## **Endowment & Gift**

July 25, 2018

## Agenda

- I. Types of gifts Northwestern receives
- II. How Northwestern's endowment fund operates
- III. Changes to Quasi-Endowments processes
- IV. Roles and responsibilities of Gift Administration and Contribution Processing
- V. Fiduciary responsibilities for department's restricted funds
- VI. Resources and contacts

## Types of Gifts Received

Donor transfers 400 shares of XYZ stock to Northwestern...

Туре	Example
<b>Unrestricted</b> Gifts that can be used for any purpose	"Without further restriction" or "to support the areas of greatest need"
<b>Designated - Unrestricted</b> Donor designates a gift for a specific purpose	"To support scholarships at the Kellogg School of Management"
Endowment/Restricted  Gifts a donor designates to be invested and held in perpetuity with only the investment returns available to be spend	"To establish an endowed fund to be known as XYZ Foundation Fellowship Fund expendable income from the fund shall be used to provide support for a fellowship in Hematology/Oncology"

## Restriction vs Designation

## Restrictions — can you spend the gift?

- Restrictions are donor imposed.
  - Expendable: without donor restriction
  - Endowed: with donor restriction
- Restrictions restrict spending the principal of the gift.

## Designations – you can use the gift, how can you spend it?

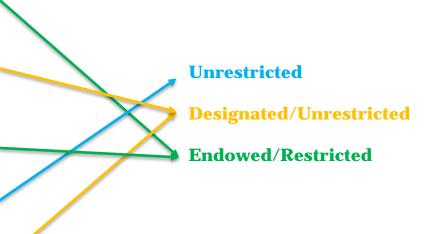
- Designations may be either donor or institution imposed.
- Designations limit the use of the gift or income distribution for a particular purpose.

## **Summary of Gift Types**

- If the donor says you can spend the gift and does not provide a time or event restriction, then the gift is <u>unrestricted</u>.
  - Look for language like "without further restriction."
- If the donor says you can spend the gift and provides an intention on how to spend it, then the gift is unrestricted with a <u>designation</u>.
  - Look for language like "assets/gift to support..."
     The University may also designate the use of a gift.
- If the donor says you can't spend the gift or the gift must be invested, then the gift is <u>endowed/restricted</u>.
  - Look for language like "invested" and "earned income will be used for..."
     Earned income can have a designation. Only a donor can restrict a gift.

## Exercise: Match the donor's request to the type of gift.

- 1. "To establish an endowed fund to be known as XYZ Foundation Fellowship Fund... expendable income from the fund shall be used to provide support for a fellowship in Hematology/Oncology"
- 2. "To support scholarships to those in greatest" need."
- 3. "To support scholarships...expendable income shall be used prioritized to those studying Physics and Astronomy."
- 4. "To support the mission of Northwestern University."
- 5. "To support the Kellogg School of Management in honor of Professor X with no further restrictions."



## **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 University Endowments Work

- 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, 2017, Northwestern's Long Term Balanced Pool stood at approximately \$10.5 billion of managed assets and is comprised of approximately 3,600 unit-holders/projects.

## **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
- Five-year rule to invade principal

## Changes to Quasi-Endowment

- New policy in review will be shared by leadership.
- Establishes a formal workflow for requests of additions and withdrawals to existing quasi-endowments, and establishing new quasi-endowments based on funding source.
  - Additional approvals based on thresholds
- Policy, forms, and supporting resources will be shared on the Financial Operations website.
- Coming soon to a University near you!

## Role & 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.
- Ensure all expenses comply with donor restrictions.
- Assist with the preparation of any donor reporting for which your area is responsible.

# Compliance with Endowment Fund Restrictions – Expenditures

#### Each unit is responsible for:

- Ensuring the expenditure of endowment funds complies with:
  - Terms of the gift agreement,
  - Applicable legal and accounting standards, and
  - 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 from the Office of Gift Administration and 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?

Which of these funds can be pooled?

Why can't they all be pooled?

