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Stewardship of Endowment and Gift Funds

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Course Overview

- Fundraising and Gifts Overview
  - The “Why” of Fundraising
  - What is a gift?
  - Types of Gifts
- EXERCISE
  - Restriction versus Designation
  - Endowment versus Current Use
- EXERCISE
- Stewarding Gifts from the Financial Perspective
  - Defining Stewardship
  - Roles and Responsibilities
  - How university financial partners aid in the stewardship process
- EXERCISE
- Q&A

The “Why” of Fundraising

- Giving Motivations
    - Economic benefits (tax breaks)
    - 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

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Fundraising Over Time

- **Before 1970 most gifts through estates**
- **Active fundraising only over last 50 years**
- **Campaigns established**
- **Clubs/Societies**
- **Naming Rghts**
- **Planned Giving**
- **Events**
- **Gifts with Benefits**

Fundraising Campaigns

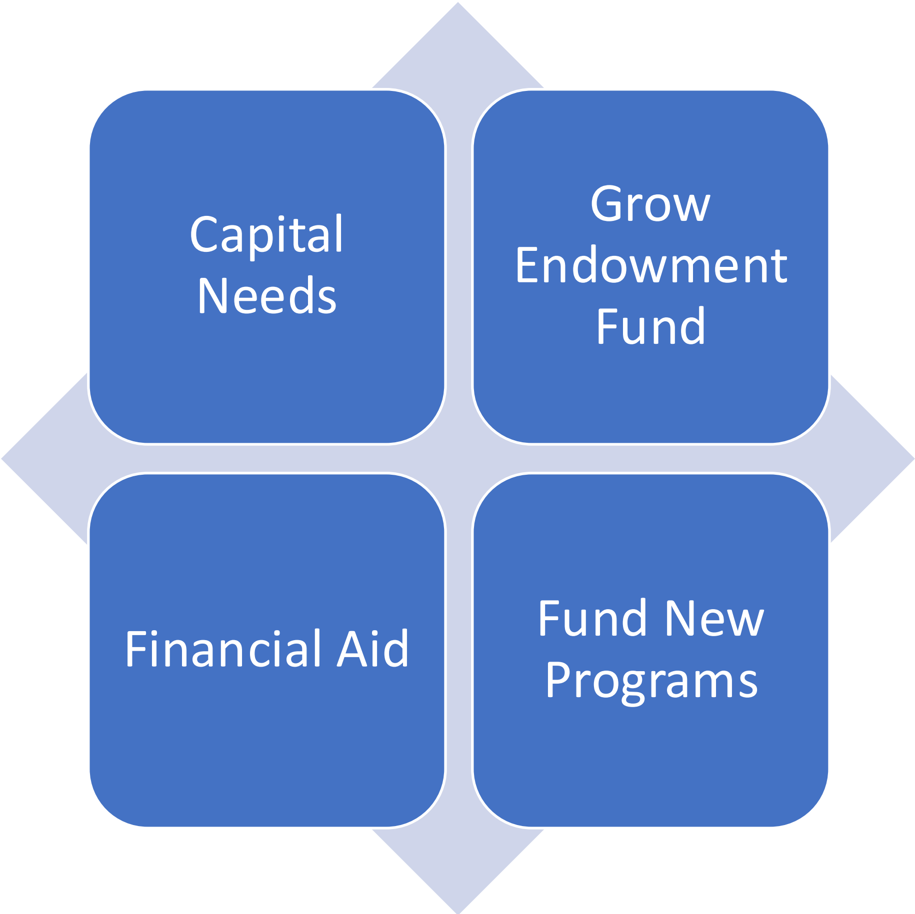
What is a fundraising campaign?

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

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

Typical Campaign Priorities



What is a gift?

- **Voluntary** 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.

