

# Texas A&M University System

## Module 3 - Endowment and Similar Funds

---

DEVELOPED BY THE SYSTEM OFFICE OF BUDGETS AND  
ACCOUNTING

# OBJECTIVES

---

- Gain an understanding of Endowment and Similar Funds
- Review different types of endowment funds
- Review TAMUS Endowment reporting requirements
- Review endowment transactions

# ENDOWMENT AND SIMILAR FUNDS

---

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

1. True Endowment (Permanent Endowment)
2. Term Endowment
3. Funds Functioning as Endowment (Quasi-Endowment)
  - Funds Functioning as Endowment – Restricted
  - Funds Functioning as Endowment – Unrestricted

# ENDOWMENT FUNDS

---

- Endowment Funds have been set aside and invested, either as required by the donor of the resources or as determined by the member's governing board.
- Each endowment must be accounted for separately
- The System Office established the System Endowment Fund (SEF) which is similar to mutual funds or a pooled investment concept

# POOLED INVESTMENT CONCEPT

---

- 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
- The A&M System has various investment managers in charge of different types of investments
- All of the endowment assets are invested in the System Endowment Fund

# A&M SYSTEM ENDOWMENT FUND (SEF)

## APPRECIATION RESERVE

---

- The SEF Appreciation Reserve was established in fiscal year 1997 to provide a consistent and predictable income stream for endowments
- Realized SEF investment gains and losses are recognized on System Office's books and accumulated in the Appreciation Reserve
- Per the A&M System's investment policy, the SEF income distribution per unit for each fiscal year distributes 5% of the 20-quarter average market value per unit, excluding fees, as of the end of the previous February

# A&M SYSTEM ENDOWMENT FUND (SEF) APPRECIATION RESERVE

---

- Quarterly distributions will consist of interest/dividends (net of investment manager fees), plus an allocation from the SEF Appreciation Reserve to meet the required payout
- Quarterly distributions from the Appreciation Reserve are treated as non-mandatory transfers to Members
  - The Appreciation Reserve balance as of 08/31 is also allocated to Members as a non-mandatory transfer

# WHY HAVE A SYSTEM ENDOWMENT FUND (SEF) APPRECIATION RESERVE?

---

- Prior to 1997, it was a challenge for the members to determine how much endowment income to allocate to spend
  - The Income depended on the market fluctuations
  - The budgeting team wants to include the most accurate amount during the spring of each year
- The SEF Appreciation Reserve provided a consistent and predictable income stream for endowments

# QUARTERLY SYSTEM ENDOWMENT FUND (SEF) INCOME DISTRIBUTION, CONT.

---

- Quarterly and year-end distributions from the SEF Appreciation Reserve are treated as non-mandatory transfers to members
- The appreciation on endowments is comprised of two components
  - Allocation of SEF Appreciation Reserve Balance
  - Market Value Adjustment
- Both components of SEF appreciation must be reflected in the correct Balance Sheet Net Position category
  - A separate SEF Appreciation Reserve Allocation work paper is provided to members which details these amounts by endowment

# NET POSITION

---

- True and Term Endowments are the only endowment types where the appreciation is reflected in a different Net Position category than the endowment book value
- If the appreciation is recorded in an account with FAMIS AFR fund group 60-63 (True or Term Endowments), a year-end Fund Balance Reclassification entry (GL 2796) is needed to correctly report the appreciation as Restricted for Endowment - Expendable

<b>Balance Sheet Net Position Category</b>	<b>FAMIS AFR Fund Groups/ Acct Control</b>	<b>What's Included?</b>
<b>Restricted for Endowment and Permanent Funds, Non-Expendable</b>	<b>60 – 63</b>	<b>True and Term Endowment book value (endowment corpus, can never be spent)</b>
<b>Restricted for Endowment and Permanent Funds, Expendable</b>	<b>64, 65</b>  <b>GL 2796 Fund Balance Reclassification</b>	<b>Restricted Quasi-Endowments (funds with external restrictions internally designated as a quasi-endowment) , plus the appreciation reserve and unrealized gain/loss related to these accounts</b>  <b>True and Term Endowment Appreciation Reserve and Unrealized Gain/Loss</b>
<b>Unrestricted (III-1, Funds Functioning as Endowments)</b>	<b>66,67</b>	<b>Quasi-endowments with no external restrictions, plus the appreciation reserve and unrealized gain/loss related to these accounts.</b>

