Finance 301: Gallaudet Endowment Basics

Gallaudet University
Administration & Finance
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Purpose

The purpose of this endowment training manual is twofold. First, colleges and universities have recently come under public scrutiny for how they have managed their endowments. A common complaint is that institutions have been "hoarding" endowment earnings instead of using them to help offset rising tuition costs for students. As a result, the public and the government are now more watchful than ever of how colleges and universities manage their endowments. The first part of this manual provides an overview of what an endowment is and how it is funded.

Second, the financial reports related to endowments may be confusing. For this reason, the manual explains the PeopleSoft endowment reports that can be used to help administrators budget their endowment funds and to monitor that applicable expenses are being properly charged against these funds. In addition, this manual will serve as a reference guide as to which endowment report you would want to use and where it can be found in the system.

Your role

Accepting a donor's endowment indicates an institution's promise to spend the interest earned according to the donor's wishes. As the administrator of a Gallaudet endowment, your understanding and accounting of endowment expenditures is critical to the university's reputation. Clean and straightforward accounting leads to clean audits, and clean audits are necessary for the university to engage in financial activities and to maintain its accreditation.

About this manual

This manual assumes that you understand budgeting principles and have a working knowledge of PeopleSoft. If you need a refresher course, contact the Finance Office at extension 5299. Throughout this manual, you'll find little boxes called "Endowment extras." They explain information that is useful to know but doesn't apply to the actual accounting of endowment expenses.

What is a permanent endowment?

A permanent endowment is created when an **outside** donor contributes money to the university. The contribution itself forms the *corpus* (or *principal*) of the endowment, which the university invests according to its investment policy. The corpus remains untouched for as long as the endowment exists. In other words, the corpus is held in perpetuity.

A portion of the investment earnings is set aside as the *payout*, which is the pot of spending money allocated for donor-specified purposes.

Endowment	=	Corpus (Principal)	+	Accumulated investment earnings
		Held in perpetuity		*Used partially for annual endowment payouts*

The donor agreement

When it comes to contributions, donors are the ultimate decision-makers. They direct how and when their money may be spent, and the university (via the Development Office) records their stipulations in donor agreements, or *Memoranda of Understanding* (MOUs).

If an MOU states that only the investment earnings may be spent, then the contribution becomes an endowment. Other specifics that could be included in donor agreements are:

- What the investment earnings can be spent for (i.e., unrestricted vs. temporarily Restricted funds)
- How the money must be invested
- How much of the investment earnings can be used annually for the specified purpose
- What to do if the investment earnings aren't spent
- When we can start using the investment earnings (if minimum endowment levels are required)

Legally, whatever is in the MOU must be followed. The donor (or the donor's agent, if the donor is deceased) is authorized to make changes. This is an especially important point for long-standing endowments that may have historically significant stipulations that aren't as relevant in modern times. For example, suppose an endowment was established to provide funding for TTYs. This specified purpose may have to be revisited as technology has shifted telecommunications toward e-mail, text paging, video relay and other advances. Even if students don't use TTYs and are clearly in need of updated technology, the university is not allowed to use the endowment to fund computers, text pagers or Web cams. It must first contact the donor to request a change to the MOU.

Endowment extra: The power to change

If a deceased donor has no remaining family or no donor's agent is named, changing the endowment would require court involvement. The District of Columbia's Uniform Prudent Management of Institutional Funds Act (UPMIFA) provides guidance on how donor stipulations can be changed through the courts. The organization's management and boards **do not** have the power to change donor stipulations.

To summarize…

The key characteristics of an endowment are:

- Its corpus can never be spent; only the investment earnings are available to be used.
- The donor determines when and how the university can spend these earnings.

Endowment extra: Endowment vs. outright contributions

The difference between endowments and outright contributions is how the university spends the gift. If the donor stipulates only investment earnings can be spent, then it's an endowment. Otherwise, it's a contribution that the university can use immediately. In both cases, however, donors can specify the purpose for which their gifts may be used.

Endowments appeal to some donors because they are indefinite. They are gifts that "keep on giving," because the corpus is invested in the market and can generate money through smart investments. Endowments also weather economic downturns more easily than contributions, because let's face it—when the going gets tough, donors don't give as much. For example, after the economic slump of 2002, donations at universities nationwide went down by 1% (meaning most colleges and universities raised *less* money in 2002 than they did in 2001). Having a healthy endowment helps to offset such economic changes.

Finally, endowments are often used as market indicators of an institution's financial stability. Donors, grantors, creditors and even college-ranking organizations use endowments to gauge how healthy an institution is. At the top of the range is Harvard University, which has over 10,000 funds valued at $34.9 billion. (Of course, they've had over 300 years to amass that wealth.) Gallaudet has about 350 funds, currently valued at about $161 million (as of 9/30/08). In 1988, that endowment was just $5 million. So, the university has done a tremendous job in strengthening its financial future.

Endowment extra: Endowment vs. outright contributions (cont'd)

While there are many reasons to establish an endowment, there are also reasons why donors may favor outright contributions instead. Most notably, outright contributions can be used immediately. The gratification of seeing a gift realized is a donor's greatest joy. Endowments, however, take time to build (especially if they begin small), so it's possible that donors might wait several years before seeing their gifts come to fruition.

From the university's perspective, contributions help with cash flow, by boosting funds available for current operations and programs. So, there is certainly an appeal for getting contributions. Endowments require more of a long-term approach—receiving a donation to establish an endowment does not help the university with its cash flow. However, the endowment will help the university over time, especially if outright giving declines.

Ultimately, the Development Office must find the right balance of endowments and outright contributions for the university. Campaigns for one often compete with campaigns for the other, but smart development officers know how to appeal to their donor prospects for gifts that are in the university's best interests.

How do endowments work?

