

# FUND ACCOUNTING TRAINING

Module 4

## Endowment and Similar Funds

The University of Texas System

# OBJECTIVES



- Gain an understanding of Endowment and Similar Funds
- Review different types of endowments and endowment transactions

# OTHER THAN STATE



Endowment and Similar Funds groups may be broken down into three basic categories:

1. Endowment Fund (True Endowment)
2. Term Endowment
3. Funds Functioning as Endowment (Quasi-Endowment)

# ENDOWMENT FUNDS

In simplest terms, Endowment Funds are funds that typically have certain donor-imposed restrictions placed upon the principal and/or income.

For True Endowments, the principal can never be spent and income from the endowment will be expended as stipulated by the donor.

Term Endowments function like “True” Endowments until the passage of a specified period of time or the occurrence of a specific event.

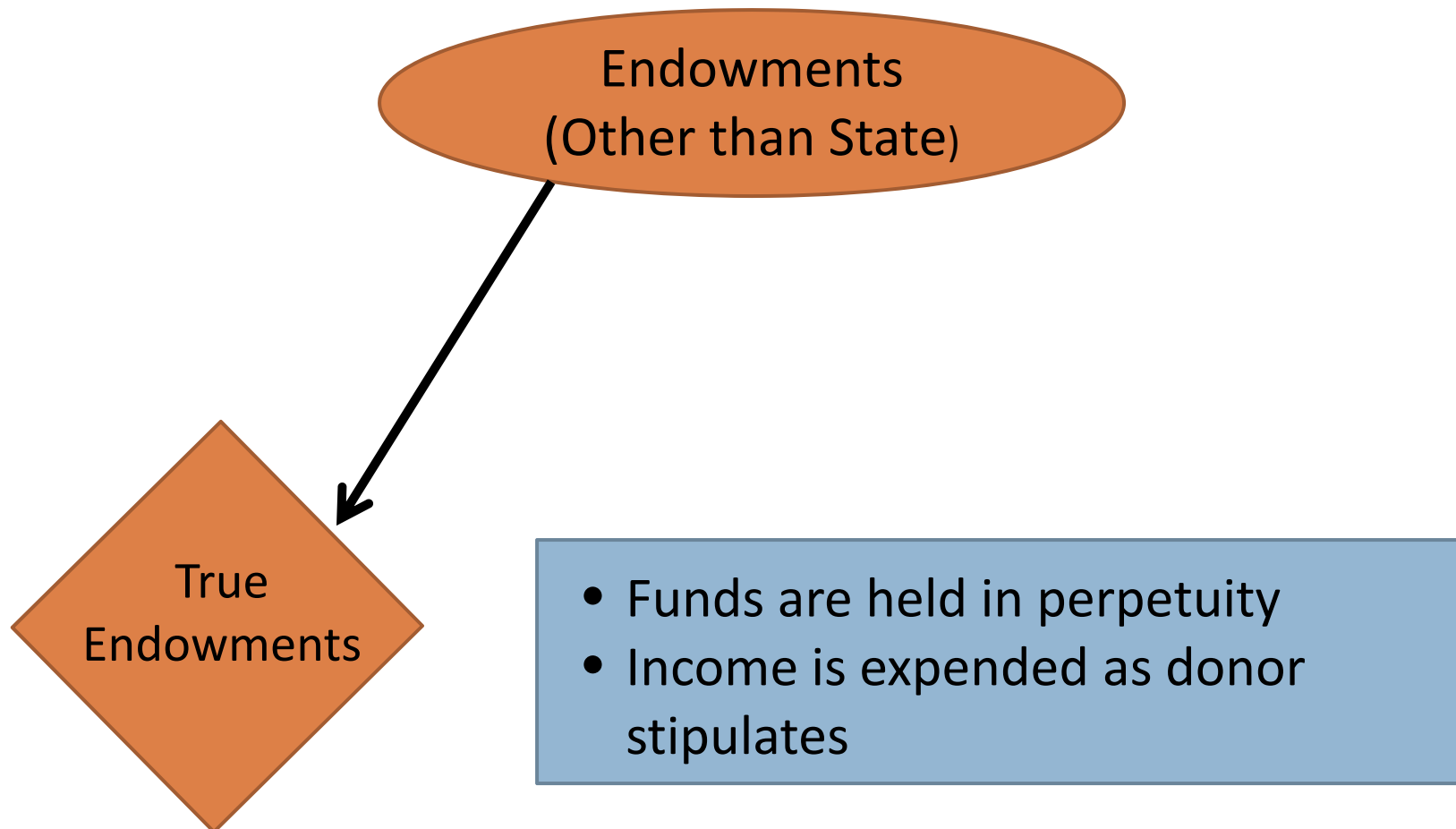
For example, a donor may set up a 20-year Term Endowment specifying that the income be used to purchase musical instruments for the Music Department and upon term expiration the principal be used to set up a Student Loan program for students majoring in music. Initially, the gift would be received in the Endowment and Similar Funds (Other than State) fund group as a Term Endowment. Endowment income would be restricted to the purchase of musical instruments and after 20 years, the principal transferred to Loan Funds with a mandatory transfer.