- a) Fund A: Fund to support research in <u>breast cancer</u>
- b) Fund B: Fund to support research in <u>liver cancer</u>
- c) Fund C: Fund to support research in <u>cancer</u>
- d) Fund D: Fund to support research in <u>medical research</u>

# Exercise: When can income from endowment funds be pooled?

	Breast Cancer Research	Liver Cancer Research	Cancer Research	Medical Research
Breast Cancer Research	$\checkmark$	X	$\checkmark$	$\checkmark$
Liver Cancer Research	X	$\checkmark$	$\checkmark$	$\checkmark$
Cancer Research	$\checkmark$	$\checkmark$	$\checkmark$	$\checkmark$
Medical Research	$\checkmark$	$\checkmark$	$\checkmark$	$\checkmark$

Spend your most restricted dollars first!

If you have questions about restrictions, designations, or cash availability and planning – please reach out to your Budget Office Liaison and Accounting Services.

## 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 chart string or appropriate designation.
- Endowment spending accounts should be expended regularly. It is recommended that you do not exceed a carryforward of over two years worth of distributions.
- Options of surplus spending income:
  - Support the next fiscal year's activities,
  - Commit the funds for the future planned and approved programs that conform to donor restrictions, or
  - Reinvestment: consult with your Budget Office contact and Accounting Services

Please consult with your Dean or Vice President's Offices to develop a spending plan. The Office of Budget and Planning can provide support as needed. Gift Acceptance can provide insight into spending restrictions.

### Exercise: Gift Purposes

"If I can't use the gift exactly for the purposes specific 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 Administration 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

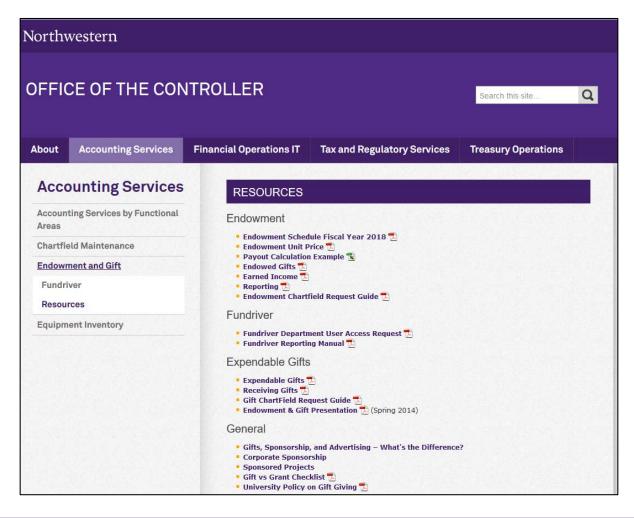


### Resources

- <u>Fundriver</u> a web-based endowment administration application designed to manage, track, and report on endowment funds
- <u>CATracks</u> a web-based donor management system designed to manage, track, and report on gift transactions.
- <u>COGNOS</u> GL062 combines activity of both endowment principal and spending chart strings.
- Fund Memos
- Accounting Services 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

Northwestern

## Resources: Accounting Services





### Resources: Fundriver

2018

2018

2018

2018

2018

2018

2018

2018

2018

2018

2018

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12



Fundriver reporting, income distribution schedule, and unit price links are available on the Accounting Services website.

Northw	vestern					
Endov	Endowment Distribution & Reporting Schedule for Fiscal Year 2018					
	Fundriver Endowment Reports:					
	The schedule below highlights the dates you can expect to access period reports in					
Fundriver. Fo			vill be accessible by March 5,			
		18 in Fundriver.				
Fiscal Year	Accounting Period	Month	Date Available			
2018	1	September	November 10			
2018	2	October	December 5			
2018	3	November	January 8			
2018	4	December	February 5			
2018	5	January	March 5			
2018	6	February	April 4			
2018	7	March	May 3			
2018	8	April	June 5			
2018	9	May	July 5			
2018	10	June	August 3			
2018	11	July	September 7			
2018	12	August	October 3			
	Endowment Income Distributions:					
	The schedule below highlights the dates you can expect to see Endowment Income post in					
Cognos. For	Cognos. For example, in the month of January, accounting period 5, December's income will be posted in Cognos by January 16, 2018.					
Fiscal Year	Accounting Period	Month	Posting Date			
2018	1					