# TRUE AND TERM ENDOWMENTS

---

- For True Endowment Funds, also known as Permanent Endowments, the principal can never be spent and income from the endowment will be expended as stipulated by the donor
- Term Endowment Funds are similar to “True” Endowment Funds since they are donor restricted, with one exception the donor has indicated the principal can be expended after a stated period of time or upon the occurrence of a specific event
  - Generally not as common as true and quasi-endowments
  - Created by donor intent – evidenced by a gift agreement or bequest

# QUASI-ENDOWMENTS

---

- Quasi-Endowments (also known as “funds functioning as endowments”) are funds earmarked by the member’s management, rather than donors, to invest as an endowment from which income is available for general operations or certain specific purposes
  - Quasi-endowments must be approved by Board of Regents (per System policy 22.02, section 2.4)
  - Management may later direct the principal be expended
  - Restricted quasi-endowments are funds with external restrictions where management approved the funds to be invested as a quasi-endowment
  - Additions to quasi-endowments should be recorded with NonMandatory transfers from current funds rather than as a direct addition
  - Member records should reflect the original source of quasi-endowments

# ENDOWMENT FUND EXAMPLE

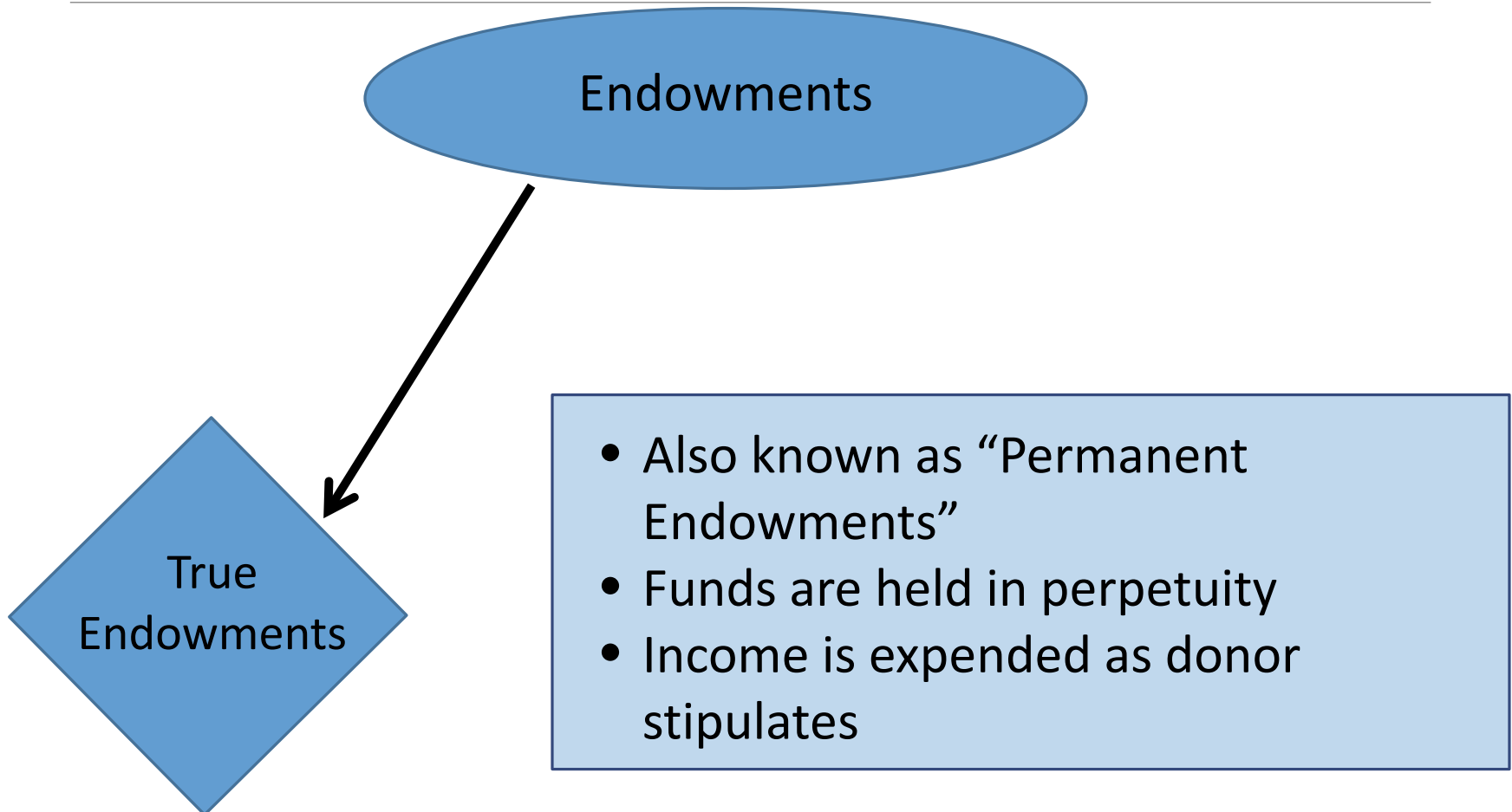
---

For example, a donor may give a \$50,000 gift and specify the principal of the donation may not be expended, income is to be used to provide scholarships for the College of Business

- Recognize the \$50,000 gift in the Endowment and Similar Funds fund group as a True Endowment
- Establish a restricted scholarship account to receive quarterly endowment income distributions to fund scholarships in the College of Business

