Stewardship of Endowment and Gift Funds

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Topics

• Gifts
  – Definition
  – Types of Gifts
  – Timing of Gifts
  – Receipting Issues
  – Deferred Giving
  – Gifts-In-Kind
  – Auctions
  – Events
  – Research
  – Donor Supported Funds
Giving Motivations – the Want or Need

❖ Economic benefits (tax break)
❖ Leave or carry on a legacy
❖ Personal experience and values
❖ Make a difference
❖ Take a stand on a particular issue
❖ Personal recognition and benefits
❖ Good thing to do
A Development Officer??
Campaign Support Over Time

- Before 1970 most gifts through estates
- Active fundraising only over last 50 years
- Campaigns established
- Clubs/Societies
- Planned Giving
- Events
Fundraising Campaigns

What is a fundraising campaign?

➢ A long-term (3-7 years) fundraising effort designed to fund projects and priorities over and above the annual operating budget

How is money from a campaign used?

➢ Money raised during a campaign is allocated differently for every institution or organization
➢ Generally, campaign leaders define the primary needs and priorities, and set goals, before the outset of the campaign
How is money used?

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Gift Processing Policies

“Failure to process gifts in accordance with University policy creates donor-relation problems and complicates efforts to comply with the tax laws.”
Gift: A Definition

• **Gratuitous** transfer to the University of cash, securities, other property or the execution of an instrument that legally vests an **interest of value** to the University.
Gift: Definition Continued…

- IRS Publication 526

“A charitable contribution is a donation or gift to, or for the use of, a qualified organization. It is voluntary, and is made without getting, or expecting to get, anything of equal value.”
What makes a gift a charitable deduction? …

- **Legal Entity**
  - More than one entity can legally accept and receipt charitable gifts

- **Competent Donor**

- **Voluntary**
  - Not a contractual obligation
  - Not under a court order

- **Irrevocable**
  - Cannot take it back

- **Philanthropic Intent**
  - Meant to be a gift, not a business expense
  - Philanthropy is the effort or inclination to increase the well-being of human-kind, as charitable aid or donations

- **No Substantial Benefit Given in Return**
Quid Pro Quo Gifts
What if you get, or expect to get, something of lesser value in return?

• Latin term for “something for something”
  ➢ Something given in return for something else

• “You cannot deduct as a charitable contribution…the part of the contribution from which you receive or expect to receive a benefit.” (IRS Pub. 526)

• Example
  ➢ Auctions or Events
  ➢ A donor makes a contribution of $1,000 and is entitled to receive a framed art print, valued at $125 in return
<table>
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<th>Types of Gifts:</th>
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<td>Currency</td>
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<td>Bequests (Wills)</td>
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These Are Not Gifts

• **Cost of Raffle, Bingo, or Lottery Tickets**
  ➢ The underlying issue is that the donor has received full value in return, namely the chance to win a valuable prize

• **Gifts Specified for Individuals**
  ➢ For example, tuition payments, or “scholarships” for donor-specified students

• **Gifts with Strings Attached**
  ➢ Contributions from which the donor benefits (restrictions)
    • You cannot deduct as a charitable contribution….the part of a contribution from which you receive or expect to receive a benefit

• **Discounts: Buy One-Get-One Free Deals**
Not Gifts Continued…

• Personal Services
  - Volunteer Services (actual cost of providing service would be, i.e., plane ticket, hotel room)
  - Expenses incurred while providing the service might be deductible, but not the value of the service itself

• Gifts to, or for the benefit, of fraternities or sororities
  - Fraternities and sororities may be not-for-profit organizations, but gifts to fraternities and sororities are not deductible as charitable contributions
  - The underlying issue is whether the effect of the gifts is to benefit the charitable purpose of the qualified organization, or to benefit the fraternity or sorority
Restricting the Gift:

• Purpose and use must be appropriate to the functions permitted by the University’s rules and policies and must not require the University to act contrary to the public policy.

• Donor should indicate in writing the nature of any restrictions on the gift.

• New restricted gifts should receive approval by the department most concerned in carrying out the restrictions.

