



University of San Diego

## **Endowment Procedures**

Issued by the Accounting Office

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## **BACKGROUND**

The University of San Diego relies heavily on external funding to advance educational programs and to increase planning flexibility. The University's endowment funds are an important source of external funding due to their high value and growth nature. Both administrative management for endowments and financial control over spending are important to the future of the University. As such, these procedures set forth the guidelines for administrative management and financial control over the University's endowment funds.

Definition: The term "endowment" generally refers to donations made to the University with the understanding that the capital or principal amount of the donation (also referred to as the contribution) will be invested, with the investment earnings used to fund specified purposes. Examples of purposes may include but are not limited to; the establishment of a scholarship, prize or bursary; the creation of a chair in a specific academic area; and the funding of a particular research program or a variety of other programs such as professorships, fellowships, library, building, equipment, lectures and miscellaneous.

## **PROCEDURES**

### **I. Receiving a New Endowment**

#### Overview

It is critical for the development officers or the receiving representatives to properly classify the endowment contributions, and to communicate the University's spending policy to the donor. An endowment contribution generally refers to a donation made to the University with the understanding that the capital or principal amount of the donation will be invested in perpetuity. It is important for the donor to understand that a contribution classified as an endowment will not be used until it has generated enough income to support its expenses. For example, an endowed scholarship may not fund scholarship awards during the first two academic years after the receipt of the contribution. Special exception arrangements require pre-approval and signed donor agreement.

#### Minimum Requirements

In order to establish a new endowment account, the following terms must be met:

- A letter of intent or contribution agreement must be signed, clearly stating commitment amount and donor restrictions or conditions.
- The letter should include the donor's intent to establish an endowment and/or relevant expressions, such as the investment of the contributions and the restricted use of investment income, if any.
- The donor's restrictions and conditions should be within the University's capacity and in accordance with the University's policies and objectives.
- The minimum required principle value is \$50,000 (the "Minimum Value Requirement"). If the contribution is spread over multiple payments, and the initial deposit is less than \$50,000, a signed contribution schedule is required for the account to be considered an endowment at the time of establishment.

### Establishing a New Account

If the endowment donation meets the minimum requirements, the development officer or the receiving representative should contact External Funds Accounting to establish a new endowment account via the following steps:

1. Compile an endowment package, comprised of all signed agreements, relevant documentation, and a copy of the check (or other means of payment).
2. Submit the completed Request for New Account Form (Exhibit A) along with the endowment package to External Funds Accounting, located at Hughes Administration Center 335 (HC335).

Please allow up to 7 business days for proper account set up. Upon completion, the development officer or representative will receive an acknowledgement memo detailing the account information.

## **II. Spending Allowance**

### Overview

USD's endowment pool is intended to support current and future operations of the University. As such, the spending policies are designed to maintain the value of the pool over time, in order to preserve the future purchasing power of the assets.

Effective from the fiscal years commencing July 1, 2004, endowment accounts must satisfy the following criteria before a spending allowance will be granted:

- Donated principle must be invested in the University's investment pool for at least three full quarters (the "3-Quarter Requirement").
- At the time of spending allowance calculation, the endowment's fair market value (the "FMV") at the most recent fiscal year-end must exceed its donated principle value.
- The endowment principle must meet or exceed the Minimum Value Requirement at the time the account was established.

### Calculation

Spending allowances will be calculated in the Spring for each new fiscal year. A final schedule will be forwarded to the President and the Vice Presidents by March 31<sup>st</sup>. Copies will also be forwarded to Deans and other departments such as Financial Aid and University Relations.

The University's spending allowance rate is 4% of the trailing 3-years average of the endowment's FMV. The FMV is the sum of the endowment principle, and the accumulated realized and unrealized earnings. The investment pool's realized and unrealized earnings are allocated to the endowment funds on a quarterly basis by External Funds Accounting.

Certain endowment funds include non-productive assets. These assets cannot be invested in the investment pool and therefore do not generate income to support expenses. As such, the endowment's FMV is reduced by these assets for the purpose of spending allowance calculations.

To better illustrate the spending allowance calculation process, below is an example of an 04/05 spending allowance calculation:

**04/05 Spending Allowance = (6/30/01 FMV + 6/30/02 FMV + 6/30/03 FMV) / 3 x 4%**

- \* **6/30/01 FMV** = 6/30/01 Endowment Principle + 6/30/01 Accumulated Realized Earnings + 6/30/01 Accumulated Unrealized Earnings
- \* **6/30/02 FMV** = 6/30/02 Endowment Principle + 6/30/02 Accumulated Realized Earnings + 6/30/02 Accumulated Unrealized Earnings
- \* **6/30/03 FMV** = 6/30/03 Endowment Principle + 6/30/03 Accumulated Realized Earnings + 6/30/03 Accumulated Unrealized Earnings

A spending allowance is calculated for all endowment funds established as of the most recent fiscal year-end (6/30/03 - for the example above). Any new endowment funds fulfilling the 3-Quarter Requirement will be reviewed as needed. The spending allowance calculation is subject to adjustments, such as Board granted exceptions and agreed-upon donor restrictions, before arriving at the final allowance amount.

