Business Process - Accounting for Gifts and Endowments
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UNIT 1 - Introduction and Key Assumptions

101 Changes in This Revision

Changes made in this revision of the document basically consist of the following:

- Updated to delete references to the Benefactor system.
- Clarifying language added to paragraph 502 of unit 5 regarding budgeting and calculating the endowment income distribution.

102 Introduction

This document explains how to account for gifts and endowments in our current general ledger system. Properly accounting for such items is a shared responsibility of the System Office and the Campuses. Throughout this document, gifts that are not invested in an endowment will be referred to as ‘expendable gifts’ and gifts invested in an endowment will be referred to as ‘endowments.’

103 Key Assumptions

This document has been written with the assumptions that the reader is familiar with:

- General ledger chartfields and their use
- GL Inquiry
- The GL Reports Home Page within the PeopleSoft (PS) Financials System
- Running reports from the Advance system
- The following documents:
  - Administrative Practice Letter V-B, “Gift Administration”
  - Administrative Practice Letter V-D, “Charitable Gift Annuities”
  - Board of Trustees Policy 706, “Acceptance of Gifts, Development Activities & Fund Raising Campaigns”
  - Journal entry support document, “Excel Journal Entry”
  - Business process document, “Journal Entry for Budget Adjustments & Transfers”
  - Business Process document, “Requesting a Program – Completing the Program Create Form”

104 Definitions

The following definitions apply throughout this document.

**Designated**
- Earmarked by management for a particular purpose or use. Management may change the designation at any time.

**Endowment, Funds Held for Others**
- Endowments that are held on behalf of another entity. These endowments represent a liability of the System.

**Endowment, Quasi**
- Funds that have been established by the governing board to function like an endowment but that may be expended at any time at the discretion of the board.
<table>
<thead>
<tr>
<th>Fund Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment, True</td>
<td>Funds received from a donor with the restriction that the principal is not</td>
</tr>
<tr>
<td></td>
<td>expendable.</td>
</tr>
<tr>
<td>Endowment, Term</td>
<td>Funds received from a donor for which the donor stipulates that the</td>
</tr>
<tr>
<td></td>
<td>principal may be expended after a stated period of time or upon the</td>
</tr>
<tr>
<td></td>
<td>occurrence of a certain event.</td>
</tr>
<tr>
<td>Restricted</td>
<td>Earmarked by the donor or some other outside party for a particular</td>
</tr>
<tr>
<td></td>
<td>purpose or use. Management may not change the restriction.</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>Not earmarked by the donor or some other outside party for a particular</td>
</tr>
<tr>
<td></td>
<td>purpose or use. Management may or may not have designated the item for a</td>
</tr>
<tr>
<td></td>
<td>particular purpose.</td>
</tr>
</tbody>
</table>
UNIT 2 - Interaction of Gift Software with the General Ledger

201 General

Currently, the University of Maine System (UMS) uses the Advance System (Advance) to track receipts of gifts and endowments. Advance uses ‘Allocations’ as the equivalent of a general ledger program code. When a new program is established in the general ledger system, a corresponding Allocation is added to Advance. The Allocation number is the same number as the general ledger program number. If the program is a true endowment, the Allocation number will have an E appended to it. If the program is a quasi endowment, the Allocation number will have a Q appended to it. The University of Maine Development Office is responsible for additions to the Allocations table in Advance.

202 Nightly Feed to the General Ledger

Advance is used by the UMS as well as several affiliated entities (e.g., foundations and alumni associations). Data is fed from Advance to the general ledger in batches. To distinguish UMS’ batches from those of other entities, we enter the letter “D” in the Bursar Batch # field (separate field from the batch id that feeds to the general ledger). Only “D” Bursar Batches are picked up by a nightly computer process and fed to the general ledger. If a combination edit error is encountered with the chart fields feeding from Advance, the transaction with the error will be credited to the applicable suspense chartfield combination shown below.

<table>
<thead>
<tr>
<th>BU</th>
<th>DEPT</th>
<th>FUND</th>
<th>ACCOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>UMS01</td>
<td>1500000</td>
<td>00</td>
<td>16000</td>
</tr>
<tr>
<td>UMS02</td>
<td>2550001</td>
<td>00</td>
<td>16000</td>
</tr>
<tr>
<td>UMS03</td>
<td>3600000</td>
<td>00</td>
<td>16000</td>
</tr>
<tr>
<td>UMS04</td>
<td>4340000</td>
<td>00</td>
<td>16000</td>
</tr>
<tr>
<td>UMS05</td>
<td>5725100</td>
<td>00</td>
<td>16000</td>
</tr>
<tr>
<td>UMS06</td>
<td>6500000</td>
<td>00</td>
<td>16000</td>
</tr>
<tr>
<td>UMS07</td>
<td>7606101</td>
<td>00</td>
<td>16000</td>
</tr>
<tr>
<td>UMS08</td>
<td>8150100</td>
<td>00</td>
<td>16000</td>
</tr>
</tbody>
</table>

When these errors occur, the campus Business Office should notify the System Accounting Department (SAD) of the error. The SAD will clear the entry out of the suspense chart field via the suspense correction page in the general ledger system.

The following information is fed into the general ledger to aid in identifying the Advance transactions:

<table>
<thead>
<tr>
<th>General Ledger Item</th>
<th>Advance Information Used to Populate the General Ledger Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source Code</td>
<td>CAV (The campus number is inserted in place of the ‘c’. For example, the source code for UM would be 5AV)</td>
</tr>
<tr>
<td>Journal ID</td>
<td>ADVxxxxxxx – the number is assigned by the general ledger system</td>
</tr>
<tr>
<td>Journal Line Reference</td>
<td>ADVANCE</td>
</tr>
<tr>
<td>Journal Line Description</td>
<td>Advance Journal Entries</td>
</tr>
</tbody>
</table>

See paragraph 204 for more information on how to identify the detailed gifts included in a given transaction recorded in the general ledger.
Several automated processes run each night to transfer information from Advance to the general ledger:

1. At midnight, the **UMFEEDER** process, which contains the sub process **UM_ADVNC**, runs in the financial system. **UM_ADVNC** is an umbrella process containing eight separate **UMAVGIFT** processes, each with a separate Run Control relating to a specific business unit (e.g., for UMA, the Run Control is ADVANCE_UMS01). **UMADVSGFT** pulls new ‘posted’ gift transactions from the Advance tables and writes them to **AV_ACCTGLN** tables.

2. At 2 a.m. the **UM_GLDLY2** process runs. This process contains several components, three of which relate to the gifts being fed from Advance:

   a. **FS_JGEN** (journal generator) creates Advance journal entries in the general ledger from the transactions previously created in the **AV_ACCTGLN** tables.
   
   b. **GL_JEDIT** edits the Advance journal entries and if they pass edit they are ready for posting to the general ledger.
   
   c. **GLPPPOST** posts the entries to the general ledger.