# ENDOWMENT FUNDS (CONTINUED)

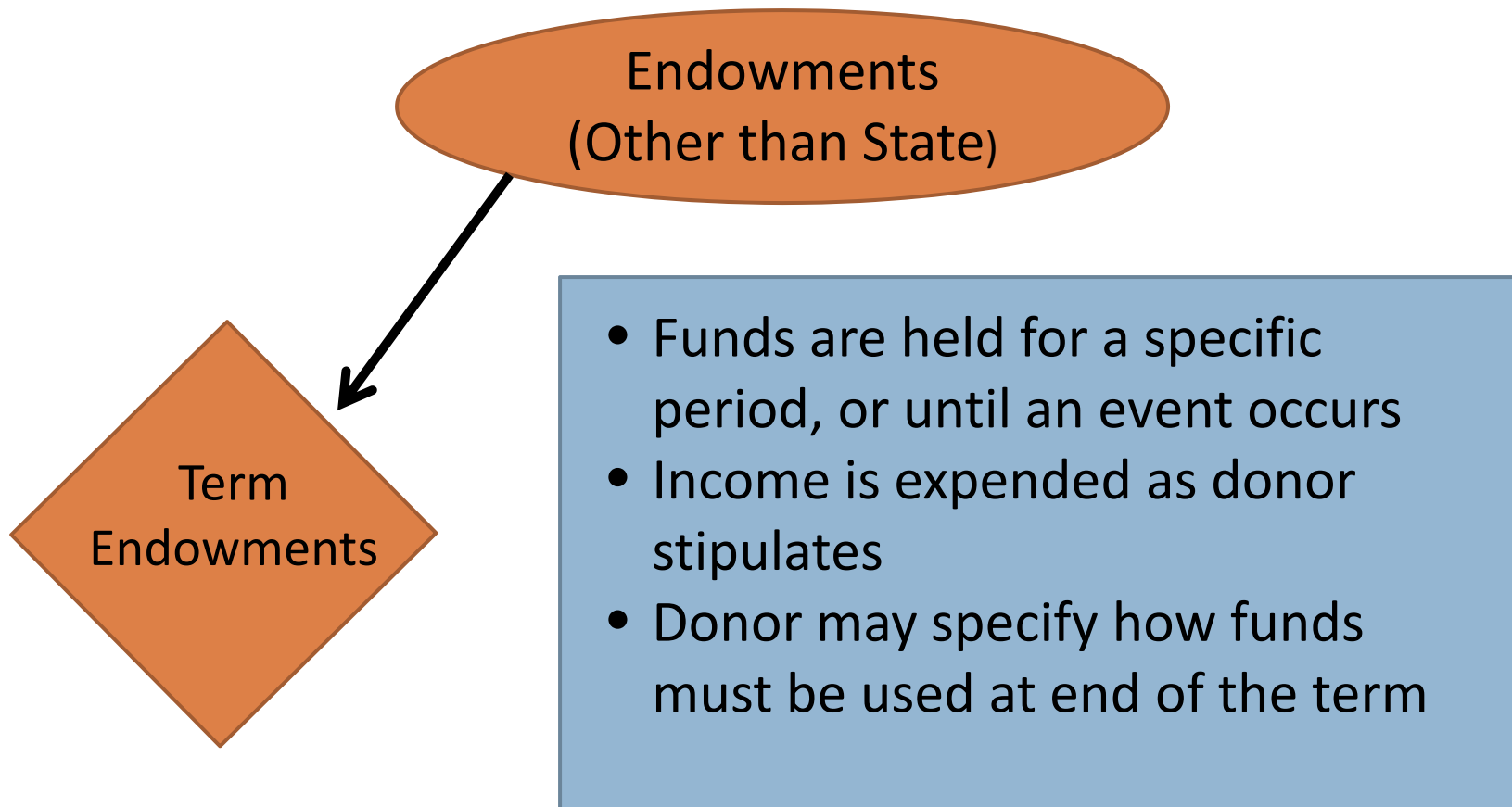
A mandatory transfer is used to transfer funds between fund groups in order to fulfill a legal obligation. Conversely, non-mandatory transfers are used to transfer funds at the governing board/management's discretion.

