

ENDOWMENTS

A PRIMER

JANUARY 14, 2013

Endowments – a Primer

Definition:

- Financial asset donation
- To non-profit group or institution
- Investment funds (principal/capital)
- Has a stated purpose at the bequest of the donor

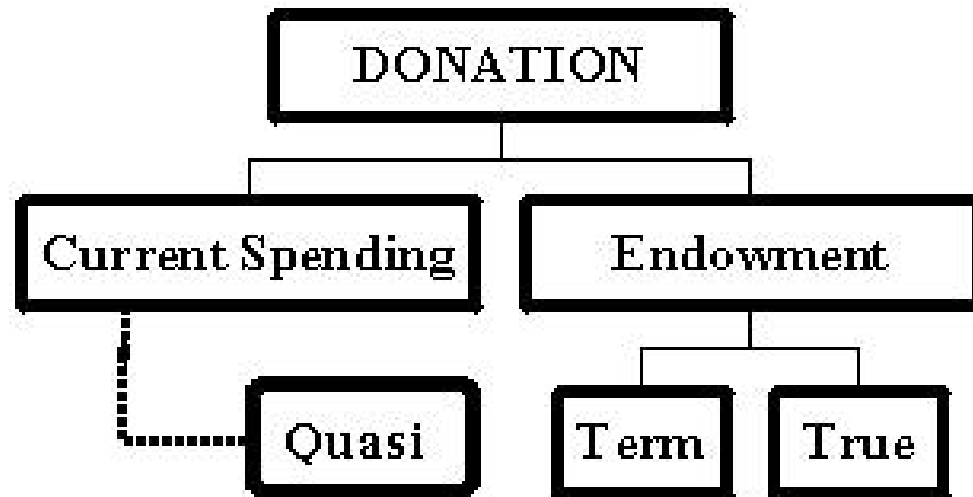
Endowments – a Primer

What makes endowments special:

- Endowment funds are invested in the University's Consolidated Endowment Pool
- Earn interest while keeping endowment principal intact
- Fund future years
- Some cases allow a combination of principal and interest to be spent (true vs quasi)
- Subject to NY State Law (NYPMIFA)

Types of Endowments

- True
- Quasi
- Term



True Endowment

- Created by donor stipulation
- Evidenced by a gift agreement or bequest
- Usually has a specific purpose
- Principal invested and held in perpetuity
- Income earned on principal investment is spendable

Quasi Endowment

- Established by the school management, not donor
- Principal invested but can also be spent
- Income earned on principal investment is spendable

Term Endowment

- Similar to true endowment, but less common
- Created by donor intent
- Evidenced by gift agreement or bequest
- Principal invested and earns spendable interest
- Principal can only be expended upon a specified passage of time or the occurrence of a particular event

Endowments – Development at Steinhardt

Kathy Heins

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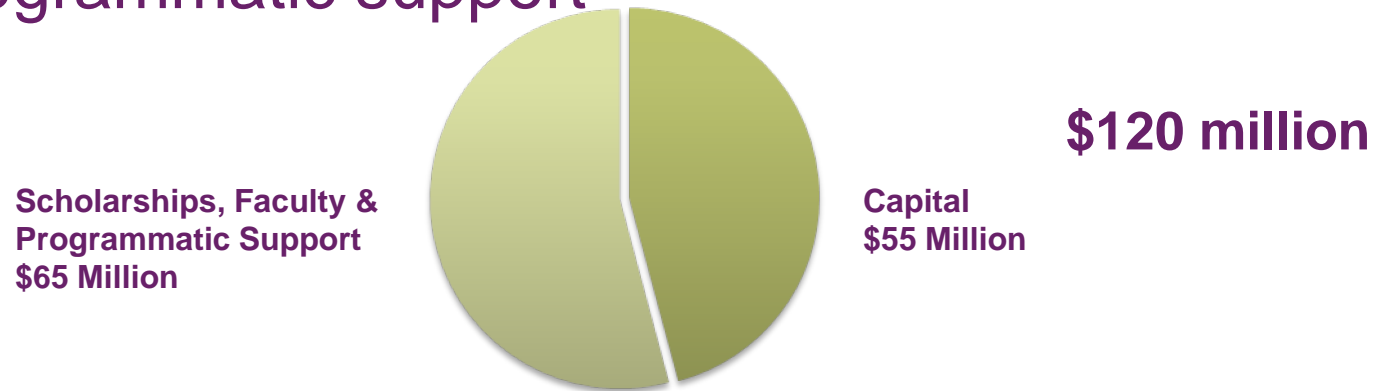
Introduction

- Steinhardt UDAR Team: 7 members
- 3 Major Gift Officers
- Partner with Dean Brabeck, other university & volunteer leadership, faculty
- Focus on major gifts
- Smaller gifts managed by UDAR annual fund team



2010-2018 NYU Comprehensive Campaign

- Quiet phase of \$5 billion campaign
- Goal finalized when public phase begins
- Steinhardt goal \$120 million
- \$120 million includes \$55 million for capital
- Remaining \$65 million for scholarships, faculty, programmatic support



NYU Steinhardt Fundraising Key Facts

- Steinhardt donor base = 5,000 gifts per year on average
- FY12 - \$13,600,000 raised
- 33 gifts at \$100,000+ equaled \$10 million (74%) raised in FY12



Expendable vs. Endowed Gifts

- Expendable gifts
 - Provide more immediate impact
 - No minimums
- Endowed gifts
 - Smaller impact in perpetuity
 - Spend small portion according to University policy
 - Establish lasting legacy @ NYU
 - Subject to Board-established minimums

Endowments are:

- Governed by a gift agreement or foundational document typically:
 - Drafted by UDAR staff and signed by donor
 - Countersigned by Dean and UDAR leadership to accept any restrictions on behalf of the university

Who Funds Endowments?