- 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, 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

Types of Gifts

- Currency
- Checks
- Credit Cards
- Electronic Transfers
- Crypto Currency
- Stocks
- Mutual Funds
- Bonds
- Tangible Property
- Intangible Property
- Real Estate
- Annuities
- Trusts
- Life Insurance
- Gifts-in-Kind
- Bequests (Wills)

These Are Not Gifts

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- **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

Gifts-In-Kind

- Tangible Property
  - Computer Equipment
  - Books, Machinery
  - Food for an Event
  - Real Estate

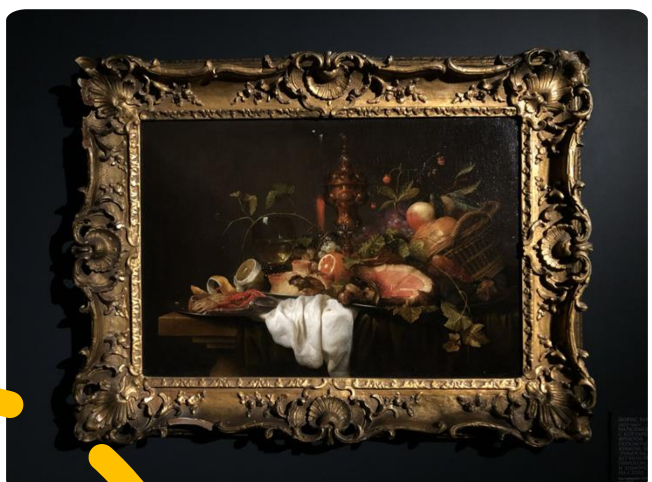
- Intangible Property
  - Patents
  - Copyrights

- 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 **<u>MUST</u>** have an <u>*independent appraisal*</u> provided by the donor
    - Example: Art Collection

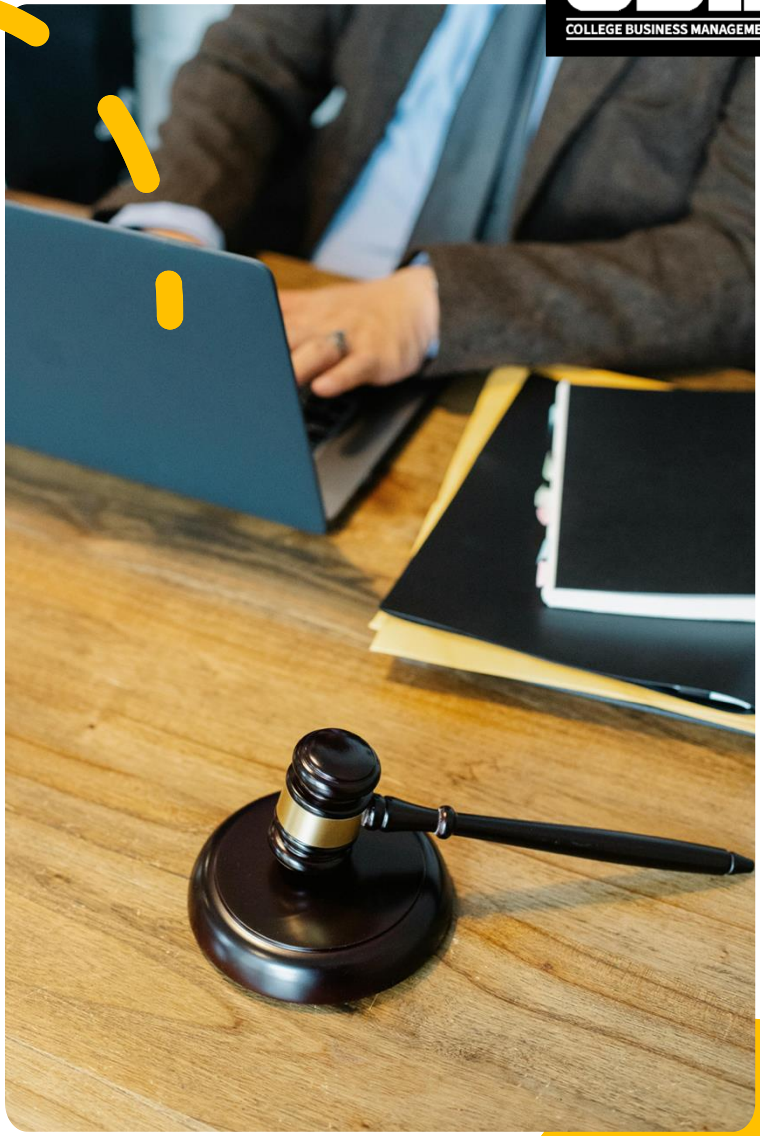
Auctions

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

TERMINOLOGY CHECK

Planned Gift	Real Estate	Outright Gift
Silent Auction	Gift-in-Kind	Personal Service

1. A direct transfer of cash or property without expectation of return

2. A gift made through a will or other legal document that takes effect after the donor's passing

3. A gift of goods or services

TERMINOLOGY CHECK-ANSWERS

1. A direct transfer of cash or property without expectation of return **OUTRIGHT GIFT**

2. A gift made through a will or other legal document that takes effect after the donor's passing **PLANNED GIFT**

3. A gift of goods or services **GIFT IN KIND**

Research Grant or Donation?

