement, what can I do?”

a) Use it for a purpose that echoes the spirit of the gift?

b) Use it for a different purpose that is really important?

c) Use it for a different purpose because the donor is deceased?

d) Not use it and just forget about it?

e) Consult with the Office of Gift Planning about whether the purposes might be modified?
Potential Consequences of Non-Compliance are Serious

Compliance

Spending in accordance with donor intent and University policy and process

- Non-Compliance...
  - Lawsuits and Investigations
    - Initiated by Attorney General
    - Private Right of Action
    - Regulatory Entities
  - May be forced to return funding
  - Jeopardize opportunities for future gifts
  - Damage to Northwestern’s institutional reputation
• **FUNDRIVER** - a web based Endowment Administration Application designed to manage, track and report on Endowment Funds.

• **COGNOS - GL062** - combines activity of both Endowment Principal and spending chartstrings

• **Fund Memo’s**

• **Financial Operations website**
  - Links to monthly endowment unit price
  - Links to monthly projected income distribution post dates and Fundriver report availability dates
  - Links to this presentation and other training materials
FUNDIVER Reporting, Income Distribution schedule, Unit Price Links available on the Financial Operations website

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Accounting Period</th>
<th>Month</th>
<th>Date Available</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>1</td>
<td>September</td>
<td>November 6</td>
</tr>
<tr>
<td>2014</td>
<td>2</td>
<td>October</td>
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<td>3</td>
<td>November</td>
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<td>December</td>
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<td>11</td>
<td>July</td>
<td>September 8</td>
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<tr>
<td>2014</td>
<td>12</td>
<td>August</td>
<td>TBD</td>
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**Endowment Income:**
This schedule will provide a date of when the Endowment Income will be posted to the NU Financials. For example, in the month of January, accounting period 5, December's Income will be posted in NU Financials by January 23, 2014.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Posting Period</th>
<th>Income Distribution for:</th>
<th>Posting Date</th>
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<tr>
<td>2014</td>
<td>1</td>
<td>**</td>
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<td>2</td>
<td>September</td>
<td>October 18</td>
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<td>October</td>
<td>November 22</td>
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<td>December 20</td>
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<td>July 18</td>
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<td>12</td>
<td>July</td>
<td>August 20</td>
</tr>
<tr>
<td>2014</td>
<td>12</td>
<td>August</td>
<td>September 12</td>
</tr>
</tbody>
</table>

**Note:** Due to year end closing and external audits, posting of endowment income will be delayed.
Example, COGNOS GL062-Gift and Endowment Detail Report

Gift/Endowment Project Detail

<table>
<thead>
<tr>
<th>Revenue Budget</th>
<th>Revenue Actual</th>
<th>Expense Budget</th>
<th>Pre-Encumbrance</th>
<th>Encumbrance</th>
<th>Expense</th>
<th>Available To Spend</th>
<th>Current Year Net Activity</th>
<th>Project Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Balance</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Revenue (includes Transfers)</td>
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<td></td>
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<tr>
<td>40305 Private Gifts - Restricted</td>
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<tr>
<td>Total Revenue</td>
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<td>$55,764.87</td>
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<tr>
<td>Net: Revenue Current Year</td>
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<td>$99,764.87</td>
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<td>Closing Balance for Gift/Endowment Principal</td>
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</tbody>
</table>

Endowment Spending

Opening Balance | $0.00

All revenue, expense, and transfer accounts:

<table>
<thead>
<tr>
<th>Revenue Category</th>
<th>Revenue Actual</th>
<th>Expense Actual</th>
<th>40350 Endowment Income Cr</th>
<th>73010 Paper And Office Supplies</th>
<th>78050 Stipend</th>
<th>Total</th>
<th>Net Revenue/Expense</th>
<th>Closing Balance for Endowment Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>$4,000.00</td>
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<td></td>
<td>$3,379.55</td>
<td>$4,000.00</td>
<td>$1,000.00</td>
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<tr>
<td>$4,000.00</td>
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<td>$1,000.00</td>
<td>$3,000.00</td>
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<td>$3,000.00</td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Gift Revenue posted to the Principal Fund code (410,420,431)

Income distribution to spending chartstring (440,450)

Gift/Endowment Equity Balance | $96,885.60
Northwestern University

FUND MEMO

Date: December 4, 2013

To: President
   Provost
   Sr. Vice President for Business & Finance
   Controller
   Assoc. Vice President for Budget Planning
   Craig Johnson, Vice Dean, Finance, FSM
   Meredith Howell, Development, FSM

Accounting Services
Office of General Counsel
Gift & Records Services
Fiduciary Services
Development Communications
Marsha McClellan, Finance, FSM
Gift Processing, Development, FSM

From: Office of Development

By: Robert E. McQuinn, Vice President for Alumni Relations and Development

Fund # 410  ProjID#  5611000  DeptID#

Name of Fund: The Scholarship Fund
Donor: XXXXXXX
Amount: $1,000,000.00

X Cash
   Securities
   Other

Date of Gift: December 2013

Use of Principal: Hold as permanent endowment
Capital Gains: Expendable*
Income: The purpose of this fund is to provide undergraduate scholarship support within Feinberg School of Medicine.
Should you have any questions, please do not hesitate to reach out:

• Accounting Services
  – Jennifer Wander: 847.491.4726 j-helms@northwestern.edu
  – Aaron Whetstone: 847.467.0749 a-whetstone@northwestern.edu

• Gift & Record Services and Alumni Relations & Development
  – For Gift Processing and CATracks inquiries, please contact
    • Catherine Eliasik c-eliasik@northwestern.edu
  – For Endowment project spending chartstring set up, please contact
    • Cathy Frasunek c-frasunek@northwestern.edu