Overview of Endowment Accounting
Agenda

• Foundations’ Mission
• Foundation Reporting
• Gifts
  – Use
  – Types
• Classification of Foundation Assets
  – Unrestricted Net Assets
  – Temporarily Restricted Net Assets
  – Permanently Restricted Net Assets

Endowments
Foundations’ Mission

The UNCG Investment Fund, Inc. was established as a nonprofit corporation on May 19, 1992. It was initially established to invest and manage endowed funds on the behalf of the UNCG Endowment, Excellence Foundation, and Human Environmental Sciences Foundation. It has since expanded to manage funds for other entities related to UNCG.

The Foundations’ solicit gifts and conduct work for the support and promotion of academic, educational, and other programs of UNCG.
Foundation Reporting

• The efforts of the Foundations are reflected in both the Foundation and University Endowment portfolios.

• Gifts are many times solicited by Foundation members but can be donated directly to the University.
Use of Foundation Assets

UNRESTRICTED ASSETS are gifts made without donor stipulations regarding the use of the funds.

There remains a broader limitation on the use of these gifts which results from the Foundation’s purposes as specified in the Articles of Incorporation.

TEMPORARILY RESTRICTED ASSETS are gifts whose use is limited by either donor-imposed time restrictions or purpose restrictions. Time restrictions require gifts to be used in a certain period or after a specified date. Purpose restrictions require gifts to be used for a specified purpose.

PERMANENTLY RESTRICTED ASSETS are gifts which must be maintained by the Foundation in perpetuity. Only a portion of the net appreciation derived from these assets may be expended.
Quick References to the Term – Endowment(s)

- University Endowment Board
- University Investment Fund
- Foundation Endowments
  - Excellence, Human Environmental Sciences
- Endowments (All 1,174 individual permanently funded gifts)
- Endowment (a specific individual permanently funded gift)
Types of Endowments

True endowments

Term endowments

Quasi endowments
True Endowments

Prohibits the spending of principal. True endowments are irrevocable and may either be “restricted” or “unrestricted.”
Term Endowments

Provides that the principal may be spent on or after a predetermined date, period of time or occurrence of a specified event. Term endowments are irrevocable and may either be “restricted” or “unrestricted.”
Quasi Endowments
(Fund Functioning As Endowment)

University funds that are treated as an endowment but are not subject to any legal prohibitions against spending. Quasi-endowments are revocable and may be either “restricted” or “unrestricted”.
Endowment Terms

Book Value
The cost basis of the gift, plus adjustments for gains or losses, subsequent gifts and any transfers to or from the fund.

Market Value
The total of the book value plus investment earned income and realized and unrealized gains and losses, less distributions.

“Underwater” endowment
An endowed fund whose market value is less than its book value.
Endowment Income

Earned income
Income that is earned from investments, such as dividends from stock and interest from money market and/or bonds.

Realized capital gains/losses
These are incurred when an asset is sold. A realized capital gain results from selling an asset at a price higher than the original purchase price. A realized capital loss results from selling an asset at a price lower than the original purchase price.
Unrealized capital gains/losses
The change in value of an investment after it is purchased but before it is sold.

Total Return
The percentage change in value over a period of time, taking into account net income and capital appreciation (depreciation). This would include interest and dividends, realized gains(losses), unrealized gains(losses) and investment management costs.
How Does Endowment Spending Occur?

A portion of endowment income is moved from the endowment fund to a corresponding “spendable account” and is available to be expended in accordance with the purpose of the donor agreement.

This distribution is made in July of each year.

Spending will not occur in “underwater” endowments, since doing so would invade the principal of the fund.
Example

1. During 2014-15 - received a gift of stocks for the establishment of an endowment. Stocks valued at $100,000 on the gift date.

2. Stocks sold and re-invested with pool of endowment assets. Realized gain of $2,500 on the sale.

3. During 2014-15, this endowment had a market depreciation of $15,000.

Valuations At Year-End:
Book Value = $102,500 (original gift + realized gain)
Market Value = $87,500 (original gift + realized gain + unrealized depreciation)
<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Value at 6/30/2014</td>
<td>251,755,902</td>
</tr>
<tr>
<td>Gift Income</td>
<td>4,246,168</td>
</tr>
<tr>
<td>Interest/Dividend Income</td>
<td>1,648,377</td>
</tr>
<tr>
<td>Realized Gains (Losses)</td>
<td>9,097,279</td>
</tr>
<tr>
<td>Spending Distribution &amp; Fees</td>
<td>(10,327,819)</td>
</tr>
<tr>
<td>Market Appreciation (Depreciation)</td>
<td>(4,105,450)</td>
</tr>
<tr>
<td>Market Value at 5/31/2015</td>
<td>252,314,457</td>
</tr>
</tbody>
</table>
Questions and Discussion