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

Most likely sponsored research 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 participates 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.

Donor Advised Funds

- An account where you can deposit assets for donation to charity over time. The donor gets a tax deduction for making contributions to the donor-advised fund. A sponsoring organization manages the account; the donor recommends how to invest the assets and where to donate them.

- Uses of the fund can be changed by the donor at each contribution.

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.

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
- Longer term pledges valued at net present value

Deferred Giving

Definition: Deferred or 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

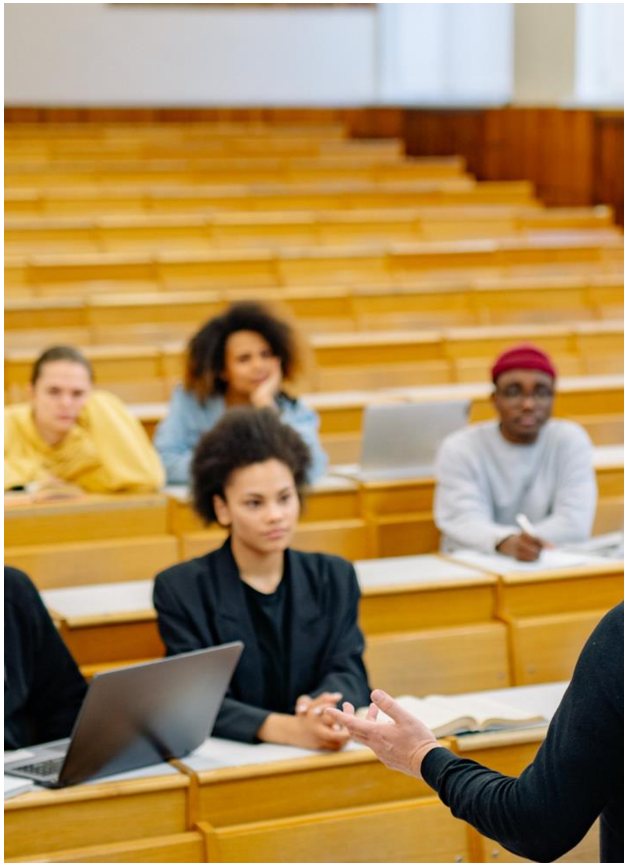
Have a future interest of value to the university

Restricted vs Unrestricted

- Restricted
  - All gifts are to be used for a specific purpose designated by the donor.
    - Permanently Restricted
    - Temporarily Restricted
- Unrestricted
  - Gifts can be used for almost any university purpose including operations.

Unrestricted Gifts

- Do not have specific spending criteria assigned to them; however, the Donor may designate the gift to a specific college or unit
- Unrestricted, <u>not designated</u>
  - No restrictions or designation on the gift
  - Departmental Funds
- Unrestricted, <u>but designated</u>
  - Deans’ discretionary funds
  - Departmental Funds



Restricted Gifts

- Must be spent according to criteria defined by the Donor as a condition of giving the gift. <u>Most gifts are restricted.</u>

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

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 be approved by the department most concerned with 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.

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Restrictions too Restrictive?