Gallaudet uses an *investment pool technique* to manage its endowments. By pooling all its endowments together and diversifying its investments by investing the money in different types of investments, the university can help protect the principal from market fluctuations. The university follows the board-approved investment policy to provide the necessary growth and income to meet institutional objectives over the long-term.

Endowment extra: Categories of earnings

Investment earnings (or losses) fall under three categories:

Interest and dividends. These are tangible cash increases, meaning money is physically added to the investment. The university's investment strategy includes money markets, so investments can earn interest in those accounts as well as dividends on stocks and other investments. When companies have a particularly profitable period, they may distribute dividends to their shareholders.

Realized gains/losses. This is a tangible cash increase or decrease, meaning the investment either grows or shrinks, depending on whether you have a realized gain or loss. This type of earning occurs when you sell an investment. Suppose you bought a stock for $1,000 and then sold it for $2,000. Your realized gain would be $1,000.

Unrealized gains/losses. This is *not* a tangible cash change, meaning the investment stays the same size. Your investment does not add or lose actual cash until you sell it. While you are holding it, however, it can fluctuate. So, suppose you bought a stock for $1,000. At the end of the fiscal year, you revisit your portfolio, and it's now $5,000. Your unrealized gain is $4,000. It stays unrealized as long as you continue to hold the investment. (Once you sell it, however, it becomes a realized gain, and you receive the tangible cash.)

Spending Rates

The *spending rate* is the rate at which the university supports its operations from the endowment. In other words, it's the magic number that Gallaudet uses to determine how much of its endowment it can spend for any given fiscal year. Most folks use the term *payout* to mean the funds they receive from their endowment.

How is a spending rate determined? Most universities use a spending rate between 4% and 7% and tend to favor lower rates. The lower rates are more conservative than higher ones, thereby preventing overspending. Lower rates also allow the endowment to grow faster over time.

At the same time, however, universities must consider how much funding it can reasonably provide for scholarships and programs. Setting the rate too low could short-change current students and programs in favor of the future. Universities must balance the needs of today with planning for tomorrow.

To calculate the spending rate for a given fiscal year, the board follows its investment and spending rate policies. Part of the discussion includes reviewing information that affects the university's financial health, including the endowment's market performance, the economic outlook and enrollment projections. Although the board revisits the spending rate each year, the rate does not frequently change.

The new board-approved spending rate for fiscal year 2008–2009 is 5%.

How is the payout calculated? The board looks at a 3–5 year historical average of the endowment pool's investment value and then applies the spending rate to that average.

For example, suppose the endowment's 3-year historical values have been:

Year 1: $100K
Year 2: $200K
Year 3: $300K

The 3-year historical average is then:

($100K + $200K + $300K) ÷ 3 = $200K

The spending rate for fiscal year 2008–2009 is 5%.
Therefore, the total payout for the entire endowment pool this year is:

$200K × 5% = $10K

Keep in mind that the $10,000 calculated in the example above is for all the university's endowments, not a single endowment. The $10,000 will go toward supporting all the qualifying endowment beneficiaries for the given fiscal year.

Also, note that the spending rate is applied to the total investment value of the pooled endowment funds, which includes both the corpus and any earnings still invested.

How does my department get its payout?

The university uses a unitization method to pay each endowment its proportion of the entire university payout. The *unitization method* essentially assigns each endowment a certain number of units, based on its size. This is similar to investing in mutual funds, where investors receive "shares" based on how much they invest. Larger endowments are assigned more units; smaller ones, fewer.

For example, let's suppose the university has 5 endowment funds. Their values (corpus plus accumulated earnings) at the end of Year 3 are as follows:

Fund A	$100,000
Fund B	$80,000
Fund C	$60,000
Fund D	$40,000
Fund E	$20,000

For simplicity's sake, let's say each fund receives 1 unit for every $10,000 of its value. The units assigned to each fund would then be:

Fund A	10 units
Fund B	8 units
Fund C	6 units
Fund D	4 units
Fund E	2 units

The $10,000 university payout (from the previous example) would then be divided among 30 units. Each fund would receive its payout as follows:

Fund A	10 units × $333.33/unit =	$3,333
Fund B	8 units × $333.33/unit =	$2,666
Fund C	6 units × $333.33/unit =	$2,000
Fund D	4 units × $333.33/unit =	$1,333
Fund E	2 units × $333.33/unit =	$666

Note that Fund E's value is less than the university's minimum requirement of $25,000. Therefore, Fund E's administrator will not receive a payout this year. Instead, the $666 will be reinvested (added back to the corpus) until Fund E reaches $25,000.

Assuming the endowment you manage meets the minimum requirement for a payout, you will see your payout appear in Fund 107, Account 4612 for unrestricted endowments and in Fund 303, Account 4712 for temporarily restricted endowments. For unrestricted endowments, the payout represents what you should spend during the fiscal year to meet the donor's specified purpose.

The payouts automatically appear in your endowment's PeopleSoft report. Theoretically, the payouts are distributed on October 1, the start of Gallaudet's fiscal year. However, the reality is that the auditors must approve the endowment value from the previous fiscal year, which the university then uses to calculate the payout. So, payouts should appear in the budgets in November.

What did the donor say?

This section covers each of the points that donors specify in their MOUs. To reiterate, they are:

- What the investment earnings can be spent for (i.e., unrestricted vs. temporarily restricted funds)
- How the money must be invested
- How much of the investment earnings can be used annually on their specific purpose
- What to do if the investment earnings aren't spent
- When we can start using the investment earnings (if minimum endowment levels are required)

What the investment earnings can be spent for

This part of the MOU details exactly who or what benefits from the endowment. Technically, all endowments given by donors are considered *permanently restricted* because we aren't allowed to spend the money given to us. Remember, the donation itself is the corpus that must be held in perpetuity.