“Funds Functioning as Endowment,” also known as Quasi-endowment, are created by management, through the institution's governing board, with expendable current funds. These Current Funds are transferred to Endowment and Similar Funds (Other than State), as “Funds Functioning as Endowment” with a non-mandatory transfer. Funds functioning as Endowment may be restricted or unrestricted, depending on donor specifications. Board/management may reverse its decision at any time.

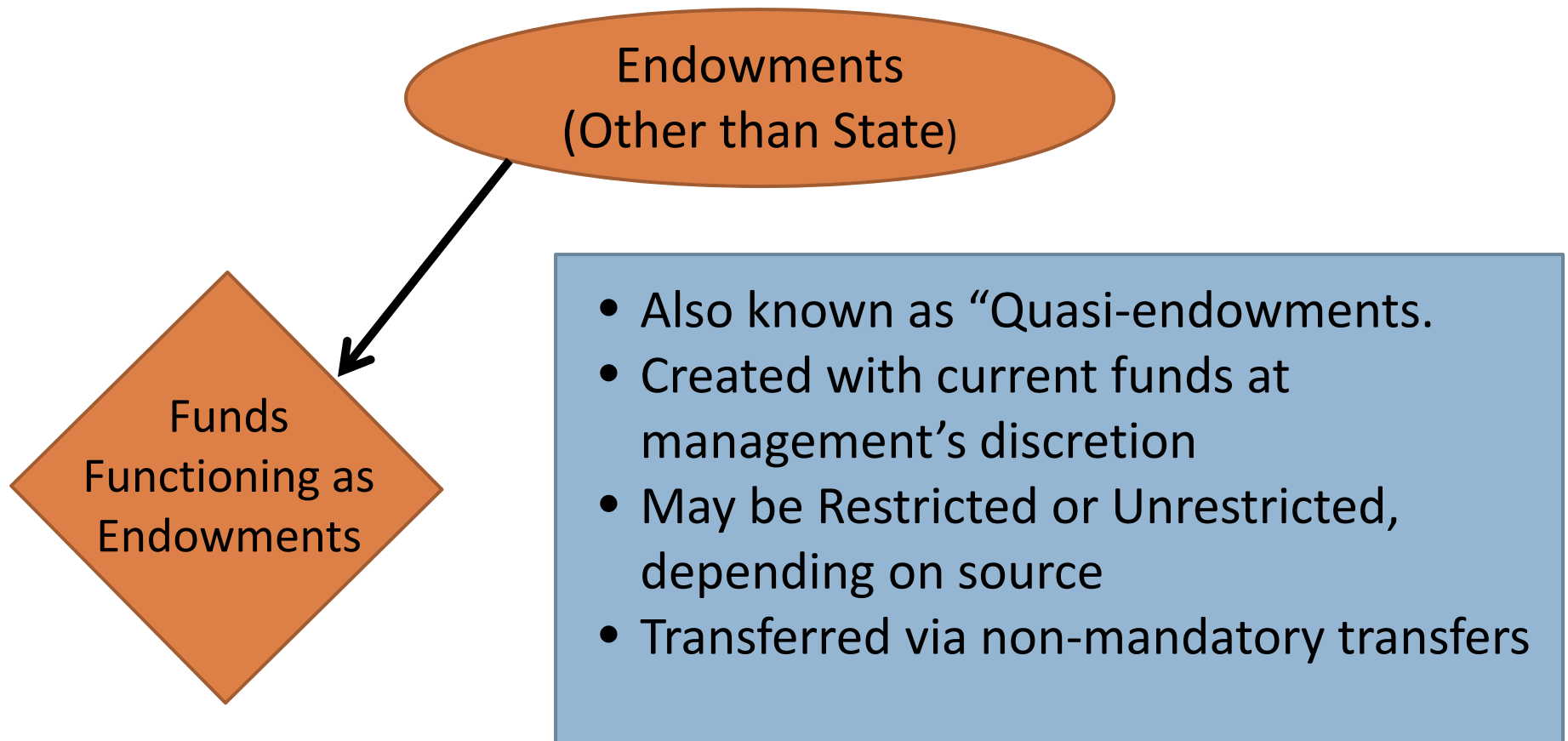
# ENDOWMENT FUNDS (CONTINUED)