• Gifts shall be accepted and administered in a manner that will not jeopardize the University’s status as a tax-exempt institution.
Timing is Everything - Determining the Gift Date

• A gift is a gift when . . .
  – The donor relinquishes control of the asset in favor of the University.
  – “Time of making contribution. Usually, you make a contribution at the time of its unconditional delivery.” (IRS Pub. 526)
Timing of Gifts Continued…

• **Cash Gifts**
  - Postmark date if received by U.S. Mail
  - When it’s in your hands if delivered in person
  - When the charge is made on a credit card

• **Wire Transfers**
  - Univ. Bank Date

• **Gifts-In-Kind**
  - University Becomes Owner

• **Securities/Bonds/Mutual Funds**
  - Electronic (DTC: Depository Trust Company) - date the stock is in University broker account
  - Certificate in Donor’s Name - date of hand delivery or if mailed, the postmark on envelope
  - Certificate in Univ. Name - date of transfer on the corporation’s books
Role of Donor Relations

❖ Express appreciation for gift and lay the groundwork for future solicitations

❖ Donor Recognition
❖ Donor Reporting
❖ Stewardship Services
Stewardship

❖ The moral and ethical responsibility of managing something entrusted to one’s care
❖ Encompasses a variety of activities centered on the donor: recognizing, appreciating, and reporting
❖ Donors who give and enjoy the experience want to be asked to give again
Donor Responsibilities

- Determining whether to claim a charitable deduction
- Determining the period in which to claim a deduction
- Determining the amount to claim as a deduction
- Obtaining written substantiation for gifts of $250 or more
Foundation Responsibilities

• Recording and reporting accurate information

• Send pledge reminders and statements

• Stating the name of the organization

• Identifying what was received from the donor
  - The amount of a cash gift
  - A description (not value) of any property other than cash the taxpayer transferred to the donee organization

• A statement that no goods or services were provided by the organization in return for the contribution, or a description and good-faith estimate of the value of goods and services or provided
Gift Receipts

- Gift receipts are required for gifts of $250 or more

- Year-end summaries should be sent to donors in January. This document shows a summary of personal contributions made during the previous calendar year.
GIFT ACKNOWLEDGEMENT
The Ohio State University Foundation
1450 W. Lane Avenue
Columbus, OH 43210-3938
Phone (614) 292-2141 • E-mail: gifts@osu.edu

October 12, 2009

Mr. Brutus Buckeye
123 Lane Avenue
Columbus, OH 4310

Ohio State strives daily to make a real difference in our world. We thank you for your commitment and ongoing friendship which enable the University to continue to make that kind of lasting and positive impact on so many lives. We know you will take great pride in the achievements your support makes possible at Ohio State, and we want you to know how grateful we are for your investment in those efforts.

Thank you, again, and best wishes,

Peter B. Weiler
Senior Vice President for University Development and
President, The Ohio State University Foundation

Your gift received on 09/15/2009 has been designated as follows:

999999: The University Fund

Total Received: $5,000.00

Estimated Value of Goods or Services Received:

President's Club: Opportunity to Purchase Football Tickets.
The estimated fair market value of these benefits is $300.00.

Net Charitable Tax Contribution: $4,700.00

If you should have any questions, please feel free to contact Gift Processing at (614) 292-2141.

01234567 20090915000514000 09/15/2009

Your continued support of The Ohio State University is greatly appreciated.
Pledges

• Pledges are promises to give a donation at a future date and are counted on financial statements

• It is unlikely all pledges will be collected

• It requires an allowance for uncollectible pledges to be established
Deferred Giving

**Definition:** Planned Giving is a set of ways a donor can leave money/assets to a nonprofit at his/her death; or a way to invest money so that the donor receives benefits during his/her life and then bequeaths the remaining funds to the nonprofit.

