

# FUND ACCOUNTING TRAINING

Module 3

## Endowment and Similar Funds – Other Than State

The University of Texas System

# OBJECTIVES

- Gain an understanding of Endowment and Similar Funds, Other Than State
- Review different types of endowments and endowment transactions

# ENDOWMENT AND SIMILAR FUNDS – OTHER THAN STATE

Endowment and Similar Funds, Other Than State 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

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

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

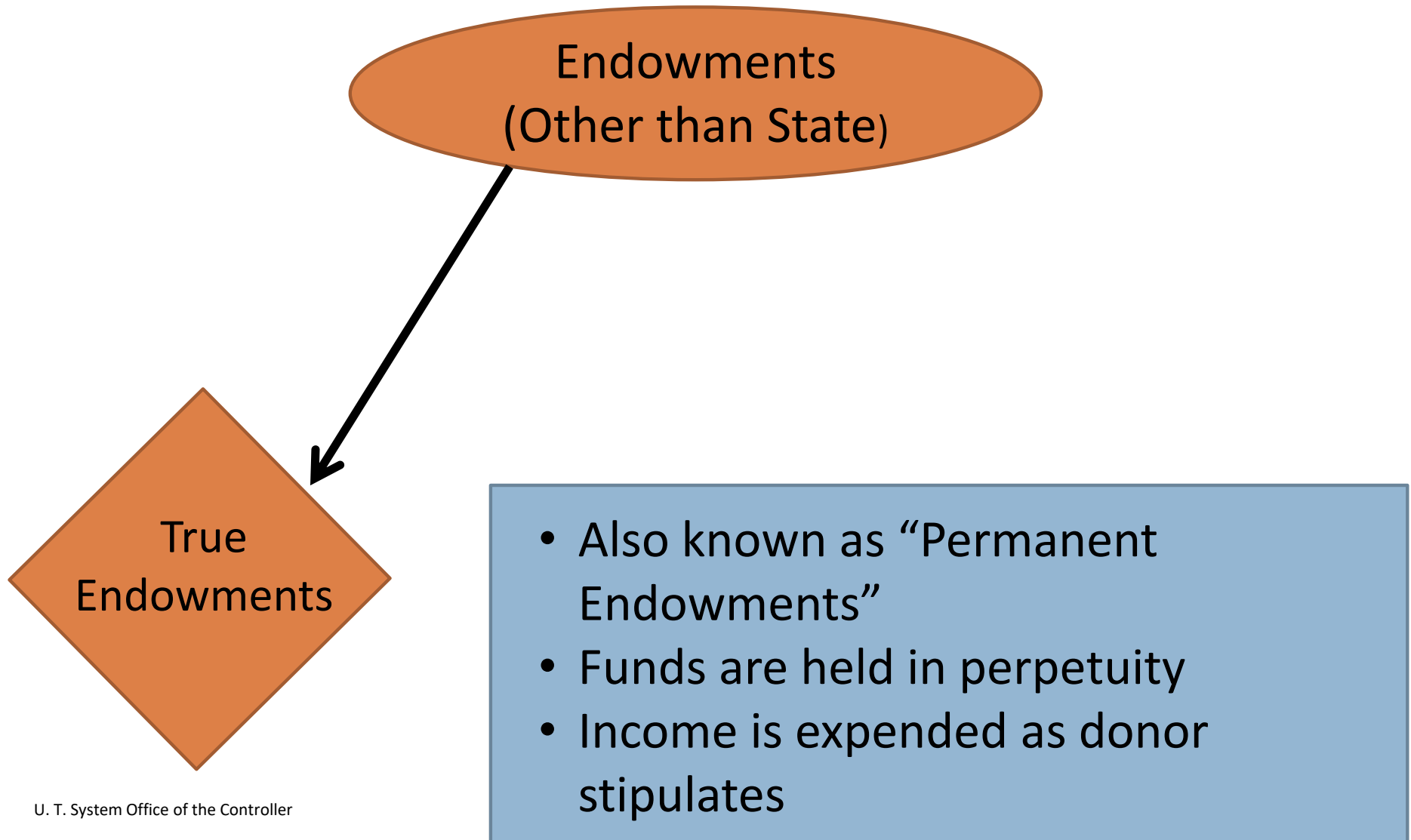
Term Endowments function like “True” Endowments until the passage of a specified period of time or the occurrence of a specific event.

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 would transfer to Loan Funds.