However, we *can* spend the investment earnings. As such, we categorize the endowment's purpose as either unrestricted or temporarily restricted.

Unrestricted endowments have broad, easily satisfied purposes, which usually occur in the general course of operations. Currently, most of Gallaudet's endowments are unrestricted. For example, the Gallaudet Memorial and Honor Fund, which supports student scholarships is unrestricted; any student can qualify, therefore the stipulations are easily met. Another unrestricted fund is the Gallaudet Press Fund, which supports the activities of the Gallaudet University Press. Assuming the MOU doesn't say much more than "support the activities of the University Press," the press's purchase of post-it notes and its production of a deaf studies monograph can both be funded by the endowment.

Unrestricted endowment payouts should be easy to spend and, therefore, should be spent completely each year. Hoarding such payouts is should not be done. Remember that the payout represents the university's promise to spend the money toward the donor's specified purpose. If your department still has most of its endowment payout at the end of the fiscal year, it means the university has not honored the donor's request, which could lead to serious consequences—at the very least, questioning by the auditors; at the worst, possible revocation of the endowment and legal action against the university.

Temporarily restricted endowments have narrow purposes that are *not* easily met in the general course of operations. For example, the Abby W.P. Asbell Memorial Fund provides scholarships based on merit and financial need to undergraduate students who have matriculated from the New York School for the Deaf in White Plains, or to graduate students pursuing a master of arts in deaf education with a concentration in teacher preparation or advanced studies. There may not be a qualifying student to receive this scholarship every year; therefore, it's temporarily restricted.

Because there may or may not be an opportunity to spend money toward the temporarily restricted endowment's purpose, payouts roll over year-to-year and continue to be awarded annually. So, if you are the administrator of a temporarily restricted endowment that gets a $100 payout and you only had $80 of qualifying expenses this year, the remaining $20 will roll over. At the start of the next fiscal year, you will receive $100 payout, so you'll start the year with $120 total in your budget. However, the auditors look closely at these situations to ensure there aren't any qualifying expenses that met the purpose of your endowment. If there are, you must pay for them with your payout before using any unrestricted money from your operations budget.

Who decides if an endowment is unrestricted or temporarily restricted? Gallaudet's Finance Office decides. The university's own accountants—with advice from departments that will be handling the endowments—are the best folks to determine if a purpose can be easily met. Once an endowment is marked as unrestricted or temporarily restricted, however, it is difficult to change its status without raising red flags to the auditors. Still, it can be done in cases where the stipulations may no longer be relevant to the university (such as naming a defunct program) or where a donor changes his/her mind about the endowment purpose and signs an amended MOU.

How the money must be invested

Generally, donors don't get too picky about this point, especially because the university has a board-approved investment policy that is closely monitored. However, if the donor specifies that the corpus may not be invested in certain types of investments (or, conversely, must be invested in certain types of investments), then the university must honor the request.

If there is no donor stipulation, all endowments are invested together in one endowment pool of investments. They receive a unit share in the endowment pool similar to shares assigned in a mutual fund that you may invest in with your personal funds. Everyone's money is pooled together and you are assigned a unit share so the earnings on the pool can be prorated and credited to your personal investment.

How much of the investment earnings can be used annually for their specific purpose

Again, most donors follow the university's practice, which uses a *spending rate* between 4% and 7%. For fiscal year 2008–2009, the board-approved spending rate is 5%. As noted above, the spending rate is calculated annually by taking 5% of the average market value of the pooled endowment investments over the last three (3) years. Once this number is determined, each endowment receives its allocation based on its unit share in the pool. This allocation is called your payout and what you can spend that year for your endowment purpose. The true investment earnings of your endowment may actually be greater (in a good investment year) or smaller (in a bad investment year) than what your payout is. However, based on Gallaudet's policy you are only intended to spend your payout rather than the true investment earnings for that year.

Although Gallaudet has a spending rate policy, some donors may specify in their MOU that they want more or less than the payout to be used on their endowment purpose. Whatever is specified, Gallaudet must follow. It is important that you know if your endowment has this additional language in the MOU.

Endowment extra: You must follow the MOU

For a long time, the Gallaudet spending rate was 4%, and several older endowment MOUs specified 4% instead of saying "the university spending rate." Now that the board has increased the spending rate to 5%, those endowments that said 4% must continue to pay out only 4% even though the rest of the university's endowments are paying out 5%.

Remember that donors are the only parties legally authorized to make changes to the MOUs!

What to do if the investment earnings aren't spent

Sometimes, a program doesn't use all its payout for the fiscal year. For most temporarily restricted endowments, the remaining funds roll over to the next fiscal year. For unrestricted endowments (and a few temporarily restricted endowments), however, donors sometimes specify what they want done with any unspent investment earnings). If donors direct the remainder to be reinvested back into the corpus, then what you don't spend in a fiscal year becomes part of the money that the university can never touch.

How does that work? Let's say your endowment corpus is $1 million and it earns $100,000. Of that $100,000, you receive $40,000 for your payout. Let's also suppose that you only spent $30,000 for this fiscal year. The remaining $10,000 of the payout (plus the remaining $60,000 of investment earnings) is then added to the corpus so it now totals $1.07 million. It's bittersweet because you know you won't get that $10,000 payout back; however, the unspent payout and investment earnings will help the endowment grow stronger over time.

When we can start using the investment earnings

Because investment earnings are what the university uses to fund payouts, it makes sense to allow a fund to grow large enough to see significant earnings. Endowment returns fluctuate with the market, so some years it can be as high as 15%; other years, it can plummet to negative percentages (meaning the investments lose money). The spending rate policy is used so no matter what the actual investment return of the investment is in a given year (which isn't known until the end of the year); the fund administrator knows how much money they are allowed to spend.