### **III. Account Maintenance**

#### Overview

Once an endowment account is established, the designated project managers will have access to the information in the Oracle Project Accounting System. The acknowledgement memo issued by External Funds Accounting provides account information for depositing revenue and charging an expense. Designated project managers should regularly monitor their account status for compliance with restrictions and spending limitations.

#### Deposit of Contribution

Funds should be deposited into the endowment account in a timely manner. The 3-Quarter Requirement for spending allowance purposes starts on the day the fund is invested in the investment pool. In other words, the 3-Quarter Requirement starts on the date funds are deposited into a USD account and not on the date of the donor's check or cash receipt.

#### Endowment Account Expenditures

It is important that all expenses incurred are compliant with the donor's restriction. Use the POETS code provided on the acknowledgement memo, and follow the Procurement Policy 7.0.3 to properly charge your endowment accounts. If expenses were charged to a different account in error, request a transfer through External Funds Accounting.

## Transfers

Submit the Journal Entry Request Form (Exhibit B) to transfer expenses from one account to another. The transfer must be reasonable and justified. An electronic version of the Journal Entry Request Form can be found on the Controller's website. A transfer can also be requested through a memo. Please include POETS coding information for the accounts involved, indicate the amount(s) to charge and credit for each account, and provide a brief reason for the transfer. Please attach supporting documentation to your memo or Journal Entry Request Form.

## **IV. Financial Standing at Year-End**

### Overview

The spending allowance represents the available budget for the endowment during the fiscal year. The approved amount is available by March 31<sup>st</sup> and uploaded to Oracle by June 30<sup>th</sup>, for the new fiscal year. Project managers should plan their expenditures accordingly to ensure adequate funding throughout the year.

### Unspent Balance

The spending allowance is simply a budget amount and, therefore, only the actual expenses charged will reduce your endowment's FMV. Any unspent allowance will be carry-forwarded to the next fiscal year, as an addition to the calculated spending allowance for that year. This carry-forwarded amount will not be finalized until Accounting closed the fiscal year. The finalized amount will be uploaded to your Oracle budget by October 31<sup>st</sup>.

### Over-Spending

Random audits are performed to ensure compliance of endowment spending limits and donor imposed restrictions. Expenditures in excess of the spending allowance will be funded by either the department's unrestricted operating budget or through another funding source as designated by the Dean or respective Vice President. Project managers are strongly encouraged to monitor their accounts on a regular basis to ensure compliant spending.

## **CONTACT INFORMATION**

For information concerning these procedures for your department's designated endowment accounts, please contact External Funds Accounting at x 4398, Hughes Administration Center 335.

For information concerning the administration of investments and investment policy, please contact Budget and Treasury at x 4683, Hughes Administration Center 335.

## Exhibit A –Request for New Account Form



**External Funds Accounting**  
**Post Award - Request for New Restricted Award**  
 Remit this form to Accounting, HC335.

Restricted Type:  
 Gift/Donation (N)  
 Endowment (E)

**Project Title** \_\_\_\_\_  
(Maximum 25 characters with space.)

**Project Period** \_\_\_\_\_ **Owning Organization** \_\_\_\_\_

**Sponsor/Donor** \_\_\_\_\_

**Key Members** \_\_\_\_\_ **Procurement Authorized Signers** \_\_\_\_\_

PROJECT MANAGER I \_\_\_\_\_

PROJECT MANAGER II \_\_\_\_\_

PROJECT MAINTENANCE \_\_\_\_\_  
(View Only)

PROJECT MAINTENANCE \_\_\_\_\_  
(View Only)

**Purpose/Donor Restrictions** (Attach sponsor/donor agreement if applicable)  
 \_\_\_\_\_  
 \_\_\_\_\_

**Requested By** \_\_\_\_\_  
(Name) (Ext.) (Date)

### ACCOUNTING USE ONLY

**Department No.** \_\_\_\_\_ **USD Proposal No.** \_\_\_\_\_

- Fund Group**
- \_\_\_ Current – Unrestricted
  - \_\_\_ Current – Auxiliary
  - \_\_\_ Current – Restricted (03)
  - \_\_\_ Endowment (05)
  - \_\_\_ Loan
  - \_\_\_ Unexpended/Debt Service
  - \_\_\_ Plant
  - \_\_\_ Agency