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# ENDOWMENT FUNDS (CONTINUED)

Assets include Cash and Cash Equivalents, Securities Lending Collateral, Restricted Investments, Accrued Interest Receivable, or funds held by an outside trust (if the institution has legally enforceable rights to the funds held by the outside trust).

Note: U. T. institutions report endowments as “Funds Held by System Administration” on their balance sheet.

Liabilities include accounts payable, primarily for investments purchased near the end of the fiscal year that have a settlement date beyond year-end. Another type of liability is Securities Lending Obligations, which is an offset to the cash collateral received in exchange for securities on loan to brokers/dealers.

Each type of endowment is reported on the Balance Sheet. Funds functioning as Endowments should be reported as Restricted or, if unrestricted, included in the Unrestricted line.

# ENDOWMENT AND SIMILAR FUNDS OTHER THAN STATE

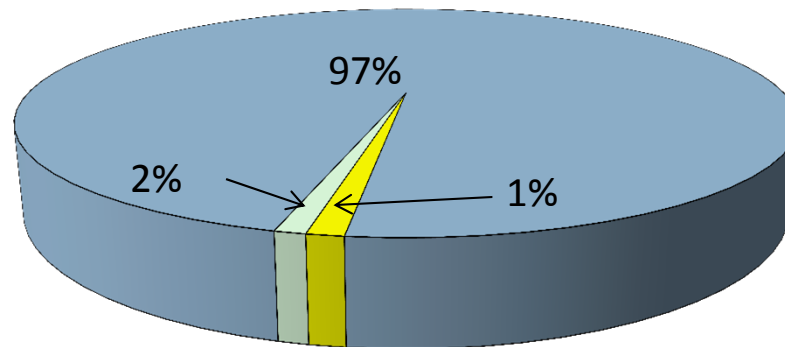
The net asset balances for Endowment Funds for FY 20XX are:

Net Assets - FY 20XX

(\$ in Millions)

True and Term Endowments

\$15,371



Funds Functioning  
as Endowments - Unrestricted

\$256

Funds Functioning  
as Endowments - Restricted

\$207

**Total: \$15,834 million**

# ENDOWMENT FUNDS (CONTINUED)



Since endowment principals are generally kept in perpetuity, cash gifts are generally invested in long-term instruments. When non-cash instruments such as stocks or bonds are donated to establish an endowment, the asset is valued at market value as of the gift date.