The two basic types of entries generated in the general ledger for the Advance data are as follows:

1. **Entry to record gift received for an existing gift/endowment program:**

   | **BU-Dept-Program-Account** | **UMS0-Cxxxxxx-00-blank-25002 Gift Clearing** | $xx Debit |
   | **BU-Dept-Program-Account** | **UMS0-Cxxxxxx-xx-Cxxxx-436xx Gifts** | $xx Credit |

2. **Entry to record gift received for a gift/endowment program that has not yet been approved and established:**

   | **BU-Dept-Program-Account** | **UMS0-Cxxxxxx-00-blank-25002 Gift Clearing** | $xx Debit |
   | **BU-Dept-Program-Account** | **UMS0-Cxxxxxx-00-blank-25001-Gifts Pending Acceptance** | $xx Credit |

   Once the gift/endowment program is established an entry is needed to debit the gifts pending account and credit gift revenue in the appropriate chartfield combination.

The amount debited to account 25002-gift clearing in both of the above illustrated entries is cleared out of the account when the daily collections are recorded in the general ledger. See paragraph 203 for more information on daily collections.

### 203 Daily Collections

**All Users Except the School of Law:**

The Schedule of Collections Report used with Advance is a preprinted form with the Campus’ gifts clearing chart field combination printed on it. Gifts are entered into Advance by batch. All gifts in a batch are totaled on an adding machine tape which is attached to the Schedule of Collections. All totals are verified and the overall total number of gifts, the total amount of gifts, and the batch Id numbers included in the deposit are manually entered on the Schedule of Collections.
The Schedule of Collections is utilized by the Business Office to record the daily bank deposit in the general ledger:

\[
\begin{align*}
    BU-\text{Dept-Fund-Program-Account} \\
    \text{UMS08-8000000-00-blank-1100x bank account} & \quad \text{\$xx Debit} \\
    \text{UMS0C-Cxxxxxx-00-blank-25002 Gift Clearing} & \quad \text{\$xx Credit}
\end{align*}
\]

Gifts fed to the general ledger through Advance create an offsetting debit in the gift clearing chartfield and a credit in the applicable gift chart field combination.

**School of Law:**

The School of Law (SOL) uses SAGE rather than ADVANCE for gift processing. The information in SAGE does not feed to the general ledger; thus, the SOL credits gifts directly into the gift chartfield combinations in the general ledger when they make a deposit rather than using a gift clearing account. Extra care is needed to ensure that the gifts and endowments per SAGE and per the general ledger are consistent.

### 204 Reconciliations

Gifts and pledge payments per Advance should be reconciled on a monthly basis with gift revenue per the general ledger to ensure that all gifts have been properly fed to the general ledger. Any variances between the two systems must be timely resolved.

The following reports from Advance and the general ledger are available to aid in the reconciliation process:

**Advance**

**Advance Allocation Summary Report** - This report prints gift totals by Allocation (general ledger program) for a selected date range. In Advance, select the Reports menu, then select the MLP Allocation Summary report, and then select “Run Report” from the Report Detail page. Enter the date ranges and other parameters as appropriate. The report prints in a new window. The detail behind each summary data line can be seen by clicking on any portion of that line. By clicking on the Export Icon, the data can be down-loaded to an Excel spreadsheet using a “File Format” option of Microsoft Excel 97-2000 – Data Only (XLS) and leaving the ALL button selected in the “Page Range” area. To prepare this file for use in **GL Reconciliation** (see below), delete all non-data lines and columns (generally, this consists of the first two and last two lines) then save it as a csv (comma Delimited) file.

**General Ledger**

**GL Reconciliation** - This report lists the total gifts recorded in the general ledger by chart field combination for a specified period and compares it to the csv file list uploaded from the Advance MLP Allocation Summary report discussed above. This report is accessed in the PeopleSoft Financials system as follows:

\[
\text{University of Maine System>General Ledger>Reports>Reports Home>GL_Reconciliation.}
\]
Several other reporting tools in the MaineStreet Financials System are available to assist in resolving reconciliation variances or in reviewing the gift accounts on a daily or other periodic basis:

**GL Inquiry** - When Advance batches are fed to the general ledger each night, gifts are recorded as a single total amount by account within each general ledger program code. The GL Inquiry tool has a special feature whereby you can drill down on any general ledger transactions fed from Advance to get all of the detail behind the total recorded in the general ledger.

By having clicked on the -$7,125.00 total from above, we see that this total is comprised of four transactions:

**Click on any underlined amount to drill down to the detail supporting the total**

By having clicked on the -$7,125.00 total from above, we see that this total is comprised of four transactions:
If the Journal Line Reference is **ADVANCE** and the Journal ID starts with ADV, simply click on the amount field again and the Advance detail will be displayed by gift. The information displayed includes dates, amounts, batch ID’s receipt numbers, donor IDs donor types, and operator IDs among other things.

By clicking on the -$625.00 above, we see that this amount represents a gift from one donor, is part of Advance batch 0000802186 processed by operator Melanson on 12/12/2011:
**UM_ADVANCE_DTL_BATCH** - This is a PS query that lists the details for all entries in an Advance batch. The query prompts the user for a ten digit ‘Session Nbr’. This is the same as a Batch ID. The query output includes chart field combinations, journal ID numbers, dates, debit and credit amounts, transactions types, batch ID numbers, receipt numbers, donor ID numbers, donor types, operator IDs, and other miscellaneous information for each gift entry in the batch.

**UM_ADVANCE_DTL_DT** - This is a PS query that lists the details for all entries for a specified date range. The output includes the same information as the UM_ADVANCE_DTL_BATCH query mentioned above.
301 Key Chart Field Values

The following chartfield values are key in the recording of expendable gifts and endowments in the general ledger:

**Fund Code - Endowments:**
- 11 Unrestricted Quasi Endowment
- 21 Restricted Quasi Endowment
- 31 Restricted NonExpendable Endowments (True Endowments)
- 51 Endowments Held for Others (Quasi)

**Fund Code - Gifts:**
- 00 Unrestricted Gifts
- 10 Designated Gifts
- 20 Restricted Gifts
- 27 University Loan Fund

**Program Code:**
- C0001 - C2099 Endowments *
- C2100 - C7499 Gifts *
* See the section of this document titled, 'Creating a Program' for more information.