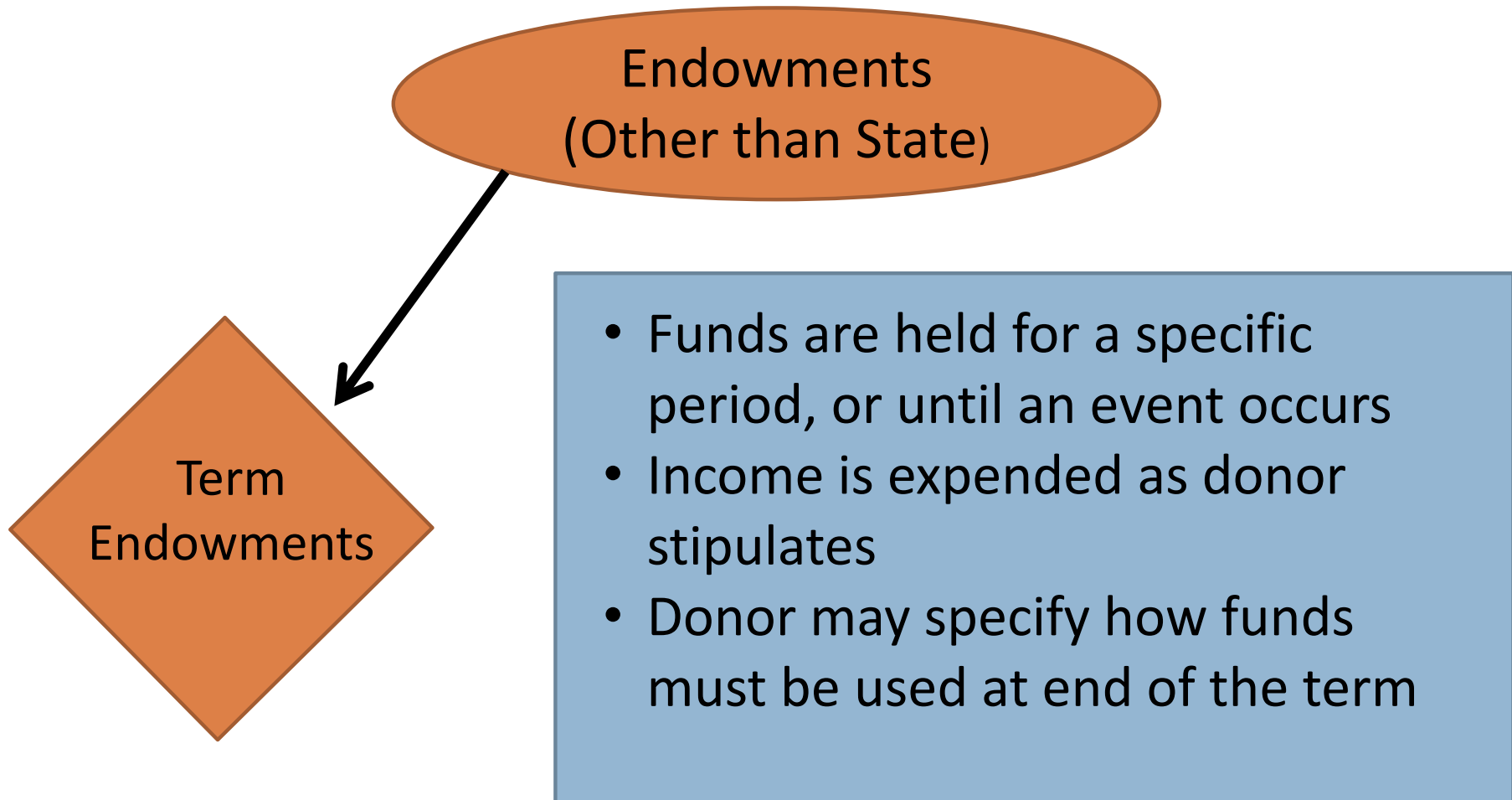
# ENDOWMENT FUNDS (CONTINUED)

“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.” Funds functioning as Endowment may be restricted or unrestricted, depending on donor specifications. Board/management may reverse its decision at any time.

