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INTRODUCTION

This handbook is designed to provide the reader with information and procedures related to the Faculty Endowment Matching Program (FEMP). The handbook contains procedures performed by IU organizations, and many procedures performed by the IU Foundation. Each section describes the procedures that organizations must follow.

BACKGROUND AND GENERAL OVERVIEW

Upon the recommendation of President Myles Brand, the Indiana University Board of Trustees authorized in August 1995 the establishment of a program to match the endowment earnings generated by endowed gifts provided through the generosity of donors. This program was established and implemented as the Indiana University Faculty Endowment Income Match Program. Endowment funds received for the purpose of direct faculty support, especially for Chairs and Professorships are eligible for this match program.

Following are general guidelines pertaining to the FEMP:

1. Endowment funds received after December 1, 1995 through December 31, 1999 for the purpose of direct faculty support, especially for Chairs and Professorships, were eligible for the match.

2. The full match, that is 1:1, will consist of a payout equal to 5% of the original principal on an annual basis and will be available for gifts of at least $1,000,000. If the gift falls between $500,000 and $1,000,000, the match will be based on a ratio of 1:2. Payout will be in perpetuity. A contractual commitment will be provided to the donor.

3. The source of the match will be one-half from University Administration and one-half from Campus Administration. At their option, Chancellors may choose to charge the successful unit for all or part of the campus's portion of the match, or they may distribute all or part of the charge to the entire campus.

4. To take an example, Mary Jones donates $500,000 cash for endowment for a faculty position in the School of Public and Environmental Affairs at IU Bloomington. Assume the estimated annual earnings from the endowment is $30,000 per year (that is, 6% of $500,000). The match is 1:2 on this principal amount ($500,000) in perpetuity. Thus, in addition to the $30,000, SPEA will receive $12,500 per year for support of this position. Of the $12,500, University Administration will provide $6,250. The remaining $6,250 is the responsibility of, in this case, the Bloomington campus. The Bloomington campus may pass this responsibility on to the school.

5. Gifts may be paid over a maximum of five years. The match will be available only if there is a firm, written commitment. However, matching funds will be provided only to the extent that payment has been received (with one exception noted below). So, if there is a gift of $1,000,000 to be paid over four years and $250,000 is received the first year, then the matching funds for the first year are $12,500. Here the match rate is 1:1, and the payout is 5% of $250,000.
6. In the case of irrevocable trusts established during the match period with no payment until termination of the trust, the institutional payout will begin when the trust is established. When the trust terminates, the trust income will become available. At the termination of the trust, if the trust income is less than the pledge, the institutional contributions will be adjusted and calculated on the trust income.

7. A qualified gift for a 1:1 match may be distributed between more than one endowed faculty program, where normally each would qualify, on its own, for a lesser match of 1:2, or no match at all. For example, a $1,000,000 gift will qualify for the 1:1 match regardless of how the gift is distributed among qualified programs. It is the size of the gift that matters, not how it is distributed among the qualified programs at IU.

8. The University President, in consultation with the IU Foundation President, reserves the authority to limit eligibility. In particular, it should not be possible for a single mega-gift to deplete all matching monies. In order to determine the upper limit of a specific gift, a brief written proposal should be submitted to the IU President. The IU Foundation Executive Director, Capital Campaigns will be the initial qualifier of matches under this program.

9. Any gift that is eligible for the match must be administered by the Indiana University Foundation or Indiana University and not by an outside trustee.

10. Responsibility for authorizing exceptions to this policy rests with the University President.

Funding and administration of each endowed professorship/chair is in accordance with procedures established by and between Indiana University and Indiana University Foundation. In accordance with established procedures, a special Indiana University account was created for each endowed professorship/chair identified under the FEMP. This account will receive the income from the endowment interest and from the University matching funds sources. This account will also be used to record expenditures of the funds related to the professorship/chair.

Due to the match requirement being effective with the creation of the endowed professorship/chair, the department/administrative unit's match funding will be identified from the effective date and annually thereafter. This is in accordance with the contractual commitment provided to the donor. If there is a time lag between the establishment of the professorship/chair and the naming of an individual to the chair, the matching funds will accumulate in the aforementioned special account created for each endowed professorship/chair. The funds will remain in the account until utilized for an appointed professorship/chair holder.

An income and expense budget will be established in the special account created for the professorship/chair. This budget will not include hospitality expenses and/or other expenses inconsistent with Indiana University policy.