**Account Code - Liability:**
- 25001 Gifts Pending Acceptance
- 25002 Gift Clearing
- 25003 Payroll Gift Clearing

**Account Code - Revenue:**
- 43600 Private Gifts
- 43610 Gifts - Governments
- 43630 Gifts - Other Non-Profits
- 43631 Gifts - UMS Foundations
- 43632 Gifts - Other Foundations
- 43633 Gifts - Pulp&Paper Foundation
- 43634 Gifts - Alumni Associations
- 43640 Gifts - Corporate Business
- 43641 Gifts - Corporate Matching
- 43643 Gifts - Corporate Foundations
- 43650 Gifts - Students
- 43660 Gifts - Individuals
- 43670 Gifts - Alumni
- 43690 Gifts - Returned to Donor
- 43692 Gifts- UMFarmgtn Fnd Pay Over
- 43693 Gifts- UMFK Foundation PayOver
- 43694 Gifts- UM Alumni Assoc PayOver
- 43695 Gifts- UM Foundation Pay Over
- 43696 Gifts -USM Fndation Pay Over
- 43697 Gifts- UMPI Foundation PayOver
- 43698 Gifts- UM Pulp+Paper Pay Over
- 43699 Gifts- Pine Tree 4H Fd PayOver
- 43840 Gifts in Kind - Corporate Business
- 43860 Gifts in Kind - Individuals
- 43870 Gifts in Kind - Alumni

**Account Code - Expense:**
- 50000 - 54999 Compensation and benefits **
- 55100 - 55199 Scholarships **
- 55200 Fellowships
- 55300 Graduate Assistant Tuition
- 60000 - 67699 Supplies and Materials **

302 Requesting a New Program Code

Expendable gifts and endowments are tracked in the general ledger through the use of the program chartfield. If a new gift or endowment is received and a program value has not yet been established in the general ledger, the Campus must complete and submit a Program Create Form following the guidance in the process document, “Requesting a Program – Completing the Program Create Form.” Once the Campus has completed the Program Create Form they should send it to the SAD for review, approval, and creation in the general ledger.

The process document, “Requesting a Program – Completing the Program Create Form”, addresses most of the information that is required on the Program Create Form. However, the following items are discussed in more detail in this document to explain how they relate to expendable gifts and endowments:

- Program Number
- Chartfield Combinations
- UMS_PROGRAM Tree Node

Program Number

As mentioned in “Requesting a Program – Completing the Program Create Form”, certain ranges of values are assigned to expendable gifts vs. endowments. Please note that expendable gifts or endowments that exist at multiple campuses have similar values with only the first digit varying to identify the business unit.

<table>
<thead>
<tr>
<th>Program Type</th>
<th>From</th>
<th>To</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowments, including income accounts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C0001</td>
<td>C0050</td>
<td></td>
<td>Endowments, Pool (System)</td>
</tr>
<tr>
<td>C0021</td>
<td>C0024</td>
<td></td>
<td>Bath Iron Works Scholarship</td>
</tr>
<tr>
<td>C0002</td>
<td>C0003</td>
<td></td>
<td>Edna Higgins Scholarship</td>
</tr>
<tr>
<td>C0003</td>
<td>C0005</td>
<td></td>
<td>Katharine O'Brien Book Fd</td>
</tr>
<tr>
<td>C0006</td>
<td>C0018</td>
<td></td>
<td>Libra Professorship</td>
</tr>
<tr>
<td>C0019</td>
<td>C0050</td>
<td></td>
<td>Unassigned</td>
</tr>
<tr>
<td>C0051</td>
<td>C1499</td>
<td></td>
<td>Endowments, Pool (Campus)</td>
</tr>
<tr>
<td>C1500</td>
<td>C1599</td>
<td></td>
<td>Endowments, Separate</td>
</tr>
<tr>
<td>C1600</td>
<td>C1699</td>
<td></td>
<td>Life Income Funds</td>
</tr>
<tr>
<td>C1700</td>
<td>C1899</td>
<td></td>
<td>Gift Annuities</td>
</tr>
<tr>
<td>C1900</td>
<td>C1999</td>
<td></td>
<td>Deferred Charitable Gift Annuity</td>
</tr>
<tr>
<td>C2000</td>
<td>C2099</td>
<td></td>
<td>Unassigned</td>
</tr>
<tr>
<td>Gift Accounts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C2100</td>
<td>C4099</td>
<td></td>
<td>UM Foundation</td>
</tr>
<tr>
<td>C4100</td>
<td>C4399</td>
<td></td>
<td>Other UMS Foundations</td>
</tr>
<tr>
<td>C4400</td>
<td>C4450</td>
<td></td>
<td>Other Expendable Gifts (System)</td>
</tr>
<tr>
<td>C4401</td>
<td></td>
<td></td>
<td>Hervey Hanscom Scholarship</td>
</tr>
<tr>
<td>C4402</td>
<td></td>
<td></td>
<td>Katharine O'Brien Book Fd</td>
</tr>
<tr>
<td>C4403</td>
<td></td>
<td></td>
<td>Development Support</td>
</tr>
<tr>
<td>C4451</td>
<td>C7399</td>
<td></td>
<td>Other Expendable Gifts</td>
</tr>
<tr>
<td>C7400</td>
<td>C7499</td>
<td></td>
<td>Unassigned</td>
</tr>
</tbody>
</table>
Chart Field Combinations

Please provide the combinations of department, fund, and project that you intend to use in combination with the requested program code. The SAD will assess the appropriateness of these combinations based on other information provided on the Program Create Form. Our goal is to help ensure that you have identified appropriate combinations before you start processing transactions.

The combination of the program and fund chart fields in particular are important in properly identifying a program as restricted or unrestricted and as an expendable gift or endowment, including the type of endowment (e.g., true, quasi, or held for others).

Typically, expendable gift programs will only have one chart field combination and will not include a project number. However, if expendable gift funds are used to fund a construction project, the project number for the construction project will be used in combination with the gift program number to record expenditure of the gift monies. See the business process document, “Accounting for Capital and Maintenance Projects” for more information.

Endowments will typically have just two chart field combinations, one for the endowment itself and one for the income distributed from the endowment. Endowment income distribution is discussed in more detail later in this document under the section titled, “Endowment Income Distribution”.

UMS_PROGRAM Tree Node

To properly account for gifts and endowments, we must identify any donor restrictions or management designations associated with the gift or endowment. The restriction and designation categories tracked in PeopleSoft GL are similar to those incorporated in the CFAE Purpose/Sub codes maintained in the Advance system. The restrictions and designations are tracked through the use of levels (nodes) on the UMS_PROGRAM tree as noted on the next page. The name of the lowest level tree node that accurately provides all pertinent information about the endowment or gift program will be indicated on the Program Create Form by SAD staff.
An up-to-date version of this tree may be seen at any time in the general ledger by following the below path in the MaineStreet Financials System:

```plaintext
Tree Manager>Tree Viewer
```
The above path brings you to the ‘Tree Viewer’ page. Enter the tree name **UMS_PROGRAM** and then select the most recent effective date from the search results.

The levels in the program tree illustrated on the previous page are discussed in general in the process document, “Requesting a Program – Completing the Program Create Form.” How the levels relate to gifts and endowments is discussed below.