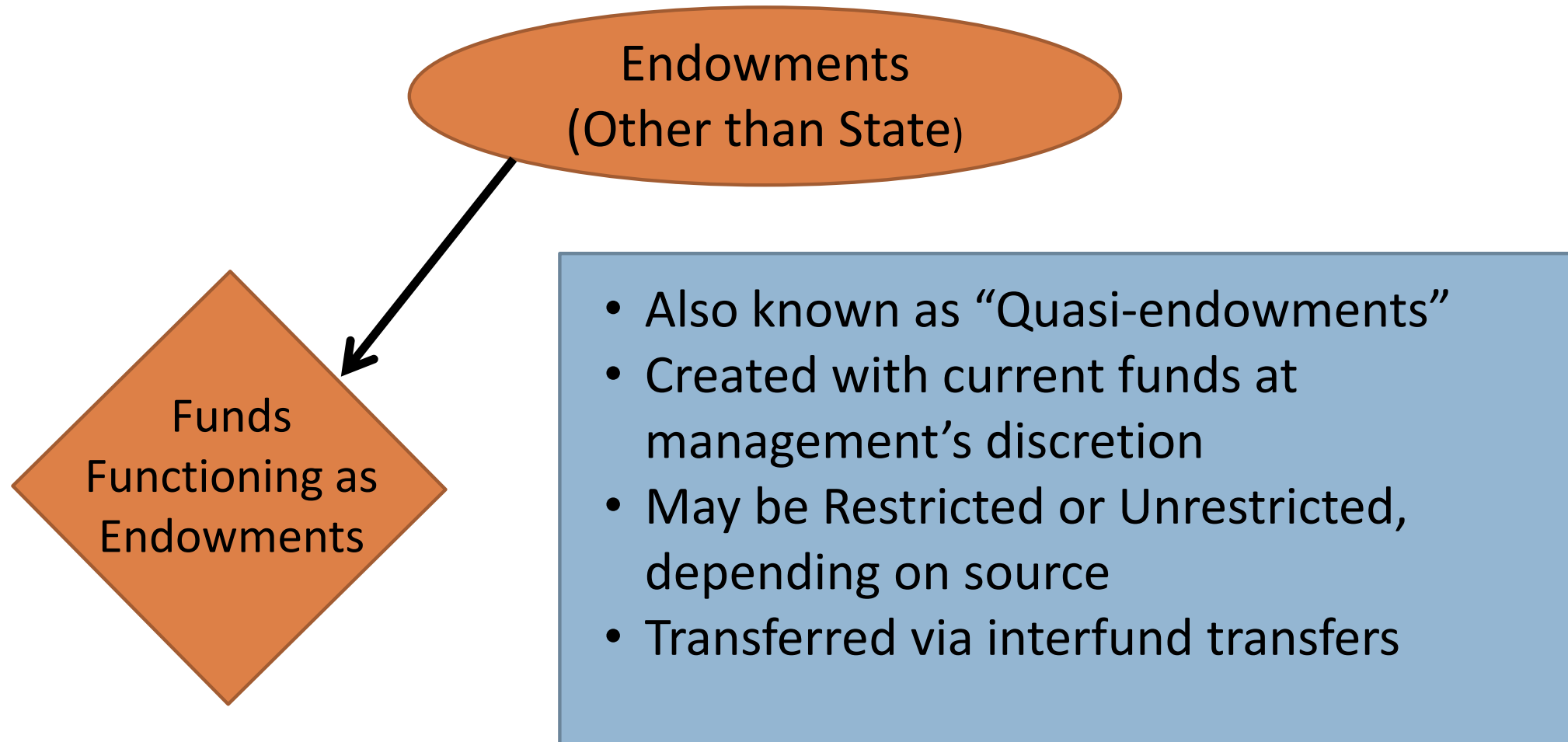
# ENDOWMENT FUNDS (CONTINUED)



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# ENDOWMENT FUNDS (CONTINUED)

Assets include, but are not limited to, Cash and Cash Equivalents, Securities Lending Collateral, Restricted Investments, Accrued Interest Receivable, Investment Trades Receivable.

Liabilities include, but are not limited to, Investment Trades Payable and Securities Lending Obligation, which is an offset to the cash collateral received in exchange for securities on loan to brokers/dealers.

Note: U. T. institutions report endowments as “Funds Held by System Administration” on their Statement of Net Position.

Investments in True, Term, and Funds Functioning as Endowment – Restricted should be reported as Restricted Investments or “Restricted Funds Held by System Administration” and Investments in Funds Functioning as Endowment – Unrestricted should be reported as Unrestricted Investments or “Unrestricted Funds Held by System Administration.”

# 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 fair 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 Long Term Fund (LTF) which is part of the General Endowment Fund (GEF).