- Trusts/Annuities
- Insurance
- Bequests

Have a future interest of value to the university
Gifts-In-Kind
Gifts-In-Kind:

• Tangible Property
  ➢ Computer Equipment
  ➢ Books, Machinery
  ➢ Food for an Event

• Intangible Property
  ➢ Patents
  ➢ Copyrights

• Supports the Mission of the University
  Fine if Found to be Untrue
Gifts-In-Kind Continued…

Valuation

• It is the donor’s responsibility to determine the value for tax purposes

• The university needs the value for recognition purposes
  ➢ Cannot indicate value of gift-in-kind on donor’s receipt
  ➢ Sends a “descriptive” receipt

• Gifts $5,000 and under, must provide other substantiating documentation
  ➢ Receipts
  ➢ Catalog Price List

• Gifts Valued over $5,000
  ➢ Example: Art Collection
    • Must have independent appraisal provided by donor
Auctions

Fair market value must be clearly visible

Donor can deduct the lower amount of the cost or fair market value of the item – IF the item sells

Buyer can deduct the amount over the fair market value

Departments must keep detailed records of items donated, buyer information and sales receipts
Events

- Charitable contribution amount is the cost of attending minus the fair market value of the benefit received (dinner, entertainment)
- Fair market value is not necessarily the actual cost
- IRS requires charities to disclose the charitable portion of the payment
- Disclosure should be included in any printed invitations or flyers before the payment is made
“We’ve found this to be quite lethal in our mouse model. Now we’re wondering what effect it will have on humans.”
What is sponsored research:

• An entity gives money to the university to conduct specific research that directly benefits that entity

• This is not a gift
It is probably sponsored research if:

- The money is from a governmental or quasi-governmental entity
- The entity giving the money...
  - restricts of publication of data related to the research
  - restricts proprietary rights of the research
  - research is conducted on their “stuff”
  - hopes to gain economic benefits
  - places restrictions on the use of funds and/or may retain the right to revoke the money
  - participates in determining the work to be performed or services to be provided on the project
Not Considered a Donation if: (continued)

- The sponsor hopes to gain economic benefits . . .
- The sponsor places restrictions on the use of funds and/or may retain the right to revoke the award . . .
- The sponsor participate in determining the work to be performed or services to be provided on the project...
Donor Supported Funds

• Are agreements between donors and the University. It does not matter if the fund is Endowment or Current Use.

• Failure to comply with donors’ restrictions puts the University at risk legally and undermines the public trust.

• Deans, Department Chairs and Fiscal Officers are ultimately responsible for expenditures from gift funds.
Endowment vs. Current Use

• Both types are donor-supported funds

• Endowment
  – Funds or property donated to an institution or individual as a source of income. Usually held and invested “in perpetuity.”

• Current Use Gifts
  – Gifts that may be spent immediately, if necessary. Also called “Development Fund Gifts” or simply “Gifts.”
Endowment vs. Current Use (continued)

• Endowment
  – All gifts are invested. Produces a reliable income stream from year to year.

• Current Use
  – All gifts are distributed to the departments. No guarantee that there will be future gift income.
Donor Supported Funds

Unrestricted

- Do not have specific spending criteria assigned to them, however the Donor may designate the gift to a specific college or unit

- Unrestricted, not designated
  - No restrictions or designation on the gift
  - Departmental Funds

- Unrestricted, but designated
  - Deans’ discretionary funds
  - Departmental Funds
Donor Supported Funds

Restricted

• Must be spent according to criteria defined by the Donor as a condition of giving the gift. Most gifts are restricted

• Restricted (for a specific purpose)
  ➢ Scholarships/Fellowships
  ➢ Faculty/Staff Support
  ➢ Buildings and Building Maintenance
  ➢ Special Projects
  ➢ Research Funds
Gifts from Faculty and Staff

Many Universities recognize and encourage charitable contributions by faculty and staff members. Expenditure of these contributions remains subject to University control. The donor (faculty/staff member) cannot have direct control or approval authority over expenditure of his/her gift funds. In the event an employee terminates employment with the University, his or her unspent designated contributions remain the property of the University.
Restrictions too Restrictive?

- **Endowments**
  - Fund purpose may be changed by the Board of Trustees

- **Current Use**
  - Purpose cannot be changed but donors may request or approve their gifts to be moved.

BE CAREFUL!
All university funds are subject to state and federal law, Generally Accepted Accounting Principles (GAAP), university business expenditure policies, other university and college policies, and the reasonable judgment of the custodian of the funds.