<table>
<thead>
<tr>
<th>Level</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cat 1</td>
<td>This level divides the program chartfield values into various <strong>types</strong> of programs as discussed in the process document, “Requesting a Program – Completing the Program Create Form.” Please note that the preceding excerpt from the UMS_PROGRAM tree includes only the section applicable to endowments and gifts.</td>
</tr>
<tr>
<td>Cat 2</td>
<td>This level identifies the endowment programs that are part of the endowment pool, separately invested, or a pooled income fund (PIF). This level also identifies gift programs that are from the UM Foundation and from other foundations, or that are annual gifts.</td>
</tr>
<tr>
<td>Cat 3</td>
<td>This level divides programs in the endowment pool into categories based on the source of funding: gifts, charitable gift annuities, deferred charitable gift annuities, and endowments funded from other than gifts.</td>
</tr>
<tr>
<td>Cat 4</td>
<td>This level is not used for endowment and gift programs.</td>
</tr>
<tr>
<td>Restr 1</td>
<td>This level represents the broadest breakdown by donor restriction/management designation. Again, these categories are similar to the CFAE Purpose/Sub codes used in Advance.</td>
</tr>
<tr>
<td>Restr 2</td>
<td>This level provides a further breakdown of selected restrictions from the ‘Restr 1’ level.</td>
</tr>
<tr>
<td>Restr 3</td>
<td>This level provides a further breakdown of selected restrictions from the ‘Restr 2’ level.</td>
</tr>
</tbody>
</table>

**Illustration 1:** Campus A receives a $1,000 gift that is to benefit the math department per the donor’s request. In completing the Program Create Form, Campus A lists the purpose of the program as “Annual restricted gift to benefit the math department.” Based on this information, the System Office enters ‘ANN_GFT_ACAD’ on the Program Create Form as the applicable tree node for the UMS_PROGRAM tree. Follow the path from Level 2 to Restr 1 to see how the System arrived at this answer.

**Illustration 2:** A donor gives Campus A $100,000 to establish a scholarship endowment to benefit students studying accounting. In completing the Program Create Form, Campus A lists the purpose of the program as “Establish an endowment in the endowment pool to provide scholarships to accounting students per donor’s request.” Based on this information, the System Office enters ‘END_SFA’ on the Program Create Form as the applicable tree node for the UMS_PROGRAM tree. Follow the path from Level 2 to Restr 1 to see how the System arrived at this answer.

**Illustration 3:** Campus A decides to establish an endowment to provide scholarships to accounting students. Management has designated $100,000 of existing unrestricted gift monies to fund the endowment. In completing the Program Create Form, Campus A lists the
purpose of the program as “Establishment of an endowment in the endowment pool to provide scholarships to accounting students. Funding comes from existing unrestricted gifts.” Based on this information, the System Office enters ‘END_SFA’ on the Program Create Form as the applicable tree node for the UMS_PROGRAM tree. Follow the from Level 2 to Restr 1 to see how the System arrived at this answer.

Please note that the same node is used in both Illustration 2 and Illustration 3 even though the money in Illustration 2 is donor restricted and in Illustration 3 it is designated by management. The levels in the UMS_PROGRAM tree indicate how the endowment is to be spent, regardless of whether the donor makes the decision or management makes it. As previously mentioned in this process document, the fund code would identify whether the program was donor restricted or management designated. In the above illustrations the program code in illustration 2 would be used with fund code 31 to identify the program as a true endowment and the program code in illustration 3 would be used with fund code 11 to identify the program as a quasi endowment.

303 Pledges

The Campuses should record pledges and pledge payments in Advance. By University policy, departments are only allowed to spend pledges as the payments are received. Therefore, only the pledge payments will be fed daily from Advance to the general ledger.

In accordance with generally accepted accounting principles, the UMS must, however, record outstanding pledges and the related revenues in its audited financial statements. Therefore, during the interim and year-end general ledger close processes, the Campuses must provide the System Accounting Department with a listing of outstanding pledges as of March 31 and June 30. Campuses should run the Pledges Receivable and Cash Flow Report from the Advance Report menu. Based on this report, the SAD will make entries in the general ledger to record outstanding pledges not related to endowments and the related revenue, discount, and allowance for uncollectible pledges. These journal entries will be reversed on the first day of the subsequent accounting period (e.g., April 1 and July 1).

To ensure that a University department is not credited with more revenue than they are allowed to spend, the outstanding pledges will be recorded in department C000060-Audit Adjust - Inst Supp used in combination with the applicable program and fund codes. For example, pledges related to combination UMS05-5850981-20-54614 would be recorded in combination UMS05-5000060-20-54614.

Please note that pledges receivable will be classified in the general ledger and the audited financial statements as either current or noncurrent. All pledges that are restricted for capital purposes (e.g., equipment, construction, etc.) will be classified as noncurrent because they are not available to fund operations. The portion of pledges not restricted for capital purposes that are collectible within the next fiscal year will be classified as current.

Applicable account codes to be used in recording outstanding pledges include the following:

13400 – Pledges Receivable - Current
13401 – Discount on Pledges Rec
13402 - Allow for Uncoll Pledges Rec
13450 – Pledges Rec - Noncurrent
13451 – Discount on Pledges Rec
13452 – Allow for Uncoll Pledges Rec
304 Gifts-in-Kind

The Campuses should record gifts-in-kind in Advance. Please note, however, that these gifts will not be fed to the general ledger as part of the nightly feed. Instead, the SAD will periodically run a report of gifts-in-kind recorded in Advance and will process the needed journal entry to record only those gifts-in-kind that are capital in nature (e.g., land, equipment, construction materials/services, etc.). Please refer to the business process document, “Accounting for Capital and Maintenance Projects” and Administrative Practice Letter I-G, “General Accounting for Capital Assets” for more information on how capital gifts-in-kind are to be handled. The following revenue account codes have been established in the general ledger specifically for gifts-in-kind:

<table>
<thead>
<tr>
<th>Account</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>43840</td>
<td>Gifts-in-kind – Corporate Business</td>
</tr>
<tr>
<td>43860</td>
<td>Gifts-in-kind – Individuals</td>
</tr>
<tr>
<td>43870</td>
<td>Gifts-in-kind - Alumni</td>
</tr>
</tbody>
</table>

The general ledger chartfield combination to which a gift-in-kind should be posted depends on how readily available the asset is for use:

If the gift-in-kind is placed in service in the same fiscal year in which it was received, the gift should be recorded in fund 48 using department C000005 and the applicable capital asset account (17xxx).

Illustration: UM is gifted a piece of E&G equipment valued at $10,000. UM places the equipment into service within the same fiscal year that it is received. The SAD would make the following entry to record this gift.

UMS05-5000005-48-17310-Operational Equipment    $10,000 DR
UMS05-5000005-48-43860-Gifts in Kind     $10,000 CR

If the gift-in-kind is associated with a construction project that is in progress, the gift should be recorded in the construction project chartfield combination in fund 28. In this case, an expense account code (6xxxx) representing the type of materials/asset gifted would be used rather than asset account code (17xxx). During the general ledger close process the value of the gift would be capitalized as construction in progress along with the other project costs. This process is discussed in more detail in the document, “Business Process – Accounting for Capital and Maintenance Projects”.

Illustration: UM is gifted $51,000 in materials for a construction project they have in progress. The SAD would make the following entry to record this gift.

UMS05-5750970-28-54972-5100213-67100-Main construction contract $51,000 DR
UMS05-5750970-28-54972-5100213-43840-Gifts in Kind   $51,000 CR

If the gift is not placed into service within the same fiscal year it is received AND if it is not associated with a construction project, the gift should be recorded in fund 48 using department C000005 and capitalized directly as part of construction in progress.

Illustration: UM is gifted a piece of equipment valued at $10,000. UM does not place the equipment in service until the beginning of the following fiscal year. The SAD would make the following entry to record this gift.