Gallaudet has typically put language into their MOUs regarding a minimum endowment level. Currently, Gallaudet's minimum level is $25,000. Donors can also specify a minimum endowment level. Sometimes, donors specify minimums because they know the purpose of their gift requires substantial funding, such as an endowed chair. If there is a minimum endowment level in the MOU, then all investment earnings are reinvested back into the corpus and become part of the endowment gift until the endowment reaches this minimum level. No payout is given to spend for these endowments until this time. This is done so that the endowment value will increase and the fund will be allocated a payout that is large enough to pay for the endowment purpose.

PeopleSoft Endowment Reports

Now that we have reviewed basic concepts behind endowments, it's time to look at how Gallaudet accounts for endowment-related expenses in PeopleSoft. This portion of the manual assumes you already have a working knowledge of how to budget and how to use programs like Excel and PeopleSoft to analyze your budget reports. (If you need a refresher course on these topics, please contact the Finance Office, extension 5299.)

To help us explore the PeopleSoft reports better, we will use a hypothetical unrestricted endowment, the ABC Tech Fund and a hypothetical temporarily restricted endowment, the XXXX Scholars. For both examples, all reports used to explore their budgets tie to each other.

Unrestricted endowments

Because the majority of Gallaudet's endowments are unrestricted, we will cover them first. **Please remember that if you have an unrestricted endowment, you are expected to use your payout in its entirety during the fiscal year.** If a purchase goes toward the donor's specified purpose, then the money must come from the endowment fund. At the end of the fiscal year, any remaining funds in unrestricted endowments may disappear from your budget and not roll over. (Recall that some donors require the university to reinvest those funds as part of the corpus.)

Also, keep in mind that the Finance Office must review your endowment purpose to see if there are expenses located in *other* university budgets that meet your endowment purpose. If there are, your endowment funds must be used to pay for them. **If you do not expect to use your entire payout, you must contact the Finance Office before the end of the fiscal year to discuss your reasons.**

Unrestricted endowment payouts appear in PeopleSoft under Fund 107, Account 4612.

Endowment summary report

The best place to start when reviewing your endowment budget is the summary report, which appears in PeopleSoft as *GUEN335A-Endowment Summary Report-xxxx.xls*. (The "xxxx" represents your endowment's department code.) The format of the report is similar to the department budget report. You can confirm the report is for an unrestricted endowment by checking the top, left corner. It should read "Fund: 107 – Inc & Exp Unrest Endow," which means "income and expenses for unrestricted endowment."

				GALLAUDET UNIVERSITY		
Fund:	**107 - Inc & Exp Unrest Endow**			**Endowment Summary Report**		**GUEN335A**
As of Date:	**March 14, 2008**			**Organization: ABC Tech Fund**		
				Fiscal Year: 2008		
ORG	**DESCRIPTION**	**UNEXPENDED PRIOR YEAR FUNDS**	**ENCUMBERED**	**YTD REVENUES**	**YTD EXPENSES**	**REMAINING**
XXXX	ABC Tech Fund	0.00	(23,990.00)	51,553.49	(24,726.07)	2,837.42
	Net Total	**0.00**	**(23,990.00)**	**51,553.49**	**(24,726.07)**	**2,837.42**

Unlike your regular department budget report, which has separate lines (rows) for each expense account category (i.e., 5200–Travel/Transportation, 5300–General Office, etc.), the endowment budget shows only one line—the endowment itself. Although expenses aren't itemized here, they do appear with expense account codes in the detail report.

The columns show year-to-date (YTD) activity for the endowment. The first column, *Unexpended prior year funds*, represents any funds rolled over from the previous fiscal year, and for unrestricted endowments, it will most likely be zero. (There are some legitimate reasons that would allow funds to roll over for an unrestricted endowment. To qualify, you must discuss your case with the Finance Office before the end of the fiscal year.) *Encumbered* funds include unpaid portions of both purchase orders and payroll. The next column, *YTD revenues*, shows the payout while *YTD expenses* shows the total of all expenditures, including scholarships, fund transfers to other departments and payroll. Finally, *Remaining* shows how much funding remains as of the report date, which appears in the top, left corner. The figure in this column is equal to the sum of the preceding columns; in other words:

Remaining = + Unexpended prior year funds - Encumbered + YTD revenues - YTD expenses

Keep in mind that encumbered funds and YTD expenses are negative numbers (hence the figures appearing in red and parentheses), so another way to look at the equation is:

Remaining = (Unexpended prior year funds + YTD revenues) – (Encumbered + YTD expenses)

Reading the summary report for the ABC Tech Fund, we see that $23,990 is encumbered. (By looking at the associated budget reports, we'll discover it's a mixture of payroll and purchase orders.) With half of the fiscal year left, the ABC Tech Fund has spent (or promised to spend) about $48,700—$24,700 in expenses and $24,000 in encumbered—leaving about $2,800 in the budget.

Assuming the ABC Tech Fund pays its encumbrances, it is likely that this fund will end the fiscal year having satisfied both the donor's specified purpose and the university's expectation to spend unrestricted funds in their entirety for the fiscal year.

Actuals detail report

The next report you'll probably review is the actuals detail report, *GUACTJRN-Actuals Detail-xxx.xls*, which lists every single transaction made on your endowment budget.