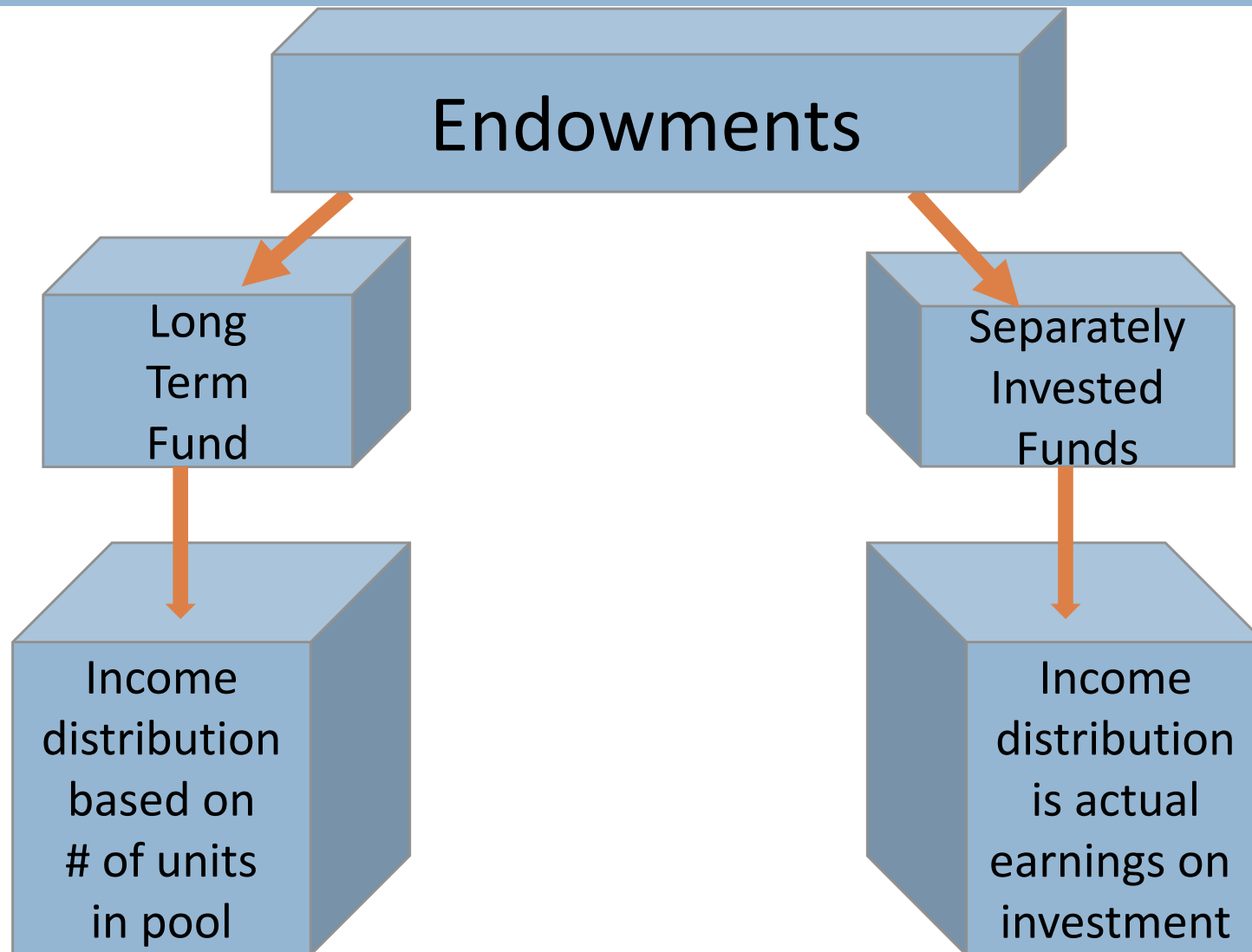
Most of the endowment assets for the U. T. System are invested in the LTF. Assets invested in the LTF receive a quarterly, set payout established by the Board of Regents. The payout is calculated by multiplying the number of units owned by each endowment account times the payout rate established by the 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 (SIA) 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 (regardless of whether they hold LTF or Separately Invested Assets) as “Funds Held for Institutions” and “Funds Held by U. T. System,” respectively, on their Statement of Net Position.

# ENDOWMENT FUNDS (CONTINUED)



# JOURNAL ENTRY EXAMPLE

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

<b>Account/Transaction Description</b>	<b>Dr.</b>	<b>Cr.</b>
<b>Restricted Funds</b>		
Cash	10,000	
Gift Contributions for Operations (Increases Net Position)		10,000
Interfund Transfer Out (Reduces Net Position)	10,000	
Cash		10,000

# JOURNAL ENTRY EXAMPLE

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

<b>Account/Transaction Description</b>	<b>Dr.</b>	<b>Cr.</b>
<b>Endowment &amp; Similar Funds (Other than State)</b>		
Cash	10,000	
Interfund Transfer In (Increases Net Position)		10,000

# JOURNAL ENTRY EXAMPLE

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

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 Position)</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 Position)		500
<p>*Assumes a 5% distribution rate.            Calculation: 100 units x (\$100/unit x 5%) = \$500</p>		

Note: Income from Funds Functioning as Endowment - Unrestricted should not be recorded to Restricted Funds, and instead should be recorded to an unrestricted fund group, such as Designated Funds

# 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 Position)	10,000	
Cash		10,000
<b>Restricted Funds</b>		
Cash	10,000	
Interfund Transfer (Increases Net Position)		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.

[Fund Accounting Training](#)