UMS05-5000005-48-17400-Construction in progress $10,000 DR
UMS05-5000005-48-43860-Gifts in Kind     $10,000 CR
305 Endowments in General

To comply with legal and accounting requirements, the System must track the following information about each endowment, whether invested in the endowment pool (see Unit 4) or separately invested:

- Type of endowment (e.g., true, quasi, held for others)
- Donor restriction or management designation
- Total amount invested (corpus)
- Cost basis of related investment
- Market value of related investment

As previously mentioned in paragraphs 301 and 302, the fund code chartfield is used to identify the type of endowment (e.g., true, quasi, held for others) and levels or nodes on the UMS_PROGRAM tree are used to identify the purpose for which each endowment is to be used. How corpus, the cost basis, and the market value of each endowment is tracked depends on whether the endowment is separately invested or invested in the UMS endowment pool.

Separately Invested Endowments

Years ago the University accepted endowment donations that the donors required to be separately invested, e.g., in a particular bank or investment vehicle. The University still holds a couple of these types of endowments and they are recorded in fund 31 as true endowments and are in the UMS_PROGRAM tree under Cat 2 ENDOW_SEPARATE. The corpus or original value of these gifts is recorded in account 12200-Investments – Endowment Other. Unrealized appreciation on the investments is recorded in account 12172-Accum Unrealized Gains/Losses. To arrive at the market value of these endowments, you must therefore add together the balances in accounts 12200 and 12172.

Pooled Endowments

Unless otherwise required by the donor, the UMS utilizes a pooled investment approach for its endowments. Endowment monies are invested in accordance with policies established by the Investment Committee of the UMS Board of Trustees. See http://www.maine.edu/system/oft/InvestmentGuidelines.php for the most recent investment guidelines.

Currently, the Endowment Pool is comprised of true endowments, quasi endowments, and endowments held for others (see paragraph 104 for previously provided definitions of these terms). Although monies for all of the endowments are combined for investment purposes, to comply with legal and accounting requirements, the System must track specific information for each individual endowment that invests in the endowment pool. See Unit 4 for an in depth discussion of the UMS’ endowment pool.

306 Net Assets Associated with Gifts and Endowments

Net assets are recorded in account code series 3xxxx and represent the accumulated net revenues or expenses of the gift or endowment program from inception of the program. In accordance with generally accepted accounting principles, we must report net assets as restricted nonexpendable, restricted expendable, or unrestricted depending on whether or not the donor required that the gift be endowed and whether or not the donor restricted use of the gift.
Nonendowed Gifts

If the donor restricted use of the gift but did not require it to be endowed, we record the gift in fund 20-Restricted Expendable and any net assets related to the gift are recorded in account code series 32xxx. The ‘xxx’ part of the series varies depending on the restricted purpose of the gift. For example, net assets related to gifts restricted by the donor for financial aid are recorded in account code 32006-Net Assets Restr Fin Aid.

If the donor did not restrict use of the gift and did not require that it be endowed, we generally record the gift in fund 10-Designated and any net assets related to the gift are recorded in account code 31000-Designated. Although management has ‘designated’ that these gifts be used for a particular purpose, they are reported as unrestricted because the donor did not specify the purpose.

Gifts Endowed by the Donor (Fund 31)

Gifts belonging to the UMS that the donor requires to be endowed are reported in fund 31-Restricted Non-Expendable. Although the gifts themselves are nonexpendable, the earnings and market appreciation on these gifts are expendable in accordance with donor restrictions and the UMS’ spending policy. Because both nonexpendable and expendable components are recorded in the same fund, we must break the related net assets down into nonexpendable versus expendable. This is why you see two net asset accounts for each endowment recorded in fund 31. For the net assets that are expendable, we must further identify whether they are restricted by the donor for a particular purpose or whether they are unrestricted. The following net asset account codes are used with fund 31:

- 33100  Net Assets Endow-NonExpendable
- 33111  NA EF Unrestricted
- 331xx  NA EF RE-xxxxxx (separate account for each restricted purpose)

Gifts Endowed by Management (Funds 11 and 21)

Sometimes the UMS receives gifts that the donor does not require to be endowed, but that management chooses to endow. These endowments are considered quasi endowments and their net assets, including those related to the original gift, are expendable. Therefore, you should only see one net asset account code per quasi endowment program. If the donor restricted the gift to a particular purpose, the quasi endowment is recorded in fund 21-Restricted Quasi-Endowment. If the donor did not restrict the gift, the quasi endowment is recorded in fund 11-Unrestricted Quasi-Endowment.

Net asset account 31100-Net Assets Quasi Endow is used to record the net assets in fund 11. Again, the net assets in fund 11 are unrestricted and expendable.

Net asset account series 321xx-Net Quasi Restr xxxx is used to record the net assets in fund 21. Again, the net assets in fund 21 are restricted and expendable.

Endowments Held for Others (Fund 51)

Several outside entities have endowment funds invested in the UMS’ endowment pool. We record these endowments in fund 51-Endowments Held for Others. Although a net asset account (35100-Net Assets Endowment Others) is used in this fund, the net assets do not belong to the UMS. For audited financial statement purposes, the net assets associated with these endowments are reclassified and reported as a liability of the UMS.
UNIT 4 - Accounting for the Endowment Pool

401 Introduction

As mentioned in Unit 3, unless otherwise required by the donor, the UMS utilizes a pooled investment approach for its endowments. Under this pooled approach, the UMS must track both the endowment pool’s investment in external investment vehicles and the individual endowments’ investment in the endowment pool.

The necessary tracking is enabled by the use of:

1. A central chartfield combination to record the endowment pool’s investments and the related revenues and expenses:

   BU DEPT FUND PROGRAM
   UMS08 8150108 31 80073-Endowment Investment Pool

   See paragraph 402 for more information on this chartfield combination.

2. The node **ENDOW_POOL** on the UMS_PROGRAM tree identifies the endowment programs that are invested in the endowment pool:

   Tree Manager
   SetID: UMSYS Last Audit: Valid Tree
   Effective Date: 07/01/2009 Status: Active
   Tree Name: UMS_PROGRAM Program Reporting Tree

   ALLPROGRAM >PROGRAM VALUES >ENDOW >ENDOW_POOL
   Collapse All  Expand All Find First Page 33 of 3947 Last Page

   - ALLPROGRAM - All Programs
     - PROGRAM_VALUES - All Non-Blank Programs
     - ENDOW - Endowment
       - ENDOW_POOL - UMS Endowment Pool
         - [0072] - Endowment Pool Income
         - [0073] - Endowment Investment Pool
         - [0074] - Undistributed Endowment Income
         - [0075] - Investment Pool Income
         - ENDOW_GIFTS - Endowment Pool Gifts
         - ENDOW_CGA - Charitable Gift Annuities
         - ENDOW_DEF_CGA - Endow Deferred Chrs Gift Annuity
         - ENDOW_NONGIFT - Endowment Pool Non-Gifts
         - ENDOW_SEPARATE - Endowments Separate
         - ENDOW_FIF - Endowment Pooled Life Income
         - GIFTS - Gifts
         - CAMPUS_PROGRAMS - Campus Programs
         - WAIVERS - Tuition Waivers
         - ST_BONDS_APPR - State Bonds & Appropriations
3. Specific account codes to track the endowment pool’s investments:

<table>
<thead>
<tr>
<th>Account</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>12170</td>
<td>Investments - Endowment Pool (not currently used)</td>
</tr>
<tr>
<td>12172</td>
<td>Accum Unrealized Gains/Losses (not currently used)</td>
</tr>
<tr>
<td>12460</td>
<td>Distributed Cost – Inv. Pool</td>
</tr>
<tr>
<td>12462</td>
<td>Distrib. UR Gains – Inv. Pool</td>
</tr>
<tr>
<td>44000</td>
<td>Interest &amp; Dividends Enowments</td>
</tr>
<tr>
<td>44001</td>
<td>Realized Gains on Investments</td>
</tr>
<tr>
<td>44002</td>
<td>Unrealized Gains/Losses on Investments</td>
</tr>
<tr>
<td>44089</td>
<td>Investment Fees Rebated</td>
</tr>
<tr>
<td>44090</td>
<td>Investment Fees</td>
</tr>
<tr>
<td>46000</td>
<td>Other income</td>
</tr>
</tbody>
</table>

4. Specific account codes to track the individual endowments’ investment in the endowment pool:

<table>
<thead>
<tr>
<th>Account</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>12160</td>
<td>Invested in the Endowment Pool</td>
</tr>
<tr>
<td>12161</td>
<td>Distributed Realized Gains</td>
</tr>
<tr>
<td>12162</td>
<td>Distributed Unrealized Gains</td>
</tr>
<tr>
<td>44091</td>
<td>Distrib of Realized Gains</td>
</tr>
<tr>
<td>44092</td>
<td>Distrib of Unrealized Gains</td>
</tr>
</tbody>
</table>

402 Endowment Pool Investments

As previously noted, the endowment pool’s investments are recorded in program 80073-Endowment Investment Pool. Currently, the only assets held by the endowment pool are a membership in the Managed Investment Pool (MIP) sponsored by the UMS and cash held in the UMS’ operating investments.

The investment in the MIP is recorded in account codes 12460 and 12462. For more information on how the endowment pool is impacted by the MIP, see business process document, “Business Process - Accounting for the Managed Investment Pool”.

Due to the design of the UMS’ general ledger system, the endowment pool cash that is held in UMS’ operating investments is ‘calculated’ rather than recorded directly in an account within program 80073-Endowment Investment Pool. The formula to calculate cash is as follows:

$$(\text{liabilities plus net assets}) - \text{total assets} = \text{cash}$$

Below is a snapshot of the Endowment Investment Pool’s assets as of October 31, 2009:
## Accounting for the Endowment Pool

### Chartfields
- **Fiscal Year:** 2010
- **Accounting Period:** October 04
- **Business Unit:** 05008
- **Department:** 01500108
- **Fund Code:** 31
- **Program:** 00010
- **Project:** 00010
- **Operating Unit:**

### Statistics

<table>
<thead>
<tr>
<th>Account</th>
<th>Statistics Code</th>
<th>Description</th>
<th>Class</th>
<th>Beginning of Year</th>
<th>Beginning of Month</th>
<th>Current Month</th>
<th>YTD Activity</th>
<th>Current Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>12490</td>
<td>IP8</td>
<td>Investment Pool Shares</td>
<td>768,923,380</td>
<td>768,923,380</td>
<td>$1,560</td>
<td>81,560</td>
<td>766,973,840</td>
<td></td>
</tr>
</tbody>
</table>

### Assists Liabilities

<table>
<thead>
<tr>
<th>Account</th>
<th>Class</th>
<th>Beginning of Year</th>
<th>Beginning of Month</th>
<th>Current Month</th>
<th>YTD Activity</th>
<th>Current Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>12180</td>
<td></td>
<td>Involved Endowment Pool</td>
<td>-72,274,264.20</td>
<td>-68,085.11</td>
<td>-148,290.00</td>
<td>-72,413,217.00</td>
</tr>
<tr>
<td>12151</td>
<td></td>
<td>Distributed Realized Gains</td>
<td>-30,066,411.50</td>
<td>-28,792,077.54</td>
<td>2,254,434.00</td>
<td>-26,537,643.44</td>
</tr>
<tr>
<td>12160</td>
<td></td>
<td>Distributed Unrealized Gains</td>
<td>7,555,969.01</td>
<td>-3,234,345.50</td>
<td>4,021,623.50</td>
<td>4,021,623.50</td>
</tr>
<tr>
<td>12400</td>
<td></td>
<td>Distributed Inv Pool</td>
<td>101,120,152.63</td>
<td>100,690,479.85</td>
<td>52,988.84</td>
<td>-118,681.74</td>
</tr>
<tr>
<td>12482</td>
<td></td>
<td>Total Inv Pool</td>
<td>-5,589,468.59</td>
<td>3,274,344.10</td>
<td>-555,634.85</td>
<td>13,556,970.44</td>
</tr>
<tr>
<td>Total Investments</td>
<td></td>
<td></td>
<td>-122,110,275</td>
<td>-211,025,680</td>
<td>369,110,54</td>
<td>1,379,275,61</td>
</tr>
<tr>
<td>Total Assets</td>
<td></td>
<td></td>
<td>-122,110,275</td>
<td>-211,025,680</td>
<td>369,110,54</td>
<td>1,379,275,61</td>
</tr>
</tbody>
</table>

### Gross Income/Expenses

<table>
<thead>
<tr>
<th>Account</th>
<th>Class</th>
<th>Beginning of Year</th>
<th>Base Budget</th>
<th>Current Budget</th>
<th>Current Month</th>
<th>Year to Date</th>
<th>Encumbrance</th>
<th>Budget Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>31180</td>
<td></td>
<td>NAEP RE-Other</td>
<td>509,782.69</td>
<td>509,782.69</td>
<td>509,782.69</td>
<td>0.00</td>
<td>509,782.00</td>
<td></td>
</tr>
</tbody>
</table>