						GALLAUDET UNIVERSITY				
As of:						**Actuals Detail Report**			**GUACTJRN**	
March 15, 2008						**Period: 1 Through Period: 6**				
						Fiscal Year 2008				
Journal	**Line #**	**Period**	**Date**	**Org**	**Fund**	**Acct**	**Monetary Amount**	**Ref**	**Journal Line Description**	**Year**
0000539107	292	1	2007-12-31	xxxx	107	4612	-51,553.49		FY08 Payout Entry	2008
EXP0540050	2479	4	2008-01-31	xxxx	107	6431	3,787.58	20080201	MAC MALL	2008
EXP0540050	1645	4	2008-01-31	xxxx	107	6431	219.99	20080123	CIRCUIT CITY SS #3627	2008
EXP0540050	1643	4	2008-01-31	xxxx	107	6431	659.97	20080123	CIRCUIT CITY SS #3627	2008
EXP0540050	1641	4	2008-01-31	xxxx	107	5351	836.75	20080123	B & H PHOTO-VIDEO.COM	2008
EXP0540050	1393	4	2008-01-31	xxxx	107	5351	347.94	20080122	BEST BUY MHT 00010538	2008
EXP0540050	1229	4	2008-01-31	xxxx	107	6431	1,949.98	20080118	MAC MALL	2008
PEX0527787	1044	5	2008-02-13	xxxx	107	5111	500.00	PAY10	Susie Faculty	2008
PEX0527787	1045	5	2008-02-13	xxxx	107	5121	500.00	PAY10	Dave Staff	2008
PEX0527787	1046	5	2008-02-13	xxxx	107	5119	142.50	PAY10	Susie Faculty	2008
PEX0527787	1047	5	2008-02-13	xxxx	107	5129	142.50	PAY10	Dave Staff	2008
PEX0527787	1048	5	2008-02-27	xxxx	107	5111	500.00	PAY11	Susie Faculty	2008
PEX0527787	1049	5	2008-02-27	xxxx	107	5121	500.00	PAY11	Dave Staff	2008
PEX0527787	1050	5	2008-02-27	xxxx	107	5119	142.50	PAY11	Susie Faculty	2008
PEX0527787	1051	5	2008-02-27	xxxx	107	5129	142.50	PAY11	Dave Staff	2008
EXP0540769	2230	5	2008-02-29	xxxx	107	6431	607.86	20080208	WAL-MART #5228	2008
EXP0540769	2010	5	2008-02-29	xxxx	107	6431	896.00	20080211	WAL-MART #5228	2008
PEX0527787	1052	6	2008-03-13	xxxx	107	5111	500.00	PAY12	Susie Faculty	2008
PEX0527787	1053	6	2008-03-13	xxxx	107	5121	500.00	PAY12	Dave Staff	2008
PEX0527787	1054	6	2008-03-13	xxxx	107	5119	142.50	PAY12	Susie Faculty	2008
PEX0527787	1055	6	2008-03-13	xxxx	107	5129	142.50	PAY12	Dave Staff	2008
							-26,827.42			

Note: Only a portion of the itemized transactions appear in this illustration.

This report is similar to the actuals detail report for your department budget. For example, each transaction appears on its own line with complete information, such as the expense account codes, the monetary amounts and descriptions. These are the fields that tell you the most about a given transaction. The notable differences are:

- The fund is 107, which is unrestricted endowment. (Your department budget shows Fund 101 for general operations.)
- The first entry of an endowment will be the payout as shown in the example above.
- Theoretically, it should occur on October 1 but realistically, it usually occurs at some point in November, when the auditors approve the value of the investments used to calculate the payout.

Keep in mind that the actuals report lists expenses made, so any money added to the budget appears as a negative number. So, in the example above, "-51,553" is actually an addition of $51,553 to the budget.

The bolded figure at the bottom is the sum total of all transactions to date. It accounts for any money added to or taken from the endowment. Our example shows "-26,827," which means the budget has $26,827 remaining. To calculate the expenses to date, either subtract the last line from the payout or highlight all the positive numbers:

Monetary Amount
-51,553.49
1,949.98
500.00
500.00
142.50
142.50
500.00
500.00
142.50
142.50
607.86
896.00
500.00
500.00
142.50
142.50
-26,827.42
Sum=24,726.07

(Note: The illustration shows only a portion of the itemized transactions.)

The sum ($24,726) appears in Excel's status bar. You can see that the total here matches the "YTD expenses" column on the summary report.

While the actuals detail report shows $26,827 remaining in the budget, the summary report shows $2,837. Remember that $23,990 has been encumbered for payroll and one purchase order. The summary reflects that obligation of funds while the actuals detail only shows what has actually happened. Hence, the two reports show different totals for what's left in the budget.

Purchase order status report

As with the actuals detail report, the purchase order (PO) status report (*GUPOS107-Purchase Order Status for 107-xxxx.xls*) should already be familiar to you from your department budget experience. This report tracks encumbered funds for purchases over $5,000 and service contracts. If payments are applied to the purchase order, they appear on this report (and also in the actuals detail report).

The report prints over two pages, so the two excerpts below are from the same report.

						GALLAUDET UNIVER	
						PURCHASE ORDER R	
As of:	**March 15, 2008**						
PO ID	**PO DATE**	**PO STATUS**	**VENDOR**	**BUYER**	**REQ NUMBER**	**LINE STATUS**	**LINE**
00012345	2008-03-01	Active	Generic Tech Vendor	Joe Administrator	000054321	Active	1

AUDET UNIVERSITY							
ASE ORDER REPORT							
LINE	**ITEM DESCRIPTION**	**FUND**	**ORG**	**ACCT**	**BUDGET YR**	**VOUCHER**	**AMOUNT**
1	TechnoGadget 5000	107	xxxx	6431	2008		6,000.00
							6,000.00

This report shows that no payments have been made toward the purchase order. Just like the actuals detail report, the PO status report lists expenses (or commitments to spend money), so payments appear as negative numbers. Therefore, the sum total on our example indicates an expense of $6,000.