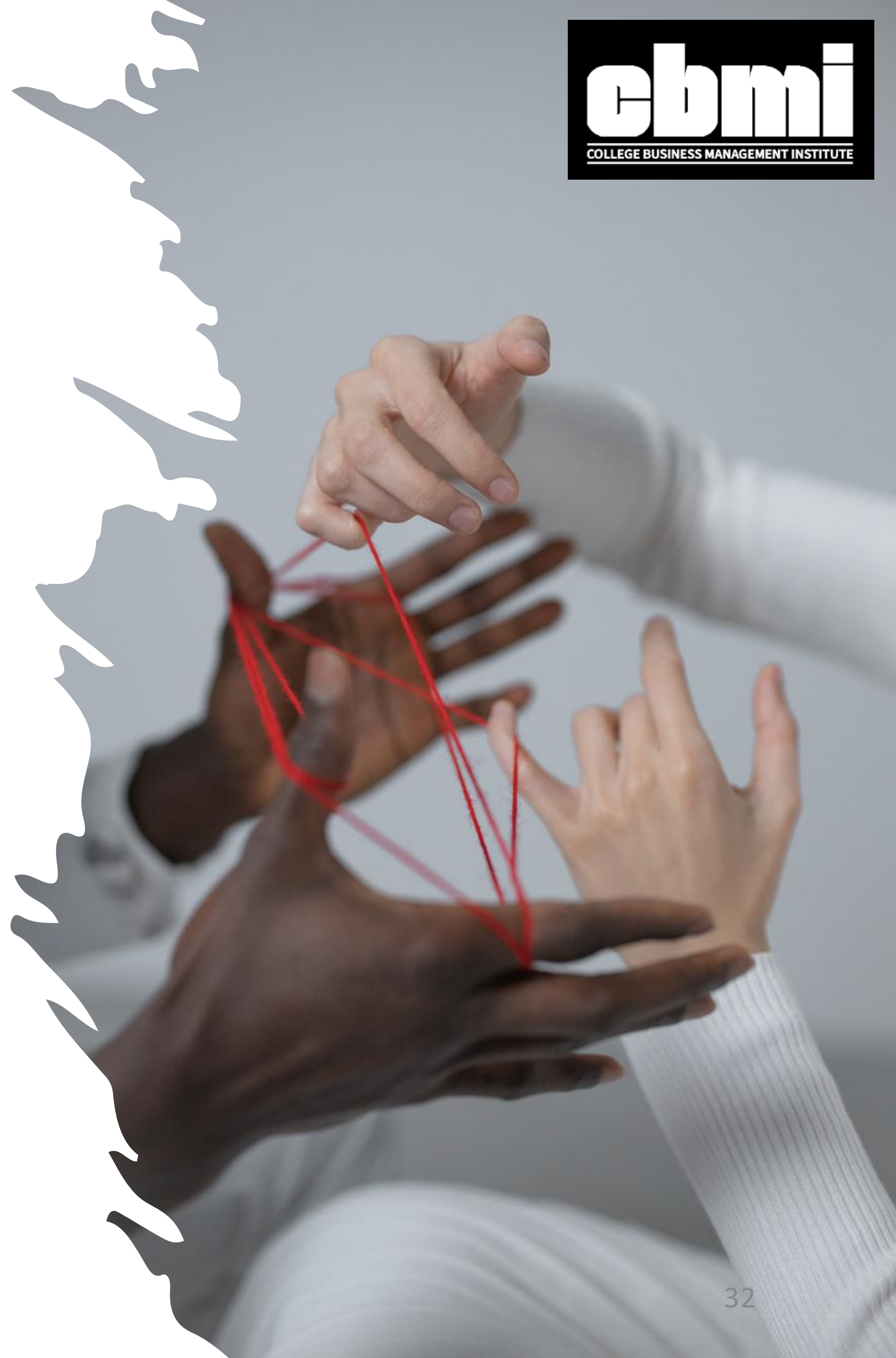
Endowments

- 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!



Restriction versus Designation

Restrictions: Can you spend the gift?

- Restrictions are donor imposed.
- Restrictions restrict spending the principal of the gift

Designations: You can use the gift, but how can you spend it?

- Designations may be either donor or institution imposed.
- Designations limit the use of the gift or income distribution for a particular purpose.

Endowment versus Current Use

Endowment

- Funds or property donated to an institution or individual as a source of income.
- Usually held and invested "in perpetuity."
- All gifts are invested. Produces a reliable income stream from year to year.

Current Use Gifts

- Gifts that may be spent immediately, if necessary. Also called "Development Fund Gifts" or simply "Gifts."
- All gifts are distributed to the departments. No guarantee that there will be future gift income.

MINI QUIZ

Which of the following characteristics most clearly distinguishes a **research grant** from a **charitable gift** in an academic or nonprofit context?

a) It is used to support a project aligned with the institution's mission.
b) It comes from a private individual or foundation.
c) It includes specific deliverables, milestones, or reporting obligations.
d) It can be acknowledged publicly and may be tax-deductible.