Income earned on endowments is not revenue to the Endowment Fund, but revenue to Current Funds in accordance with donor-imposed restrictions. Income from endowments is distributed quarterly by U. T. System Administration.

Generally accepted accounting principles require that each endowment be accounted for separately. Each fund has its own line item in the financial reports; however, principal may be pooled to simplify investment. Such investment pools permit diversification of investments with protection of principal and stability of revenue.

# ENDOWMENT FUNDS (CONTINUED)

Pooled investments are operated similar to a mutual fund. Participation is through “buying” into the Pooled Investment Fund at a specified unit price. The unit price is determined by dividing the current market value of the Pooled Investment Fund by the number of units outstanding. U. T. System’s pooled investment fund for institutional endowments is part of the General Endowment Fund.

Most of the endowment assets for the U. T. System are invested in a pooled fund – the General Endowment Fund (GEF). Assets invested in the GEF receive a quarterly, set payout established by the Board of Regents. The payout is calculated by multiplying the number of units owned by each endowment account times the payout rate established by the Board.

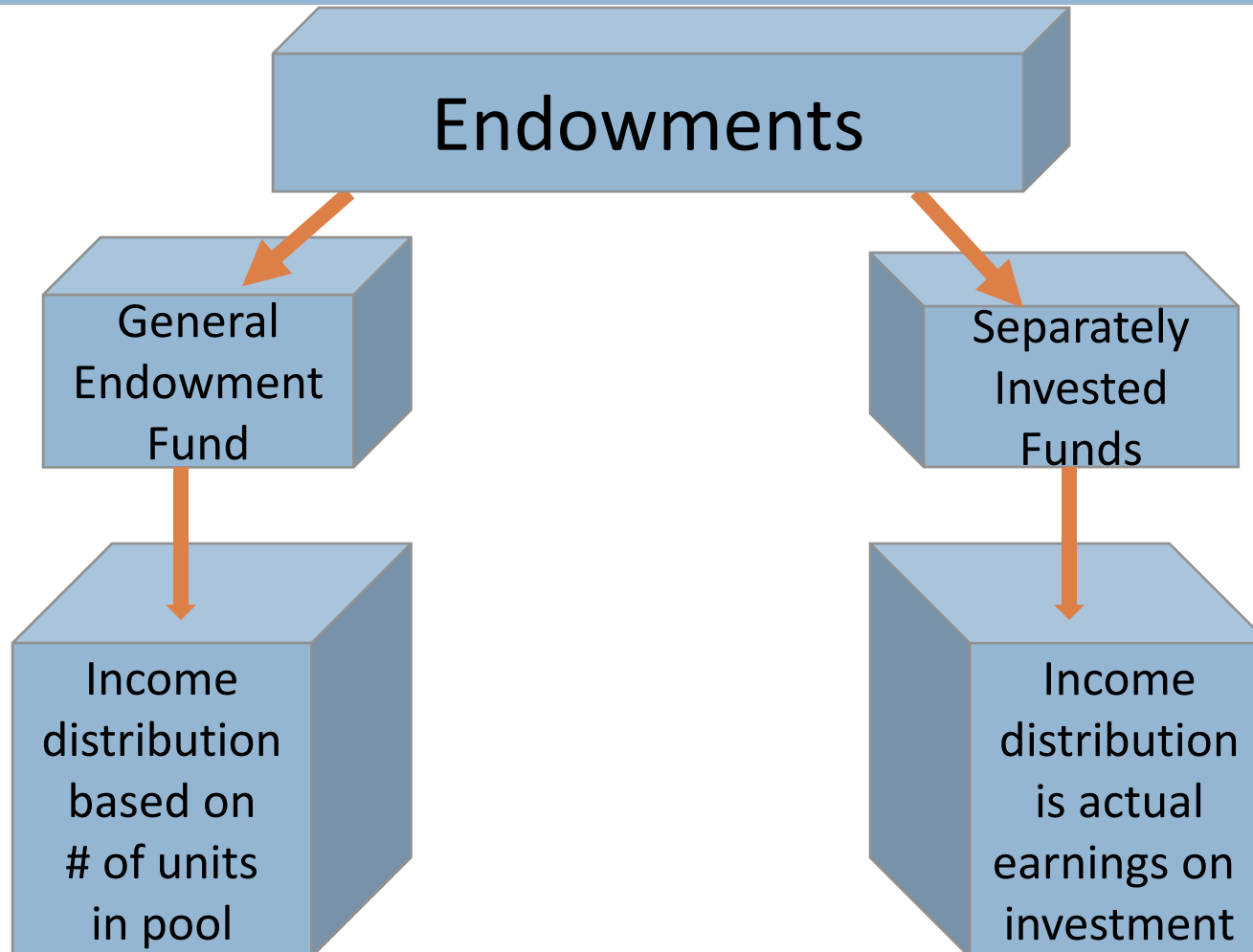
# ENDOWMENT FUNDS (CONTINUED)