Payroll encumbrances report

Some endowments have payroll expenses associated with them, which are listed in *Payroll Encumbrances.xls*. In our example, the ABC Tech Fund employs two individuals with salaries and benefits as follows:

		GALLAUDET UNIVERSITY				
As of:	March 11, 2008	PAYROLL ENCUMBRANCES				
Account	**Description**	**Employee Name**	**Annual Salary**	**Bi-Weekly Gross**	**Remaining Pay Periods**	**Remaining Encumbered**
5111	Permanent Teaching Faculty	Susie Faculty	**13,000**	500	14	7,000
5121	Permanent Staff - Non-Exempt	Dave Staff	13,000	500	14	7,000
5119	Faculty Benefits	Susie Faculty	3,705	143	14	1,995
5129	Staff Benefits	Dave Staff	3,705	143	14	1,995
			33,410	1,285		17,990

The "Remaining encumbered" value is reflected in the summary report, in the "Encumbered" column:

$17,990 payroll + $6,000 purchase order = $23,990 encumbered

Payments already made to the employees appear in the actuals detail report.

Temporarily restricted endowments

Temporarily restricted endowments require special accounting and reports, because meeting the purpose of this endowment is a little more difficult and expenses must be reviewed to ensure they meet the intended purpose. When a qualifying purchase occurs, the funds are released from restriction into a related, unrestricted endowment budget, and the expense can then be accounted for. In other words, expenses aren't paid directly from a temporarily restricted budget; instead, payments go through it related unrestricted endowment budget to ensure a review of the expenses is performed before the restricted money is used.

Temporarily restricted endowments also require that expenses be made before funds are released. In other words, prepayments are not allowed with temporarily restricted endowments. Encumbrances can still be made, but the funds will not come out of the endowment until Gallaudet has actually incurred the expense.

Finally, it is important to use all of your temporarily restricted funding before using other sources. This isn't just a Gallaudet practice; it's a mandatory accounting principle for all temporarily restricted funds. All temporarily restricted funds must be expended before administrators can use unrestricted funds reserved for the same purpose or general operation funds.

Temporarily restricted payouts appear in PeopleSoft under Fund 303, Account 4712.

Combined summary report

Historically, fund administrators had to juggle two reports to monitor their temporarily restricted endowments. One report represented the temporarily restricted endowment itself while the other was the unrestricted endowment in which all expenses were accounted. Beginning in 2008, the two related budgets appear on a single summary report.

The new combined summary report, *GUEN335B-Endowment Summary Combined Rpt-xxxx.xls*, shows all year-to-date activity for a temporarily restricted endowment. The top, left corner identifies the fund as "107 & 303 TR-Endowment Activity," where 107 represents the unrestricted endowment budget and 303, the temporarily restricted endowment budget.

			GALLAUDET UNIVERSITY				
Fund:	107 & 303 TR-Endowment Activity		Endowment Summary Combined Rpt				GUEN335B
As of:	March 15, 2008		Endowments: XXXX Scholars				
			Fiscal Year: 2008				
ORG	DESCRIPTION	UNEXPENDED PRIOR YEAR FUNDS	ENCUMBERED	YTD REVENUES	YTD EXPENSES	RELEASE FROM RESTRICTION	REMAINING
xxxy	XXXX Scholars	288,546.74	0.00	198,513.84	0.00	(101,168.89)	385,891.69
xxxx	XXXX Scholars	0.00	(2,049.00)	0.00	(101,168.89)	101,168.89	(2,049.00)
	Net Total	**288,546.74**	**(2,049.00)**	**198,513.84**	**(101,168.89)**	**0.00**	**383,842.69**
* Note: The temporarily restricted endowment (Fund 303) will show the yearly payout in the revenue column. All expenses are shown in the Fund 107 YTD expenses column.							

The first row, identified by the "xxxy" organization code, is the temporarily restricted endowment budget. The second row, then, is the related unrestricted endowment budget. Together, they provide information about the same endowment, the XXXX Scholars, which is summarized in the third row, *Net Total.*

The columns are similar to those in the unrestricted endowment budget summary:

Column	**Represents**
Encumbered	Purchase order and payroll obligations
YTD revenues	Endowment payout
YTD expenses	Qualifying expenditures related to the endowment
Remaining	Funds left in the budget as of the report date

Notice that YTD revenues are recorded only in the temporarily restricted endowment budget, and YTD expenses appear only in the unrestricted endowment budget. This occurs because the temporarily restricted budget is where the funds are held while the unrestricted budget is where expenses are recorded.

The columns that differ from the unrestricted report are:

- *Unexpended prior year funds* – Temporarily restricted endowments allow rollovers, because qualifying expenses may not be possible every year. Whereas this column is almost always zero for unrestricted endowments, it can be greater than zero for temporarily restricted.

- *Release from restriction* – This column shows the money that has been released from restricted funds and transferred into the unrestricted endowment budget. The top and bottom figures should always be mirror images of one another, as they represent the transfer of funds from the temporarily restricted account to the unrestricted. Note the net total amount equals zero.

Once a month, the Finance Office releases funds from restriction based on expenses posted in the unrestricted endowment budget through the end of the previous month. In the example above, the YTD expenses ($101,168) are covered completely by the funds released from restriction. If you access your temporarily restricted summary report before the funds have been released, YTD expenses will be greater than what's been released from restriction:

			GALLAUDET UNIVERSITY				
Fund:	107 & 303 TR-Endowment Activity		Endowment Summary Combined Rpt				GUEN335B
As of:	March 3, 2008		Endowments: XXXX Scholars				
			Fiscal Year: 2008				
ORG	DESCRIPTION	UNEXPENDED PRIOR YEAR FUNDS	ENCUMBERED	YTD REVENUES	YTD EXPENSES	RELEASE FROM RESTRICTION	REMAINING
xxxy	XXXX Scholars	288,546.74	0.00	198,513.84	0.00	(96,236.89)	390,823.69
xxxx	XXXX Scholars	0.00	(2,049.00)	0.00	(101,168.89)	96,236.89	(6,981.00)
	Net Total	**288,546.74**	**(2,049.00)**	**198,513.84**	**(101,168.89)**	**0.00**	**383,842.69**

* Note: The temporarily restricted endowment (Fund 303) will show the yearly payout in the revenue column. All expenses are shown in the Fund 107 YTD expenses column.

