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# Restricted Gift Administration FY14 Training Update for Yale's Business Community

Presented by Gift Administration



# Overview

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- This presentation contains only the new information that has been added to the complete version of the Restricted Gifts Training that was updated in fiscal year 2013.
- This presentation should be reviewed by Department users who have already completed the full version of the Restricted Gifts Training in fiscal year 2013 or prior but need to complete the yearly update session
- Completion of the annual update is required to retain ALICE access



# Endowment Basics

- Yale's Endowment is managed internally by Yale's Investments Office, lead by David Swensen, Yale's Chief Investment Officer.
- Over the past ten years Yale's Endowment has grown from \$10.5 billion to \$20.8 billion.
- Over the last decade, annual spending distributions from Yale's Endowment have grown from approximately \$400 million to approximately \$1 billion, which is equal to nearly 35% of the University's total operating budget.
- Approximately 75% of Yale's Endowment is restricted and can be used only for the specific purposes for which the donors made their original gifts.



# Endowment Basics

- The Yale Endowment contains thousands of funds with various purposes and restrictions.
- Approximately three-quarters of funds constitute true endowment, gifts restricted by donors to provide long-term funding for designated purposes. The remaining one-quarter of funds represent quasi-endowment, monies that the Yale Corporation chooses to invest and treat as endowment.
- Donors frequently specify a particular purpose for gifts, creating endowments to fund professorships, teaching, and lectureships (24 percent); scholarships, fellowships, and prizes (17 percent); maintenance (4 percent); books (3 percent); and miscellaneous specific purposes (27 percent). Twenty-five percent of funds are unrestricted.



# Gift Assessments

- Endowment funds are imposed a charge which represents a pro rata portion of costs incurred by the University in carrying out the purposes of the funds. The assessment is charged annually and is withheld from the spending distribution when it is posted to the endowment fund. It typically ranges between 6% and 8% of annual endowment income. It is calculated annually based on the prior fiscal year's actual costs.
- Expendable funds are subject to the University's indirect cost recovery policy, which allocates 12 percent of the gift amount to offset a portion of the full costs associated with the program funded by the gift.



# Endowment Income

- **University Spending Policy**
  - The spending policy combines a long-term spending rate target with a smoothing rule, which adjusts spending in any given year gradually in response to changes in Endowment market value. The target rate approved by Yale Corporation currently is 5.25%.
- **Spending Distributions**
  - New endowment funds and new gifts to existing funds receive a pro rata spending distribution based on the fiscal quarter the gifts are received

<b>Fiscal Year Quarter</b>	<b>Pro rata annual income distribution for current fiscal year</b>
Q1(July 1 through September 30)	75%
Q2(October 1 through December 31)	50%
Q3 (January 1 through March 31)	25%
Q4 (April 1 through June 30)	0%



# Responsibilities of Gift Administration

- Gift Administration is responsible for administering the University's gift funds. This includes:
  - Setting up new funds, including expendable, endowment, funds functioning as endowment, plant and student loans
  - Fund revisions (ALICE abstract, Oracle source attributes that are used for financial reporting, etc.)
  - Maintenance of ALICE, the University's restricted fund database
  - Training front-line administrators of restricted funds
  - Monitoring and compliance of restricted funds
  - Preparing annual endowment income budget and Gift Administration year-end general ledger closing



# Questions to Consider: Expenditure of Restricted Funds

- Do you have copies of summary interpretations of donor restricted funds?
  - *As a restricted fund steward, you should have copies of fund abstracts/indentures*
  
- Does the budgeting process consider the availability of restricted funds and gifts to support operations?
  - *All Funds Budgeting – spend restricted funds first!*
  
- *Do you need further guidance as to how you should be spending gifts within specific purpose codes?*
  - *We have defined all purpose codes at:*  
<http://www.yale.edu/coa/resources/docs/Purpose%20Code%20Definitions.xlsx>





# Questions to Consider: Expenditure of Restricted Funds

- Are you confident that all expenditures charged to a restricted fund meet the purpose for which the donor made the gift?
- Do any of the funds in your department contain restrictions that cannot be met because the donor's intent is no longer practical due to circumstances that were not contemplated at the time of the gift?
  - *Submit inquiry to [giftawards@yale.edu](mailto:giftawards@yale.edu)*
  - *Your inquiry will be reviewed by the Compliance Officer, and if appropriate, will be forwarded to the Provost Office or the Office of General Counsel*



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# Gift Compliance



# Compliance Roles Defined

## **Gift Administration:**

- Train individuals responsible for complying with restricted fund agreements
- Develop and communicate policies and procedures
- Distribute fund abstracts, which detail donor restrictions, to departments
- Act as an expert resource regarding the usage of restricted funds and monitoring compliance with donor restrictions

## **Departments:**

- Front-line stewardship of restricted funds
- Need to make sure that all expenses comply with donor restrictions
- Assist with the preparation of any donor reporting for which your area is responsible
- Familiar with donor documents and restrictions of all funds within your organization