September

October

November

December

January

February

March

April

May

June

July

August

October 16

November 16

December 18

January 16

February 16

March 16

April 16

May 16

June 17

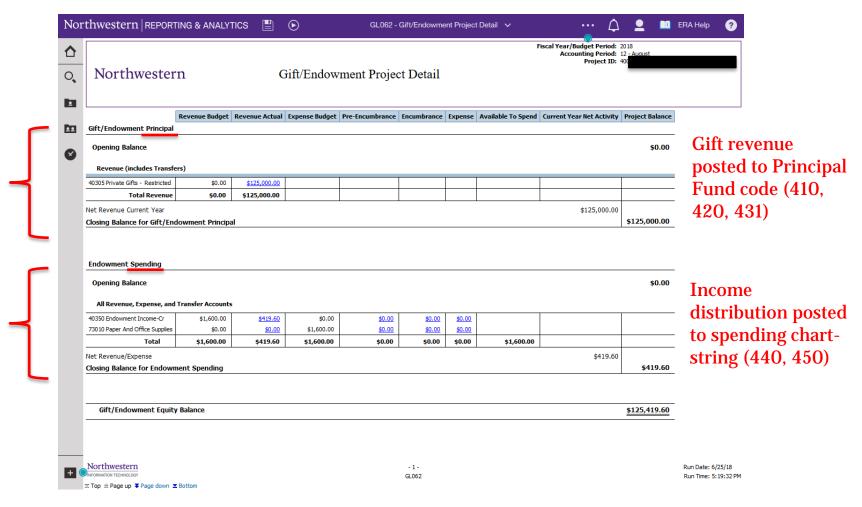
July 16

August 16

September 10

Fiscal Year 2018 Monthly Unit Pricing for Long Term Merged Pool -750				
Month	Price			
September 30	\$ 242.7373			
October 31	\$ 245.8856			
November 30	\$ 247.2534			
December 31	\$ 247.8336			
January 31	\$ 252.4360			
February 28	\$ 249.8796			
March 31	\$ 249.6320			
April 30	\$ 251.9678			
May 31				
June 30				
July 31				
August 31				

# Example: COGNOS – GL062 (Gift & Endowment Detail Report)



### **Example: Endowment Fund Memo**

#### Northwestern

#### Fund Memo

Date: May 14, 2018

To: President

Provost Gift & Records Services

Gift Acceptance and Fund Management

Donor Relations Development, Fin. Aid Accounting Services Office of General Counsel

Controller

Vice President for Budget Planning University Director of Fin. Aid Asst. Director of Fin. Aid

DeptID# ProjectID# 410 1361000

Name of Fund: The Family Scholarship Endowed Fund

Donor(s): XXXXXXXXXXXX

Administrating Financial Aid School/Unit:

Gift \$100,000 Pledge

Transactions1:

Date of

Executed Gift May 2, 2018 Agreement:

Use of Principal: Hold as permanent endowment

Minimum Funding Level

\$100,000 (MFL):

Deadline for

Achievement of December 31, 2023

MFL:

Purpose of The expendable income from the Fund shall be used to provide financial Fund: assistance to undergraduate Northwestern students without further

restriction.

Stewardship: Northwestern shall prepare an annual report about the use of the Fund for

the donor.

Special Notes: N/A

### **Contact Information**

Should you have any questions, please don't hesitate to reach out:

### **Accounting Services**

- Jennifer Wander: 847-491-4726, <u>j-helms@northwestern.edu</u>
- Lauren Armstrong: 847-491-4468, <u>lauren.armstrong@northerwestern.edu</u>
- Patricia Greenfeld: 847-491-4725, patricia.greenfeld@northwestern.edu

### Alumni Relations & Development

- Gift Acceptance & Fund Management: <a href="mailto:ardgiftacceptance@northwestern.edu">ardgiftacceptance@northwestern.edu</a>
- Gift and Records Services: giftupdate@northwestern.edu

### Office of Budget and Planning

Analysts are designated to specific departments, see the organization chart here: <a href="https://www.northwestern.edu/budget/contact/index.html">https://www.northwestern.edu/budget/contact/index.html</a>