MINI QUIZ - ANSWER

Correct Answer: C

Explanation: Research grants typically come with detailed terms such as project goals, timelines, reporting requirements, and conditions for fund use—making them more restrictive and contractual than charitable gifts, which usually come with fewer strings attached.

MINI QUIZ

Which of the following best defines an allowable donor restriction on a charitable gift that can be recorded as revenue under GAAP and remain compliant with IRS rules?

a) A restriction that limits the gift to use within a specific timeframe or program aligned with the nonprofit's mission
b) A restriction requiring the nonprofit to return the funds if not fully spent within one year
c) A restriction granting the donor approval rights over each disbursement
d) A restriction earmarking the gift for a specific individual beneficiary

MINI QUIZ - ANSWER

Correct Answer: A

Explanation: Under both FASB (ASC 958-605) and IRS guidelines, nonprofits can accept donor-restricted contributions as long as restrictions are mission-aligned and do not confer control or private benefit to the donor. Option A reflects a purpose or time restriction, which is allowable and recognized as donor-restricted revenue. Options B–D introduce refund conditions, donor control, or private benefit, which are either impermissible or severely limit acceptability.

Gift Processing

"Failure to process gifts in accordance with University policy creates donor-relation problems and complicates efforts to comply with the tax laws."

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)

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Gift Processing

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

- University 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 University Name - date of transfer on the corporation's books

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

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Name of Org

University of Kentucky

RECEIPT OF CHARITABLE CONTRIBUTION.

Donor

John and Jane Wildcat
123 Wildcat Drive
Lexington, KY 40506

On behalf of the University of Kentucky, thank you for making a gift to UK. This is an official receipt for your recent charitable contribution and it may be used for income tax purposes.

With your steadfast support, our university is poised to reach even greater heights as we continue our transformative journey of growth and innovation. The initiatives and opportunities that lie ahead hold the promise of substantive achievements and impact, both within our academic community and throughout the state of Kentucky. This is just the beginning of what Kentucky can do.

Date of Gift

Amount Received

Date	Designation	Contribution
10/23/2024	Fund for UK	$100.00

THANK YOU.

UK Philanthropy • 450 Rose Street • Lexington, KY 40506-0015 • P: 859-257-3911 • F: 859-323-9881 • E: philanthropy@uky.edu • W: philanthropy.uky.edu

University of Kentucky

The University of Kentucky is a tax-exempt organization because it is an agency and instrumentality of the Commonwealth of Kentucky. Charitable contributions to the university are deductible by donors, to the extent allowable by law, because the University of Kentucky is an educational organization pursuant to § 170(b)(1)(A)(ii) and a government agency pursuant to § 170(b)(1)(A)(v) of the Internal Revenue Code, when contributions are made to it in furtherance of its public mission of education, research and creative work, service and health care.

In all cases, the University of Kentucky recommends that you consult with and rely upon the advice of your tax professional regarding the deductibility of your contribution.

No goods or services were provided in exchange for your contribution unless otherwise specified.

Please note that with the passage of the Tax Cuts and Jobs Act of 2017, contributions made on or after January 1, 2018 may no longer be deductible for tax purposes to the extent the donor receives (directly or indirectly) the right to purchase tickets for seating at an athletic event at the university's athletic facilities.

All gifts, whether endowed or non-endowed, are invested or spent in alignment with university investment and spending priorities. To learn more, visit www.philanthropy.uky.edu/ways-to-give/advancement-fee.

Issued from:
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Benefits Statement

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

Roles and Responsibilities

Donor Relations Role

Express appreciation for gift and lay the groundwork for future solicitations

- Donor Recognition
- Donor Reporting
- Stewardship Services

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

Role of University Financial Partners

- Ensure gift accounts are established in a timely manner
- Familiarize yourself with donor documents and restrictions of all funds within your department/unit
- Ensure all expenses comply with donor intent and/or restrictions
- Provide financial reports as needed to Donor Relations

OPEN FORUM QUESTIONS

1. What role do you see yourself playing in stewarding donors?

2. How can you implement the role of financial stewardship at your university?

QUESTIONS?

Reminder!

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.