# Restricted Gift Compliance

- Gift Administration's Compliance Officer, Rachele Sarro, serves as a resource for questions regarding the appropriate use of restricted funds
- The Compliance Officer should be contacted for assistance in areas such as:
  - Compliance/legal inquiries
  - Audit inquiries
  - Donor intent inquiries
  - Inquiries regarding the appropriate use or purpose of a fund
- You can reach Rachele by sending an email or call to [Rachele.Sarro@yale.edu](mailto:Rachele.Sarro@yale.edu)  
(203) 436-8356



# Restricted Gift Compliance

- Compliance Officer also initiates policy revisions and aims to enhance controls over restricted funds
- Example is a recent revision to Policy 3302 – Business Meals, Entertainment and Social Events (3302.5, Limitations on Charging Instructions)
  - “Expenses incurred in connection with entertainment and social events should not generally be charged to restricted gift and endowment income accounts. Department lead administrators and operations managers are responsible for ensuring that restricted funds owned by any of their organizations are used in a manner consistent with the stated intentions of the donor.”



# Restricted Gift Compliance

- New reference available on Policies and Procedures website that defines restricted fund purpose codes:

<http://www.yale.edu/coa/resources/docs/Purpose%20Code%20Definitions.xlsx>

- This will assist when determining the proper usage of a restricted fund
- In order to view the purpose codes for the restricted funds within your Department, use BUG414a Donor Restricted Funds – FY Operating Income/Balance by Source Group



# Recent Internal Audit Findings

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- Restricted gifts or endowment income not being used in line with purpose code or gift restrictions
- Changes to abstracts are not updated or documented in ALICE. Examples include requests to change purpose code, donor restrictions, assignment of income, etc.
  - Changes must be approved by Compliance Officer and may be reviewed by the Provost Office or General Counsel, if needed.
- Lack of documentation regarding YE transfers of restricted gift balances (e.g. ensuring fund balances are being used in line with donor intent)
- The transfer of unrestricted fund balances or recording of unrestricted income to restricted funds
- Inconsistent accounting for fiduciary income received



# Gifts From Faculty That Are Not Tax Deductible

- Per Policy 2200:
  - Faculty member/staff or immediate family who wants to “gift” the University money and retain control over the funds for their own private benefit. Benefit could mean purchasing equipment only for THEIR lab, paying their own salary or paying the salary of someone who works directly for them
  - Per IRS regulations, gifts to the University where the donor retains control and receives a benefit are NOT tax deductible
  - These should not be recorded as gifts (i.e., not deposited to a gift account and not recorded using et code 451101)
  - These “gifts” should be recorded as Miscellaneous Income and deposited into a non-restricted source group, such as a current use account
  - The Faculty member will not receive a tax receipt





# Gifts From Faculty That Are Tax Deductible

- Per Policy 2200:
  - Faculty member wants to gift the University, or in most cases his/her Department, the money and receive a tax deduction for the gift
  - The gift can be recorded using ET code 451101 and a tax receipt may be generated ONLY IF the money is controlled and administered by the Department or University
  - The gift cannot be deposited into a gift account that is under the control of the Faculty member who made the donation
  - The gift should be deposited into a general Departmental/University gift account that is administered by someone other than the Faculty member or his/her direct operational manager



# Gift Account Transfers to Outside Organization

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- Gifts accounts are comprised of donations made to the University, a 501(c)(3) tax-exempt organization
- As the recipient of the gift, Yale provides the donor with the official tax receipt
- Gift funds should not be considered personal funds and are not allowed to be transported amongst different Universities or other 501(c)(3) organizations



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# Accounting for Gifts



# Fund Accounting 101

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- Contribution Processing enters gifts and pledges into DARCY and maintains donor documentation
  - Routes the donor's contributions to the appropriate designation
  - Sends donors their official University tax receipt and their pledge reminders
- Contribution Processing credits the revenue expenditure type 451101 – “Contributions”
  - **Departments should NEVER post a transfer to 451101**
  - **This expenditure type is used ONLY to record the gift revenue**



# Fund Accounting 101

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- Endowment funds have two balances
  - NP = Non-operating, or principal portion
  - OP = Operating, or spendable income portion, generated by the endowment fund
- Part of the non-operating balance is the Historic Book Value, also referred to as “HBV” which is the original value of a gift at the time it is given
- Departments should never post transactions to the NP balance of an endowment account



# Fund Transfers

- Transfers - See Procedure 1305 PR.05 Reclassifications and Transfer of Funds
  - **Movements of Gift/Endowment Income** The table below reflects unique revenue expenditure types that should be used when moving gift balances or endowment income to fund expenses matching the intended purpose of the award. An explanation of use is provided.