Once the Finance Office performs the release, however, the two columns should show the same figures, as in the first example of the combined summary report. This would not be the case if you incurred more expenses than the total available in the first line since you should not spend your temporarily restricted payout below zero without prior discussions with the Finance Office. So the total release would not normally equal more than the amount available (unexpended prior year funds plus YTD revenues – payout).

As with other budget summary reports, the columns relate to each other in a simple math equation: "Remaining" is equal to the sum of all the other columns. Typically, the unrestricted endowment budget line should have zero remaining. However, our example shows a $2,049 deficit in the unrestricted budget, because of the outstanding encumbrance. Once the encumbrance is paid, YTD expenses will increase by $2,049 and the Remaining will return to zero. Note the net total figure for Remaining does incorporate the encumbrance in its calculation while the temporarily restricted budget line does not. Again, that's because temporarily restricted budgets cannot show any expenses, just transfers to the related unrestricted endowment budget.

Actuals detail report

The actuals detail report, *GUACTJRN-Actuals Detail-xxxx.xls*, for temporarily restricted endowments is the same as those for unrestricted endowments. However, keep in mind that the expenses only occur in the unrestricted endowment budget (Fund 107).

						GALLAUDET UNIVERSITY				
As of:						Actuals Detail Report			GUACTJRN	
March 15, 2008						Period: 1 Through Period: 5				
						Fiscal Year 2008				
Journal	**Line #**	**Period**	**Date**	**Org**	**Fund**	**Acct**	**Monetary Amount**	**Ref**	**Journal Line Description**	**Year**
BSS0001012	63	1	2007-10-02	xxxx	107	5931	24.87		BOOKSTORE 10/2/07 - SALES	2008
AP00537382	69	1	2007-10-05	xxxx	107	5811	417.00	ER STIPEND	Student 1	2008
AP00537896	170	1	2007-10-29	xxxx	107	5811	417.00	IPEND NOV.	Student 1	2008
SF00537907	133	1	2007-10-30	xxxx	107	4214	14,288.50	0119162	XXXX Scholar	2008
SF00537907	107	1	2007-10-30	xxxx	107	4214	14,648.50	0112621	XXXX Scholar	2008
SF00537907	101	1	2007-10-30	xxxx	107	4214	17,606.00	0111640	XXXX Scholar	2008
SF00537907	51	1	2007-10-30	xxxx	107	4214	12,421.00	0099125	XXXX Scholar	2008
SF00537907	23	1	2007-10-30	xxxx	107	4214	14,158.40	0091327	XXXX Scholar	2008
0000538537	13	2	2007-11-19	xxxx	107	5811	100.00		P.C. 11/19 ABC	2008
AP00538544	136	2	2007-11-26	xxxx	107	5811	1,874.62	STIPEND	Student 2	2008
AP00538544	135	2	2007-11-26	xxxx	107	5811	834.00	STIPEND	Student 3	2008
0000540248	21	3	2007-12-31	xxxx	107	4617	-76,789.89	RELEASE	Release from TR 12/31/07	2008
AP00539383	344	4	2008-01-14	xxxx	107	5811	7,015.00	D WDS SPRG	Student 4	2008
AP00539383	343	4	2008-01-14	xxxx	107	5811	2,500.00	D WDS SPRG	Student 5	2008
AP00539383	342	4	2008-01-14	xxxx	107	5811	417.00	D WDS SPRG	Student 1	2008
AP00539383	341	4	2008-01-14	xxxx	107	5811	7,015.00	008 WDS ST	Student 6	2008
AP00539383	340	4	2008-01-14	xxxx	107	5811	2,500.00	DS STIPEND	Student 7	2008
0000540739	12	4	2008-01-31	xxxx	107	4617	-19,447.00	RELEASE	Release from TR 1/31	2008
AP00539843	53	5	2008-02-01	xxxx	107	5811	4,515.00	08 STIPEN	Student 8	2008
AP00540497	90	5	2008-02-29	xxxx	107	5811	417.00	D SPRG. 20	Student 1	2008
0000540740	13	5	2008-02-29	xxxx	107	4617	-4,932.00	RELEASE	Release from TR 2/29	2008
							0.00			

What's important to look for in these reports is that the monthly releases from restriction equal the expenses incurred for that month. Note that the amount remaining in the budget is zero, which is consistent with the unrestricted endowment budget's function as a place to account for expenses. There should not be a negative number in bold at the end of the report (meaning money remaining), because funds can only be released to cover incurred expenses. If there is a positive number in bold at the end of the report (meaning a deficit), the release from restriction probably has not yet occurred. If the total continues to be positive for several reports and you are not seeing a release line in your actuals report each month, you should contact the Finance Office for assistance. This could mean that you have oversight your available temporarily restricted funds and there are no further funds to release to cover those expenses.

Purchase order status and Payroll encumbrances reports

Both the PO status and Payroll reports are the same as those used for unrestricted endowment budgets. Again, the main detail to note is that expenses are drawn from Fund 107, the unrestricted endowment budget, as shown in the PO status report detail for the XXXX Scholarship:

GALLAUDET UNIVERSITY						
PURCHASE ORDER REPORT						
ITEM DESCRIPTION	**FUND**	**ORG**	**ACCT**	**BUDGET YR**	**VOUCHER**	**AMOUNT**
CONSULTING: DEVELOPMENT & MARKETING FOR THE XXXX SCHOLARSHIP FUND	107	xxxx	5411	2008		2,049.00
						2,049.00

FAQs

What if I have to reclassify an expense from my department budget to my endowment department budget?