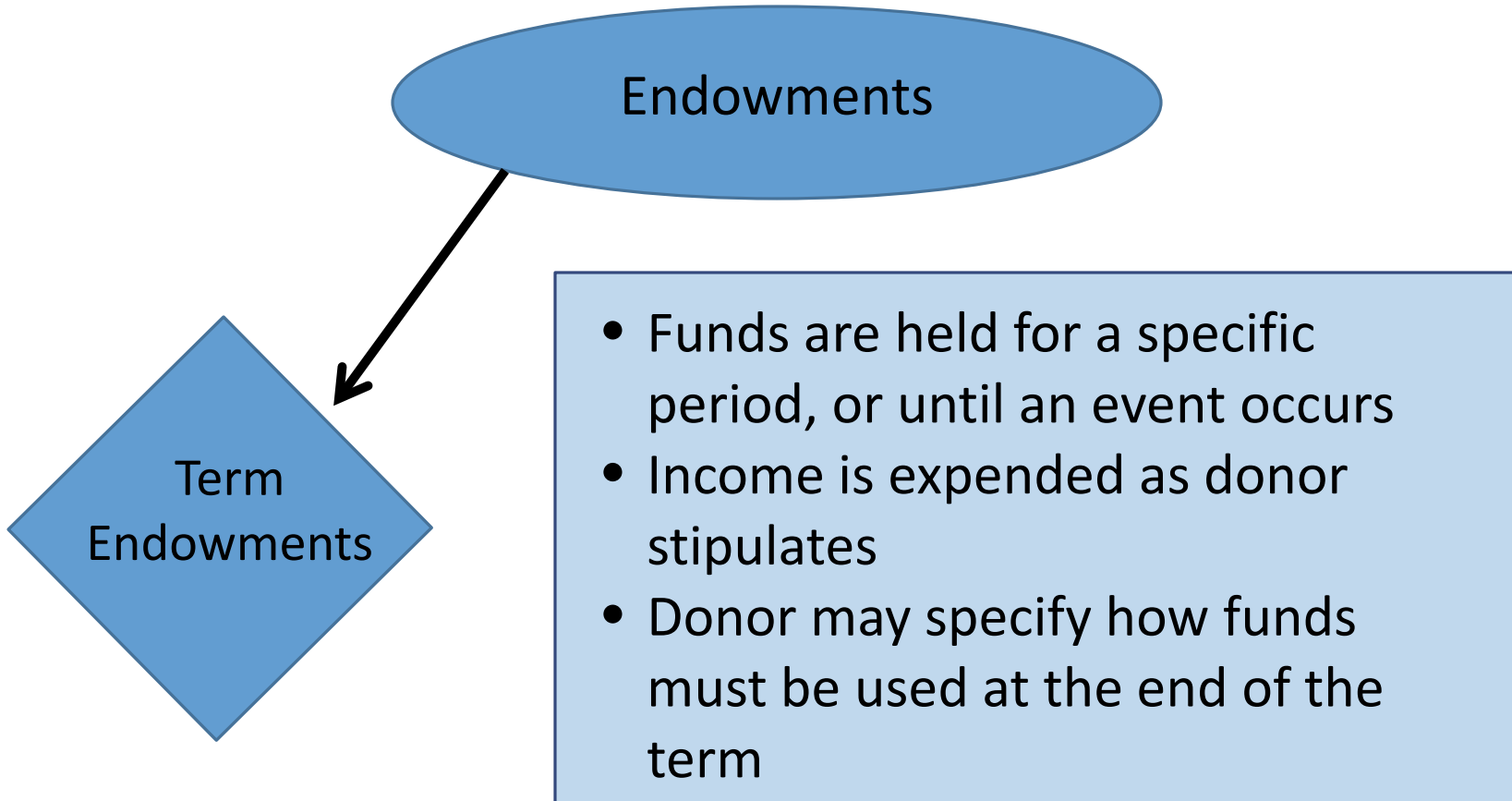
# TRUE ENDOWMENTS

---



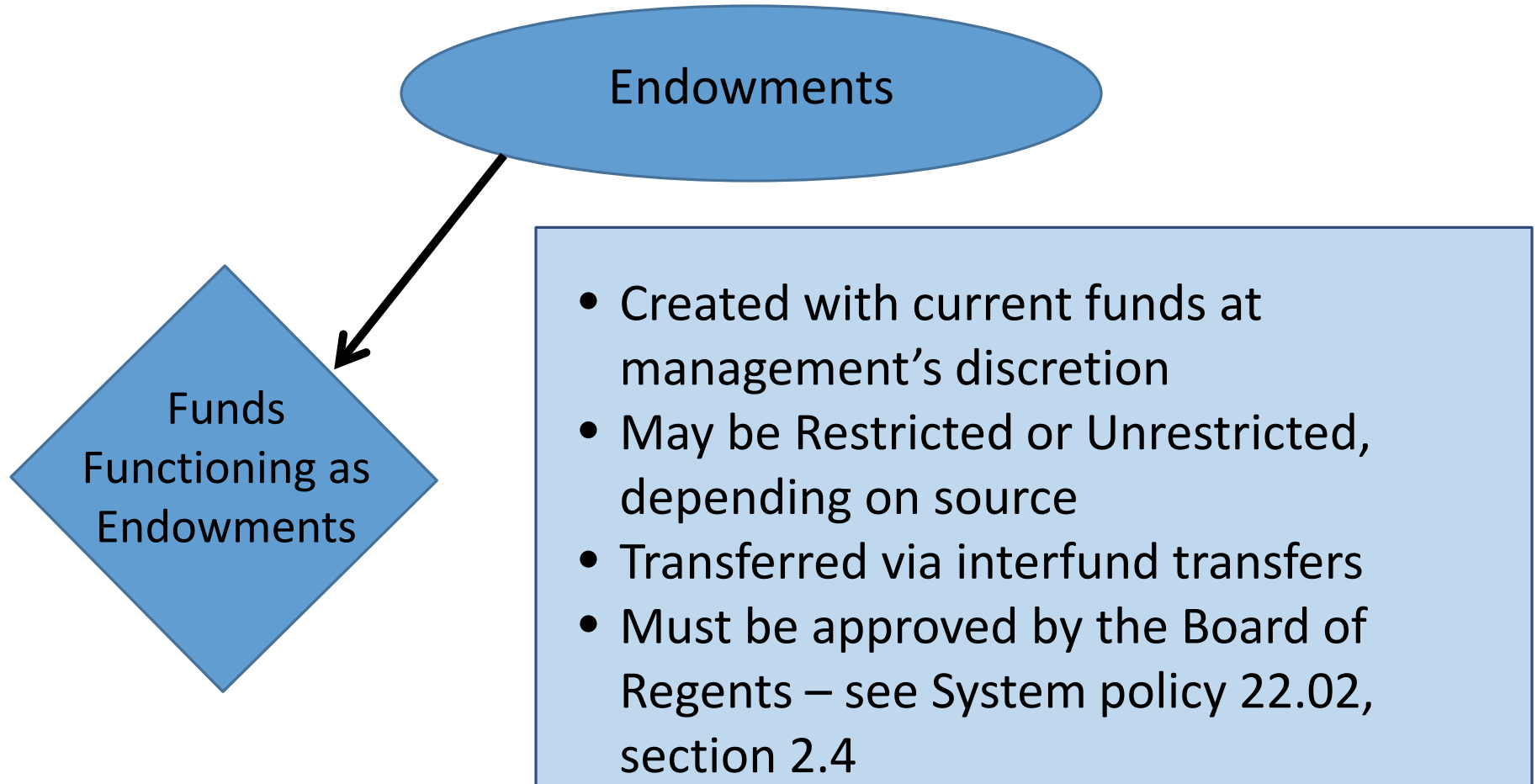
# TERM ENDOWMENTS

---



# QUASI-ENDOWMENTS

---



# REPORTING OF ENDOWMENT FUNDS

---

- Assets include, but are not limited to, Cash and Cash Equivalents, Restricted Investments, Accrued Interest Receivable, and Investment Trades Receivable

Note: A&M Members report endowment investments as “Funds Held by System Office” on their Statement of Net Position

- Liabilities include, but are not limited to, Investment Trades Payable and External Manager Fees Payable
- Each type of endowment is reported on the Statement of Net Position
- Quasi-Endowments (also referred to as Funds Functioning as Endowments) should be reported as Restricted Net Position or, if unrestricted, included in the Unrestricted Net Position row

# REPORTING OF ENDOWMENT FUNDS

---

- Since the endowment principal is generally kept in perpetuity, cash gifts are invested in long-term investment instruments