ET #	Expenditure Type Name	Use
451106	Restricted Current Use Gifts Reclass	To move a gift balance or income to fund expenses <u>matching the intended purpose</u> of the award. Use for both debit and credit. Indicates gift restriction is met.
469206	Alloc Curr Year Sepnd Distr-By Dept	To move endowment income or spendable balance from/within an endowment to fund expenses <u>matching the intended purpose</u> of the award. Use for both debit and credit. Indicates that any endowment restriction is met.

**NEVER transfer unrestricted funds  
to a restricted award.**



# Fund Transfers

- When transferring a gift balance or endowment income using ET codes 451106 or 469206, particularly for the “more restricted” funds, it is best practice to document how these entries are being used to fund expenses that match the intended purpose of the award.
- This will provide support for inquiries that may come from internal/external audit or the donor.
- Transferring funds out of a restricted gift source to an unrestricted source group should only be processed when the restrictions have been met.
- Transferring funds for future usage indicates the restrictions haven't been satisfied yet so the funds should remain in the restricted source group until point of fulfillment.



# Fund Transfers

- When reclassing new expendable gift revenue within your own division, there are two options to properly record the entry:
  - 1) If the NET amount of the gift needs to be transferred within the Division, use ET code 451106 (gross gift less the 12% assessment fee taken when the original revenue was recorded). This will leave the assessment charge in the org where the original contribution was posted.
  - 2) If the GROSS amount of the gift needs to be transferred within the Division, use ET code 451106 on both sides of the entry to move the gross revenue recorded. You must also prepare an additional entry to move the assessment fee. Use ET code 964951 for both sides of the entry to move the assessment.
- If gifts need to be moved out of your Division, contact Gift Administration so we can post the entry.





# Compliance over Fund Transfers

- Do not transfer unrestricted fund balances to a restricted fund
- Do not record other unrestricted “non-gift” revenue to a restricted fund. This includes, but is not limited to, Miscellaneous Income and Other Income
- Fiduciary or royalty income received for a restricted purpose should be recorded to a restricted fund



# University Holding Account

- Undesignated gifts less than \$50,000 will be placed in the University Central holding account ONLY when:
  - it is part of a larger gift being paid under a pledge agreement
  - it is part of a large group gift or;
  - the gift is awaiting designation by the donor
- Funds are transferred from the University Central holding account to the final gift award destination when we have received the first donor payment, regardless of amount, and received the proper gift documentation.



# Restricted Gifts For Which The Purpose Has Been Fulfilled

- Departments should periodically review, no less than annually, restricted expendable funds to identify if the restricted purpose has been fulfilled
- For example, a restricted expendable fund established with a gift, the purpose of which was to acquire a piece of equipment and the equipment has now been acquired
- For existing expendable awards, when a restricted gift purpose has been fulfilled, yet a small balance remains, use standard form:
  - Form 2203 FR.06 REQUEST TO: Transfer Restricted Spendable Gift Where Purpose Has Been Fulfilled
  - Use Summary with Respect to Fund Balance to review EXPOP awards



# Restricted Gifts For Which The Purpose Has Been Fulfilled

- If the fund has a residual balance, the remaining balance may be reclassified to an unrestricted fund or recovered for unrestricted purposes, after which the fund may be closed
- If the fund has a residual balance, Form 2203 FR.06 requires approval by the department's cognizant Deputy Provost (for Centrally-Supported units) or by a school's Lead Administrator (for Self-Supported units)
- If the fund has a zero balance it may be closed by completing the same form (Form 2203 FR.06)



# Accounting for Fiduciary Income

- Fiduciary income is income received by Yale from funds held by a trustee for the benefit of the University
- Fiduciary income should be recorded using ET code 475001
- Fiduciary income should be recorded in the source group based on the restricted nature of the income
  - Income received for a restricted purpose should be recorded in a restricted source group (ENDOW or EXPOP)
  - Only unrestricted University fiduciary income should be recorded to GA or Special Program source groups



# Reinvesting Income to Principal

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- Unless stipulated by donor, reinvesting income to principal **requires Provost approval**
- Form is available on-line (2203 FR.03) Request to Reinvest Income to Principal
- If the donor requires reinvestment to principal and the endowment is a direct charge fund that resides in your unit, ***Operational Managers need to send the above referenced form to Gift Administration by May 31<sup>st</sup> each year so we can process the entry***



# Restricted Gift Administration Update Training Requirements

- If you charge to a restricted expendable or endowment fund, you will be identified for required continual training
- Today's session satisfies the annual update requirement
- So after this session, where do I find these resources?
  - <http://finance.yale.edu/financial-activities/staff/21>



# Documenting Fulfillment of Training Requirement

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## **LAST STEP TO CERTIFY COMPLETION:**

To acknowledge that you have completed the Restricted Gift Administration online training update and record completion of the course, please click on the below link:

[https://bmsweb.med.yale.edu/tms/tms\\_enrollments.offerings?p\\_course\\_id=5215&p\\_std\\_id=](https://bmsweb.med.yale.edu/tms/tms_enrollments.offerings?p_course_id=5215&p_std_id=)