- Stages of donor engagement: **annual gift** → **major gift** → **ultimate gift**
 - Annual Gift** (unrestricted, small, low decision threshold)
 - Major Gift** (larger, restricted, higher decision threshold)
 - Ultimate Gift** (largest, restricted, even higher decision threshold)
- Endowments are most often....
 - Named for a single donor (multi-donor endowments rarely equal success)
 - Given by an individual during their lifetime or as a bequest
 - Donor has a pattern of consistent giving regardless of size of gifts

Endowment minimums

- Set as part of NYU's fundraising guidelines
- Most often paired with naming opportunities
- Based on competitive marketplace
- Recently revised by NYU Board of Trustees



Minimum Amounts for Steinhardt Faculty Support

- Professorships
 - Distinguished: \$4 million
 - Full: \$3 million
 - Assistant/Associate: \$2 million
 - Visiting: \$1.5 million

Minimum Amounts for Steinhardt Student Support

- Undergraduate Scholarships
 - \$100,000 unrestricted
 - Academic merit &/or financial need restriction OK
 - \$250,000 with other restrictions
 - These include department/academic specialty, publicity requirements, financial reporting, qualifications, identification of scholars, etc.
- Graduate Fellowships
 - \$250,000 unrestricted
 - Financial need & departmental/academic specialty restriction OK
 - \$500,000 with other restrictions



Review: UDAR Gift Policies

- UDAR processes contributions to NYU
 - Checks for endowment contributions accepted like those for other contributions
 - Checks and accompanying documentation delivered to Josh Schaier, 25 West 4th Street, 3rd Floor, Ext. 8-6931
 - UDAR issues IRS-required receipt
 - Other acknowledgment letters are welcome, should not reference dollar amount
 - Usual clearance protocols apply

Endowments – Administration

Kevin Shortt

Manager, Accounting Services & Investment
Accounting and Reporting

NYU Financial Operations and Treasury

General and Restricted Accounting Role

- Manage accounting for the consolidated endowment pool
- Creation of program codes for new endowments
- Preparation of donor reports, as requested
- Review fund assignments to ensure proper classification in the consolidated financial statements

Consolidated Endowment Pool

- Contains all endowed funds regardless of restrictions
 - True
 - Quasi
 - Term

Creation of an Endowment

- When the gift is received, the funds are deposited by the Office of Gift Administration within a University controlled account.
- The Office of Gift Administration will notify Financial Reporting of the gift and its stipulations and request an account. Financial Reporting will then create a new program for this gift in one of the funds in the 41-46 range.
- Financial reporting will then wire the received funds into the endowment pool.

Creation of an Endowment

- Financial Reporting will notify the school fund administrator and other interested parties of this new endowment fund by sending them an “Opening Letter”.

Creation of an Endowment

| Fund | Description |
|-------------|-----------------------------------|
| 40 | Investments |
| 41 | Quasi Endowment Restricted |
| 42 | Quasi Endowment Unrestricted |
| 43 | Term Endowment Temp Restricted |
| 45 | True Endowment under NYPMIFA |
| 46 | True Endowment NYPMIFA Opt out |

Creation of an Endowment

- New gifts buys units in the pool.
- Purchase Price is unit market value of the prior month.
- Gift: \$100,000.
- Gift invested 09/2012
- August Unit Market Value
\$228.93
- New gift buys 436.81 units

Principal, Income and Spending

Principal

- Donor restricted permanent fund's principal (fund 45 and 46) to be held in perpetuity. Corpus may be invaded prudently with passing of New York Prudent Management of Institutional Funds Act (NYPMIFA) in September 2010.
- Certain donors have opted out of the new law, those principals may not be invaded. (Fund 46)
- Board Designated Funds may be spent in full with approval of board/school management.

Income

- Endowment income is distributed to individual endowment funds and posted to their respective Fund 21 programs.
- Endowment income from Funds 45 and 46 is classified as temporarily restricted until appropriated for expenditure (spending distribution). Accumulated unspent earnings remain temporarily restricted.
- Income from board designated funds is classified as unrestricted. These funds are following the NYU spending policy, however, all accumulated earnings and principal may be spent with proper approval from school management/board.

Spending

- Annual spending distribution rate is determined by NYU's Board of Trustees.
- Based on a 12 quarter moving average of the Consolidated Investment.
- Distributions are made over 10 months (October-July).