- When non-cash instruments such as stocks or bonds are donated to establish an endowment, the assets are sold, the proceeds are used to purchase units in the System Endowment Fund
- Income earned on endowments is not revenue to the Endowment Fund, but revenue to Current Funds in accordance with donor-imposed restrictions. For example, if an endowment is established to fund scholarships, all of the income is distributed to a Restricted account for spending.
- Income from endowments is distributed quarterly by the A&M System Office
- The Investment management reports track each endowment separately

# JOURNAL ENTRY EXAMPLE

Record gift to establish a True endowment

<b>Account/Transaction Description</b>	<b>Dr.</b>	<b>Cr.</b>
<b>Restricted Funds</b>		
Cash	50,000	
Gift Revenue(Increases Net Position)		50,000
Assume unit price is \$8/unit, purchase 6,250 units		

# JOURNAL ENTRY EXAMPLE

To record the investment of the new account into the System Endowment Fund (SEF)

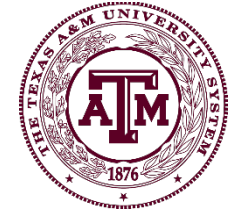
<b>Account/Transaction Description</b>	<b>Dr.</b>	<b>Cr.</b>
<b>Endowment and Similar Funds</b>		
Investments Held by System-NonCurrent	50,000	
Cash Concentration Pool (No affect on Net Position)		50,000
*Notify Treasury Services to transfer the cash from Cash Concentration Pool to SEF		

# 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 (Interest Earned)		100
Transfer from System Office (Appreciation Reserve) (Increases Net Position)		400
<p>* Quarterly distribution rate is set annually, based on 5% of average market value            Calculation: 6,250 units x .08 Qtrly payout rate = \$500</p>		

Note: Quarterly Endowment Income distribution entries are uploaded to FAMIS by the System Office.



# CONCLUSION

---

Congratulations!

You have completed Module 3

Select the next presentation to continue to learn about TAMUS and Fund Accounting