Sometimes, due to the terms of a gift instrument, a gift is restricted from being pooled or commingled with other assets. These gifts are separately invested; however, they are still held by U. T. System Administration. These separately invested assets do not receive a set payout; rather, they receive actual earnings of the security investment.

U. T. System and the institutions report these endowment funds (both for the GEF and the Separately Invested Assets) as “Funds Held for Institutions” and “Funds Held by U. T. System,” respectively, on their balance sheets.

# ENDOWMENT FUNDS (CONTINUED)



# JOURNAL ENTRY EXAMPLE

To record receipt of a gift to Restricted Funds and to set up a Funds Functioning as Endowment – Restricted Expendable account:

<b>Account/Transaction Description</b>	<b>Dr.</b>	<b>Cr.</b>
<b>Restricted Funds</b>		
Cash	10,000	
Gift Contributions (Increases net Assets)		10,000
Interfund Transfer – Non-Mandatory (Reduces Net Assets)	10,000	
Cash		10,000

# JOURNAL ENTRY EXAMPLE

To record the endowment portion of the funds Functioning as Endowment account from the previous entry:

Account/Transaction Description	Dr.	Cr.
<p style="text-align: center;"><b>Endowment &amp; Similar Funds (Other than State)</b></p>		
Cash	10,000	
<p style="text-align: center;">Interfund Transfer – Non-Mandatory (Increases Net Assets)</p>		10,000

# JOURNAL ENTRY EXAMPLE

To record the investment of the new account into the pooled fund (i.e., GEF):

Account/Transaction Description	Dr.	Cr.
<p style="text-align: center;"><b>Endowment and Similar Funds (Other than State)</b></p>		
<p>Investments – Pooled Fund (100 units x \$100/unit)</p>	10,000	
<p>Cash (No affect on Net Assets)</p>		10,000

# JOURNAL ENTRY EXAMPLE

To record the receipt of investment income in Restricted Funds from Endowments:

Account/Transaction Description	Dr.	Cr.
<b>Restricted Funds</b>		
Cash	500	
Endowment/Investment Income* (Increases Net Assets)		500
*Assumes a 5% distribution rate. Calculation: 100 units x (\$100/unit x 5%) = \$500		

# JOURNAL ENTRY EXAMPLE

To record the non-mandatory transfer of cash from Endowment and Similar Funds (Other than State) back to Restricted Funds after management decided to utilize the principal for the restricted purpose originally indicated by the donor:

<b>Account/Transaction Description</b>	<b>Dr.</b>	<b>Cr.</b>
<b>Endowment and Similar Funds (Other than State)</b>		
Interfund Transfer (Reduces Net Assets)	10,000	
Cash		10,000
<b>Restricted Funds</b>		
Cash	10,000	
Interfund Transfer (Increases Net Assets)		10,000

# CONCLUSION



You have completed this module of the Fund Accounting Training. Exit the training by clicking the link below and access the next module.

<http://www.utsystem.edu/cont/training.html>