Endowment Facts

- The Consolidated Endowment pool's market value as of 8/31/12 was \$2.9 billion.
- Approximately 2,200 true endowments and 650 board designated endowments.
- Total investment return for FY'12 was \$71 million.

Asset Allocation

- The Consolidated Endowment Pool is invested with 148 investment vehicles.
- Asset Allocation :
 - 11% Fixed Income
 - 46% Equity
 - 31% Opportunistic and Credit
 - 10% Real Assets
 - 3% Other

Endowments – Day to Day Operations

Anthony Heyward
Grants Administrator, Administration and
Finance
NYU Steinhardt

Chartfield

- The majority of Steinhardt's endowment chart fields are:
- 21-55000-EExxx
- There are no project numbers.
- The fund 21s are interest income accounts.
- Funds 41-47 are principal accounts.
- The principal accounts have the same org and program number as the interest accounts.

For Endowments run the Fund Balance Report

- For Funds 10, 24, and 25 use your BSR.
- For Funds 20-22 always use the Fund Balance Report.
- This report shows the true funds that you have available.

How to Identify Your Fund Balance

- Fund 21
- Org 55000
- Program EEXXX
- Project WSQPJ
- Fiscal Year 2012
- Month January

How to Read Your Fund Balance

- Fund Balance - this is last year's money (August FY 2011) which rolls over into this year (September FY 2012)
- Revenue - this is the interest which is generated off the principal. This used to be provided in one lump sum around October-November.
- Now it is provided in monthly increments at 10%.
- For example your yearly revenue is \$10,000 then your monthly amount is \$1,000.
- Expenses - what you spent so far. The majority of these funds are used for financial aid in the forms of scholarships and stipends. There are about nine accounts that are used for endowed chairs salaries.



FUND BALANCE REPORT

Version: 1.1.1

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Run Date : 01/13/2012

Run Time : 01:27:32 PM

Data Refreshed as of : 01/12/12 10:48 PM

FUND : 21 - Expendable Endow Income Unrest
 ORG : 55000 - Dean's Office
 PROGRAM : EE425 - Adrian Levy Fnd
 PROJECT : WSQPJ - WSQ Non Project Default
 FISCAL YEAR : 2012
 MONTH : January

Amount Posted to GL

| Account | -A- Original Budget | -B- Revised Budget | -C- Current Month | -D- Year To Date | -E- Inception To Date | -F- Encumbrance Amount | -G- Balance (B-D-F) |
|--|---------------------------|--------------------------|-------------------------|------------------------|-----------------------------|------------------------------|---------------------------|
| FUND BALANCE | | | | | | | |
| FB | | | | | | | |
| 30000 Fund Balance Account | 0.00 | 0.00 | 0.00 | 56,826.62 | 0.00 | 0.00 | 0.00 |
| SubTotal FB | 0.00 | 0.00 | 0.00 | 56,826.62 | 0.00 | 0.00 | 0.00 |
| TOTAL FUND BALANCE | 0.00 | 0.00 | 0.00 | 56,826.62 | 0.00 | 0.00 | 0.00 |
| REVENUE | | | | | | | |
| Revenue | | | | | | | |
| 42120 Endow Inc - CEP Income | 20,286.97 | 20,286.97 | 0.00 | 4,057.40 | 4,057.40 | 0.00 | 16,229.57 |
| SubTotal Revenue | 20,286.97 | 20,286.97 | 0.00 | 4,057.40 | 4,057.40 | 0.00 | 16,229.57 |
| TOTAL REVENUE | 20,286.97 | 20,286.97 | 0.00 | 4,057.40 | 4,057.40 | 0.00 | 16,229.57 |
| EXPENSE | | | | | | | |
| OTPS | | | | | | | |
| 61021 Student Aid-Stipends-Graduate | 0.00 | 0.00 | 0.00 | 1,000.00 | 1,000.00 | 0.00 | -1,000.00 |
| 61022 Student Aid- Stipends-Doctoral | 6,000.00 | 6,000.00 | 0.00 | 0.00 | 0.00 | 0.00 | 6,000.00 |
| SubTotal OTPS | 6,000.00 | 6,000.00 | 0.00 | 1,000.00 | 1,000.00 | 0.00 | 5,000.00 |
| TOTAL EXPENSE | 6,000.00 | 6,000.00 | 0.00 | 1,000.00 | 1,000.00 | 0.00 | 5,000.00 |
| Fund Balance and Revenue less Expense | | | | 59,884.02 | | | |

The Calculation (or how much do I have?)

- Do not look at column G (Balance) you may become confused.
- Instead, look at column D and calculate:
 - Total opening fund balance (roll over money)
 - + Total Revenue
 - Total Expenses
 - = Total fund balance available for spending
- Spending is limited by what is budgeted.
- We will set up your budget based upon the expenses that you either need or based upon historical spending.

Principal Account Notes

- Funds 41-47
- Same org and same program as its fund 21.
- Fund balance account
- Corpus - historic book value of gifts put into the program.
- Market value - # of shares times the unit share price.
- Under water - when the corpus is lower than market value after distributing this year revenue.