### Current Year Activity

- 44000 Interest & Dividend Endowment
  - Current Year: 0.00
  - Base Budget: 0.00
  - Current Budget: -508,782.00
  - Year to Date: 0.00
  - Budget Variance: 509,782.00
- 44001 Realized Gains on Investments
  - Current Year: 0.00
  - Base Budget: 0.00
  - Current Budget: -47,311,617.24
  - Year to Date: 0.00
  - Budget Variance: -47,311,617.24
- 44002 Unrealized Gain on Investments
  - Current Year: 0.00
  - Base Budget: 0.00
  - Current Budget: 895,346.30
  - Year to Date: 0.00
  - Budget Variance: 895,346.30
- 44006 Investment Fees and Expenses
  - Current Year: 0.00
  - Base Budget: 0.00
  - Current Budget: -6,409.27
  - Year to Date: 0.00
  - Budget Variance: -6,409.27
- 44009 Investment Fees
  - Current Year: 0.00
  - Base Budget: 0.00
  - Current Budget: 54,456.54
  - Year to Date: 0.00
  - Budget Variance: 54,456.54
- 44014 District Interest & Dividends
  - Current Year: 0.00
  - Base Budget: 0.00
  - Current Budget: 508,782.00
  - Year to Date: 0.00
  - Budget Variance: 508,782.00
- 44015 District Interest & Dividends 00
  - Current Year: 0.00
  - Base Budget: 0.00
  - Current Budget: -508,782.00
  - Year to Date: 0.00
  - Budget Variance: -508,782.00
- 4415 District Realized Gains
  - Current Year: 0.00
  - Base Budget: 0.00
  - Current Budget: 37,418.72
  - Year to Date: 0.00
  - Budget Variance: 37,418.72
- 44156 District Unrealized Gains
  - Current Year: 0.00
  - Base Budget: 0.00
  - Current Budget: 37,418.72
  - Year to Date: 0.00
  - Budget Variance: 37,418.72
- 44156 District Unrealized Gains 00
  - Current Year: 0.00
  - Base Budget: 0.00
  - Current Budget: -37,418.72
  - Year to Date: 0.00
  - Budget Variance: -37,418.72
- 4416 District Invested Fees
  - Current Year: 0.00
  - Base Budget: 0.00
  - Current Budget: 54,456.54
  - Year to Date: 0.00
  - Budget Variance: 54,456.54
- 44167 District Invested Fees 00
  - Current Year: 0.00
  - Base Budget: 0.00
  - Current Budget: -54,456.54
  - Year to Date: 0.00
  - Budget Variance: -54,456.54
- 4418 District Invested Fees Receivable
  - Current Year: 0.00
  - Base Budget: 0.00
  - Current Budget: 54,456.54
  - Year to Date: 0.00
  - Budget Variance: 54,456.54
- 44189 District Invested Fees Receivable 00
  - Current Year: 0.00
  - Base Budget: 0.00
  - Current Budget: -54,456.54
  - Year to Date: 0.00
  - Budget Variance: -54,456.54
- 44800 Other Income
  - Current Year: 0.00
  - Base Budget: 0.00
  - Current Budget: -108,21.54
  - Year to Date: 0.00
  - Budget Variance: -108,21.54
- 44801 Total Revenue
  - Current Year: 0.00
  - Base Budget: 0.00
  - Current Budget: 1,065,25.46
  - Year to Date: 0.00
  - Budget Variance: 1,065,25.46
- 44800 Total Revenue
  - Current Year: 0.00
  - Base Budget: 0.00
  - Current Budget: -1,065,25.46
  - Year to Date: 0.00
  - Budget Variance: -1,065,25.46
- 44800 Total Net Revenue and Expenses
  - Current Year: 0.00
  - Base Budget: 0.00
  - Current Budget: -0.08
  - Year to Date: 0.00
  - Budget Variance: 0.08

**Net Balance:** 0.00
The total market value of the Endowment Pool investments as of October 31, 2009 is:

- 12460-Distributed Cost – Inv. Pool $101,003,468.79
- 12462- Distrib. UR Gains – Inv. Pool. 2,668,509.45
- Total market value of investments $103,671,978.24

Using the formula mentioned on the prior page, cash is calculated to be an overdraft of $158,092.80:

\[
\text{liabilities plus net assets) minus total assets = cash}
\]

\[
($0 plus -$0.06) minus $158,092.86 = -$158,092.80
\]

The total value of the endowment pool investments and cash and related revenues and expenses must be allocated out to the individual endowments each month so that the net assets of the endowment pool net to zero (due to rounding there may be a very small balance left in this chartfield combination). See paragraph 403 for a discussion of how this is done.

### 403 Individual Endowments in the Endowment Pool

As noted in unit 3, almost all of the UMS’ endowments are invested in the endowment pool. To record each endowment’s investment, the account code series 1216x is used:

- 12160 - Represents corpus
- 12161 - Represents the endowment’s share of undistributed realized earnings, net of fees
- 12162 - Represents the endowment’s share of unrealized gains/losses

‘Shares’ are used to determine how much value of the endowment pool’s investments is allocable to an individual endowment. At the end of a month when an endowment first joins the pool or adds additional amounts to corpus, it buys shares in the endowment pool. Likewise, at the end of a month when an endowment withdraws money from the endowment pool through a reduction of corpus or through a monthly income distribution (see unit 5) in excess of its share of realized earnings, it sells shares. Shares are purchased or sold at the market value per share as of the end of the prior month. The number of shares held by an endowment is recorded in statistics code EPS used with account code 12160. Account code series 4409x is used to record the endowment’s share of investment income and expenses from the endowment pool’s investments.

A snapshot of an endowment invested in the endowment pool is shown on the next page.
Looking at the above GL Inquiry snapshot, we see that as of October 31, 2009 this endowment held 68.12 shares in the endowment pool. Corpus for this endowment was $12,074.40 and the book value of the investment in the endowment pool was $18,281.46 (account 12160 plus account 12161). The market value of the investment was $18,762.98 (account 12160 plus account 12161 plus account 12162).

From the above snapshot we also see that for the fiscal year-to-date this endowment has earned $1,842.19 (account 44091 plus account 44092) from its investment in the endowment pool.
pool. We also see that $359.63 (account 44098) of earnings/appreciation has been distributed under the UMS' endowment spending policy. Distributed endowment income is discussed in Unit 5.

To avoid duplication of endowment assets, revenues, and expenses in the general ledger, each entry in an endowment program invested in the endowment pool is offset by an entry to program 80073-Endowment Investment Pool. Thus, the net balance of the following account codes across the endowment funds (11, 21, 31, and 51) should be zero:

<table>
<thead>
<tr>
<th>Account</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>12160</td>
<td>Invested in the Endowment Pool</td>
</tr>
<tr>
<td>12161</td>
<td>Distributed Realized Gains</td>
</tr>
<tr>
<td>12162</td>
<td>Distributed Unrealized Gains</td>
</tr>
<tr>
<td>44091</td>
<td>Distrib of Realized Gains</td>
</tr>
<tr>
<td>44092</td>
<td>Distrib of Unrealized Gains</td>
</tr>
</tbody>
</table>

### 404 Endowment Pool Financial Cycle

The typical cycle of financial activity for the endowment pool is as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Impacts Individual Endowments?</th>
<th>Impacts Program 80073-Endowment Investment Pool?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Throughout the month the Campuses receive new gifts and record them in Advance which then feeds the gifts to the general ledger.</td>
<td>yes</td>
<td>no</td>
</tr>
<tr>
<td>2. At month end the SAD records the endowment income distribution (primarily made to fund 20) – see unit 5 for more information.</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>3. At month end the SAD runs a monthly allocation process that adds the amount of any new gifts to the endowment’s corpus and records an offsetting credit to corpus in the endowment pool program.</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>4. At month end the SAD records revenues and expenses associated with the endowment pool investments and adjusts them to market value.</td>
<td>no</td>
<td>yes</td>
</tr>
<tr>
<td>5. At month end the SAD allocates the current month’s net realized earnings or loss of the endowment pool investments to each individual endowment based on the number of shares held at the end of the prior month.</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>6. At month end the SAD adjusts the shares of each endowment for the change in its corpus and for the net realized earnings allocated to it less the monthly income distribution.</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>7. At month end the SAD allocates the current month’s unrealized gain or loss to the individual endowments based on the number of shares currently held.</td>
<td>yes</td>
<td>yes</td>
</tr>
</tbody>
</table>

In the above financial cycle:

- Shares decrease in any month in which the withdrawal for the income distribution is more than the net realized earnings allocated to the individual endowments. Conversely, shares increase in any month in which the withdrawal for the income distribution is less than the net realized earnings allocated to the individual endowments.
- Shares for an underwater endowment can decrease if the endowment pool investments generate a net **realized** loss rather than net earnings.