Contact Makur Aciek at makur.aciek@gallaudet.edu in the Finance Office.

What if I have to reclassify an expense from my endowment department budget to my department budget?

Contact Makur Aciek at makur.aciek@gallaudet.edu in the Finance Office.

What do I do if I have a requirement that's so specific, I don't have a student to give the award to every year?

Check if your endowment is temporarily restricted. If it is, then the money will roll over every year because the university has already identified the purpose as one that is hard to meet. If your endowment is unrestricted, then you should speak with the Finance Office. It's possible that either an incorrect assessment was originally made or circumstances have changed so much, the requirement is no longer easy to meet.

I have a $500 award that I'm supposed to give out every year but my budget shows I only have $300. If I lose my unspent money every year, I'll never get enough to give out the award! What do I do?

First, the Finance Office should review the MOU for your award to see if an appropriate minimum level was set for starting payments. It should have been originally set to ensure at least $500 payout each year. The university may need to contact the donor to approve an increase in the minimum endowment level. Or, it may be possible to allow a rollover of these funds to the next year. However, you would need to discuss this with the Finance Office.

In my department, we have an award that the dean administers. The dean assigned our department chair responsibility for the award, and our department chair relies on a faculty member to manage it. The chair and faculty member are about to retire, so how can we maintain historical knowledge of this award?

Use the signature authorization form, which documents in PeopleSoft who has financial authority over the award. It requires some effort from your department to update this form and keep the Finance Office apprised of any changes in the award's administration. The Finance Office is currently reviewing the signature authorization forms for all endowments to ensure they are up to date. Still, it is the fund administrator's responsibility to ensure the Finance Office has the most recent signature authorization forms for your endowment.

I manage two funds with similar purposes. One is temporarily restricted and the other is unrestricted. The unrestricted one has a bigger budget, so can I use the unrestricted fund to cover some of my temporarily restricted fund's expenses?

Accounting rules mandate that you must first use all of your temporarily restricted funding. Only then can you use your unrestricted endowment fund or any operating Fund 101 budgets to cover the expenses. However, remember they must have a similar purpose. If you believe both fund's purposes are similar, you should also contact the Finance Office to determine why one was classified as an unrestricted endowment and one was classified as a temporarily restricted endowment.

I manage an unrestricted endowment and we just don't have that many expenses for it. Can I assume that my funds will roll over to the next year?

No. It may be that you are making qualifying expenses from your departmental budget and you don't realize it. Contact the Finance Office to review your expenses. If you don't apply these expenses to your unrestricted endowment, the Finance Office will be forced to do this at the end of the year. It's also possible the university needs to reassess the endowment to see if it's really a temporarily restricted endowment rather than an unrestricted endowment. These are big ticket questions and you need to talk with the Finance Office to find the best solution.

My endowment fund just doesn't pay out enough to cover expenses. Can we increase the payout?

The university's spending rate for fiscal year 2008–2009 is 5%. The only way to increase your payout amount is to get additional contributions toward your endowment, which would increase your endowment's number of units in the endowment pool.

What happens to my unspent money at the end of the year? Do I have any say in what to do with it?

If the MOU states that unspent monies must be reinvested, then that's what the university must do with your remaining funds. If you have an unrestricted endowment that has no donor stipulations, then the Finance Office will see if there are any qualifying expenses in *other* department budgets that meet your endowment purpose. If there are, your endowment payout will be used to cover those expenses. Remember, "unrestricted" means the university easily has expenses to meet the endowment purpose each year. Therefore, it is critical to contact the Finance Office if you expect to have unspent payout at the end of the fiscal year, so you can discuss how to proceed rather than have the Finance Office making the determination for you.

Glossary

Corpus: The portion of the endowment that is the donor's original gift. It is invested and held in perpetuity. Also called the *principal*.

Donor agreement: See *memorandum of understanding*.

Endowment: A contribution to the university that is invested and whose earnings fund donor-specified university activities. The investment, or corpus, itself is held in perpetuity.

Fund administrator: The individual with financial responsibility for an endowment.

Intangible cash change: Changes in the value of an investment market value. Money is not actually added or detracted from the investment; only its value fluctuates with the market.

Investment pool technique: Method by which the university pools all its endowments into a single fund for investing purposes. The investments follow the board-approved investment policy, which allows for sufficient diversification and income/growth to meet the university's needs.

Memorandum of understanding (MOU): Document which records donors' stipulations related to their endowments. This is also called the *donor agreement*.

Outright contribution: Gift of cash to the university. Differs from an endowment contribution in that it can be used immediately and the contribution itself is the source of funding.

Payout: The annual deposit of funds into an endowment budget that can be spent each fiscal year. Its size is determined by the spending rate and the value of the university's endowment.

Permanently restricted funds: Money the university must hold in perpetuity, that is, the corpus of an endowment.

Principal: See *corpus*.

Realized gain/loss: Tangible cash change. Results from the sale of investments that either gained or lost value.

Spending rate: The rate at which the university supports its operations from the endowment. Typically, it ranges from 4% to 7%.

Tangible cash change: Money that is actually added or subtracted from an investment.

Temporarily restricted endowment: Endowment whose donor-specified purpose has been deemed by the university as narrow or difficult to meet on an annual basis.

Unitization method: Method by which various contributors to a larger whole are assigned a proportion of the whole. The method is used to allocate all endowment activity (endowment payouts and other investment activity) to the individual endowments.

Unrealized gain/loss: Intangible cash change. Results from fluctuating valuations of investments.

Unrestricted endowment: Endowment whose donor-specific purpose has been deemed by the university as easy to meet in the general course of operations.