- Expenditure Classification**  
(Other than Auxiliary Enterprises)
- \_\_\_ Instruction (H)
  - \_\_\_ Research (B)
  - \_\_\_ Academic Support (D)
  - \_\_\_ Student Services (G)
  - \_\_\_ Institutional Support (E)
  - \_\_\_ Operation & Maintenance of Plant (J)
  - \_\_\_ Scholarships (A)
  - \_\_\_ Athletics & Recreation (F)
  - \_\_\_ Public Service (C)

- Revenue Classification**  
(Other than Auxiliary Enterprises)
- \_\_\_ Contributions - CON
  - \_\_\_ Tuition & Fees - TUI
  - \_\_\_ Athletics & Recreation - ATH
  - \_\_\_ Other Revenue – OTH
  - \_\_\_ Federal Grants & Contracts - FGC
  - \_\_\_ Other Grants & contracts - OGC

- Net Asset Classification**
- \_\_\_ Unrestricted Undesignated (UU)
  - \_\_\_ Unrestricted Designated (UD)
  - \_\_\_ Temporarily Restricted (TR)
  - \_\_\_ Permanently Restricted (PR)

## **Exhibit A – Request for New Account Form**

### **USD External Funds Accounting Request for New Restricted Account Glossary of Terms**

<b>Terms (in order of appearance)</b>	<b>Description</b>
<b>Project Name</b>	The project title will be used as the name of the account. It is limited to 25 characters including any spaces. Please carefully consider the wording and use this account name for all future references. A general rule for naming new account is to include the last name of the donor and the purpose of the donation.
<b>Project Period</b>	This applies to any restricted gifts having a specific project period per the agreement. Insert N/A if it does not apply to your project.
<b>Owning Organization</b>	This is the organization that "owns" the project. It is the "O" in the POETS code.
<b>Sponsor/Donor</b>	Insert the name of the granting organization, donor, or project sponsors.
<b>Key Member(s)</b>	Key members represent the employees authorized to access the project data via Oracle. Security levels are as such: <u>Project Managers</u> - Project Manager I is the key manager with complete access to the project details (including payroll) and the primary authorized signer for the account. Project Manager II is any individual designated as having complete access to the project details, but not necessarily having authorized signer ability. Both Project Manager I & II can add or delete key members within their Oracle project. <u>Project Maintenance</u> - These users will only have access to non-payroll data in the Oracle system.
<b>Procurement Authorized Signers</b>	List the names of all personnel authorized to approve expenditures for this account. NOTE: Project Manager I is an authorized signer by default. Both Project Manager I & II can assign new authorized signers or delete existing signers via the Oracle system. They can also assign approval limits to each individual signer.
<b>Purpose/Donor Restriction</b>	Use this section to highlight the key criteria and/or restrictions such as the purpose of a grant, limitation for the use of a gift, or required qualification for a scholarship.
<b>Requester</b>	Insert the name of the person requesting this new account. Please also include the name of the main contact (if different from requester) for questions and additional information.



**Exhibit B – Journal Entry Request Form**

**Sample Request with notes**

<b>Journal Entry Request Form</b>							
Forward completed from to the Controller's Office at HC335, or via fax at x4813.					Note: Amounts in this column will increase YTD Actuals.	Note: Amounts in this column will decrease YTD Actuals.	
Project Accounting Expenditure Code							
"P"	"O"	"E"	"T"	"S"	DEBIT (Charge expense to project)	CREDIT (Reimburse expense to project)	
Project	Organization Name	Expenditure Type	Task	Source			
Insert data below this row:							
CONT00000	Controller	Supplies Other	00	10000	25.27		
BUDT00000	Budget and Treasury	Miscellaneous	00	10000		25.27	
<p>It is very important that all POETS information is entered with the correct spacing, case, complete expenditure type, complete task and source. The POETS Pointers is a great reference tool.</p> <p><a href="http://www.admin.is.sandiego.edu/images/docs/POETSpointers.xls">http://www.admin.is.sandiego.edu/images/docs/POETSpointers.xls</a></p>							
If additional rows are needed, insert above this row.					Total	25.27	25.27
						0.00	
Prepared by:	_____				Note: This cell should always equal zero after completion of request form.		
Authorized by:	_____		Note: Required field. A hard copy with signature must be forwarded if the authorized signer is not the person whom prepared this form.				
Date Prepared:	_____				Note: Required field. Include description of why the transfer is being done.		
Comment:	To reimburse Budget and Treasury for supplies purchased for Controller with Budget and Treasury bookstore card.						

This form is used to transfer actual expenses from one project to another project OR to correct coding errors that cannot be corrected through the Accounts Payable/Procurement process. This form is for actual expenses only and cannot be used for revenue, asset or liability GL accounts. THIS FORM IS NOT USED TO MOVE BUDGET. The example above is a reimbursement for supplies purchased for one project by another project. Other examples include a transfer for attending an on campus event, or a correction to coding for bookstore, journal entry, or cash receipt transactions. If you have questions regarding the transactions you are attempting to record, please contact the Accounting Office.