- All endowments, including new gifts, receive an allocation of the current month’s **unrealized** market gain or loss.
UNIT 5 - Endowment Income Distribution

501 Introduction

The UMS is allowed to spend the earnings and appreciation associated with its endowments provided it spends the earnings in accordance with donor restrictions and management designations. In accordance with donor instructions, earnings on the currently held separately invested endowments are recorded directly in the appropriate fund code 10 or 20 chart field combination and are immediately available for spending upon receipt from the applicable investment vehicle. The amount of earnings and appreciation on the pooled endowments that is available for spending is established in the Managed Investment Pool Guidelines approved annually by the Investment Committee of the University of Maine System Board of Trustees.

We generally refer to earnings allowed to be spent for pooled endowments as ‘distributed income’ or ‘endowment income distribution’ because they represent a mixture of realized and unrealized investment earnings posted directly to the endowments recorded in funds 11, 21, 31, and 51 (see unit 4 for a discussion of that process). The portion allowed to be spent is ‘distributed’ from the endowments to the applicable chart field combinations from which the distribution will be spent in accordance with donor restrictions or management designation. Each pooled endowment program code carries the attribute ENDOW_DIST which indicates the department-fund-program to which the endowment income distribution should be posted. The vast majority of endowments are donor restricted; therefore, the distributed income is recorded in a fund 2x chartfield combination. The distributed income for unrestricted endowments is typically posted to fund 10. Account 44098-Contra Endowment Income Distribution and account 44099-Endowment Income Distribution are used to record the endowment income distribution within the general ledger.

502 Budgeting and Calculating the Monthly Distribution

Calculation of Budget and Actual – Prior to FY10

Historically (prior to FY10), program budgets for the endowment income distribution have been based upon the number of shares held as of June 30 multiplied by the approved annual rate per share. The actual monthly distribution was calculated by first dividing the approved rate by 12 and multiplying the result by the number of shares held by an endowment at the end of the prior month. If new gifts were received during the fiscal year, the monthly income distribution would increase to reflect the new shares assigned as a result of the gift; thus, at the end of the fiscal year the actual distribution could be higher than the budgeted amount. The number of shares held by an endowment was not impacted by the monthly distribution because all endowments were receiving the same rate per share.

Calculation of Budget and Actual – FY10

During FY10, the method for calculating and recording the monthly endowment income distribution changed to address the following issues:

- Suspension of income distributions for those endowments whose market value was less than corpus (underwater) as of the determination date (December 31), and

- Endowments for which the donor requires a different distribution rate than that approved by the Investment Committee.
FY10 was the first year in which the UMS did not distribute income to all endowments. Only those endowments that were above water as of December 31, 2008 were eligible to receive a distribution during FY10. FY10 budgets for eligible endowment programs were calculated based on the number of shares held as of June 30, 2009 multiplied by the approved distribution rate.

Since not all endowments were now receiving a monthly income distribution, a change in procedure was required to maintain equity among the endowment pool members. Therefore, System Accounting began adjusting shares monthly for both:

- Changes in corpus (as was historically done)
- The net amount of each endowment’s share of net realized income from the pooled investments less its monthly income distribution. If the distribution exceeded realized income, the endowment lost shares. If realized income exceeded the distribution, the endowment received additional shares.

Because shares were changing monthly, each month’s income distribution amount now changed monthly; whereas, in the past it had typically been stable. Because the income distribution often exceeded net realized income in a given month, most endowments lost shares each month unless they had corpus additions during the month. Consequently, the monthly endowment income distribution for the subsequent month would be less because it was based on fewer shares. The net result is that for many endowment programs the actual distribution for FY10 is projected to be less than the budget. To remedy this situation, System Accounting will make an adjustment at the end of FY10 to bring the actual distribution for FY10 to the amount that had been budgeted (based on shares held as of June 30, 2009).

**Calculation of Budget and Actual - FY11 and Thereafter**

To better enable the campuses to budget what their distributed income will be for the subsequent fiscal year and to stabilize the actual monthly distribution, the UMS utilizes the following approach for FY11 and after:

1. In February/March of fiscal year A, the budget for fiscal year B will initially be calculated based upon the number of shares held as of the prior December 31 for those endowments that are above water as of that same date.

2. In July/August of fiscal year B, the budget for fiscal year B will be updated for additional shares received as the result of new endowment gifts received during the last half (January thru June) of fiscal year A. Please note that this adjustment will be made only for new endowment programs and those endowments that were above water as of December 31 of fiscal year A.

The actual monthly distribution for fiscal year B will be calculated by dividing the adjusted budget amount by 12. The monthly distribution will not be impacted by a fluctuation in shares resulting from the distribution being less than or greater than the endowment’s share of realized earnings on the endowment pool investments.

3. Generally, the budgeted and actual distributions for fiscal year B will not be adjusted for any new gifts received during fiscal year B because of the manual effort required to make the adjustments. An exception may, however, be made for ‘substantial’ gifts received during the first half (July – December) of fiscal year B. ‘Substantial’ gifts are generally defined as a single month’s total increase in an individual endowment’s corpus of $1 million or more. Exceptions to this dollar threshold will be considered on a case by case basis.
case basis. Fiscal year B distributions for the substantial gifts will not automatically occur; the campus must notify the System Accounting Department to begin making distributions. The System Accounting Department will update the fiscal year B budget accordingly and begin making distributions in the subsequent month.

Under this approach the monthly distribution amount for a fiscal year will be stable unless an endowment meets the exception in item #3 above. Shares will, however, continue to be adjusted monthly for:

- Changes in corpus, and
- The net amount of each endowment’s share of net realized income from the pooled investments less its monthly income distribution.

In summary, only those endowments that meet exception #3 will receive current year distributions for new gifts. Distributions for all other new gifts will not begin until the next fiscal year.

To illustrate, the budgets for FY11 are calculated as follows:

12/31/09

- Determination date for the initial FY11 budget calculation
- Calculation will actually be made in February or March after the Investment Committee has approved a rate

6/30/10

- Determination date for FY11 budget adjustments - shares received 1/1/10 thru 6/30/10
- Calculation will actually be made in July or August after endowment figures have been finalized for FY10

7/1/10 thru 12/31/2010

- Monthly adjustments made to the FY11 budget for those endowments meeting the $1 million exception

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