**GIFTS ELIGIBLE FOR THE MATCHING PROGRAM**

**Outright Gifts: (Cash and Securities)**

Outright gifts of cash or securities that meet the minimum amount of $500,000 or above are eligible for the matching program. These commitments may be received (between 12/1/95 and
12/31/99) all at once or as a pledge paid over five years. Gifts of securities will be recorded at their fair market value on the date of transfer. Personal property will not qualify for the match.

Charitable Remainder Trusts:

Charitable Remainder Uni-Trusts (CRUT's) qualify for the match. However, the payout on the match will be based on the face value of the donor's gift to the IU Foundation, even if the remainder value exceeds the face value at the time the trust terminates. For example, if a donor funds a Charitable Remainder Trust during the match period with $1,000,000, and assuming the annual income will be $50,000, the match of a gift at this level by the University will be 50% of the annual income, or $25,000. The ultimate payout of the trust to the IU Foundation depends upon the payment rate to the beneficiary(ies) and investment performance. The age of life income beneficiaries will be considered when deciding whether or not to match gifts of trust.

Charitable Gift Annuities and Pooled Income Funds:

The Charitable Remainder Trust criteria (as described above) also apply to Charitable Gift Annuities and the Pooled Income funds. Because of the irrevocable nature, these gifts qualify for a match from the University based upon the face value of the gift at the time it is initially received by the IU Foundation.

Charitable Lead Trusts:

Since Charitable Lead Trusts pay the income they generate directly to the IU Foundation, they qualify if the income generated by the trust to the IU Foundation meets the minimum amount required to qualify for the match. For example, a Charitable Lead Trust funded with assets that will produce at least $500,000 over a five-year period will qualify for the match. If this payout is received or pledged to IU during the match period, it qualifies in the same way as an Outright Gift.

Bequests:

Newly-established bequest expectancies will qualify as long as they meet the minimum levels, are first documented during the matching period, and represent a legally binding obligation upon the donor's estate at the time of the donor's death. Age guidelines will be considered when deciding whether or not to match individual bequests. One of the following types of documentation on file at the IU Foundation is sufficient: a copy of the will or excerpt from the will; Arbutus Society enrollment, a signed gift agreement; a letter of intent from the donor, or a letter from the donor's attorney or financial adviser.

Life Insurance:

Life insurance qualifies only if the policy is fully paid-up when given to the IU Foundation or will be paid-up within a five-year period after the date of the gift. The donor must make the IU Foundation the irrevocable owner and beneficiary of the policy for the matching fund program to apply. The match will be based on the death benefit of the policy, and it will apply at the time the policy is received by the Foundation. For example, if a donor makes a gift of a life insurance policy with a $500,000 death benefit, when the policy matures that account will qualify for the
match. Age guidelines may be considered when deciding whether or not to match life insurance gifts.

**Remainder Interest in Real Estate:**

Gifts of real estate will be considered on a case-by-case basis. Each gift of real estate must have a documented value to determine qualifications for, and the amount of, the match.

For further information, contact Dan Smith, President, IU Foundation at (812) 855-6679 or send request to Indiana University Foundation, P.O. Box 500, Bloomington, IN 47402.

**ACCOUNT DOCUMENTATION**

**DOCUMENTATION REQUIREMENTS**

Prior to setting up a new Endowment Match account, the following documentation was required. Items 1 and 2 are provided by the IUF Executive Director, Capital Campaign. Item 3 is provided by the IUF Executive Director, Planned Giving Services.

1. A copy of the Endowed Gift Agreement. This stipulates how the funds should be spent.

2. A copy of the Income Matching Program Acknowledgement Form. This provides the name of the fund, donors, payment schedule, and appropriate IU signatures.

3. For bequests and other delayed gifts, a document indicating the gift is irrevocable. This allows the University to begin matching the gift even if the gift has not yet been received. For many gifts, an irrevocable clause within a legal document is sufficient. For gifts without such a clause, the donor should sign an Intent to Donate form. Without one of these types of documentation, the delayed gift account may not receive matching funds until the gift is received.

All of these documents should have been provided by the IUF to the following IU units:

* School and Department
* Campus Chancellor
* Vice President & Chief Financial Officer
* Vice Chancellor -Bloomington, and Dean of Academic Affairs
* Associate University Director of the University Budget Office

If your organization does not have all of the documents for a particular account, contact the IUF Executive Director of Capital Campaigns. UBO staff also maintains a copy of all required documents for Endowment Match accounts.

**EARNINGS REPORT AND BUDGET CALCULATIONS**

**EARNINGS REPORT**

Each quarter, UBO will determine the earnings for each FEMP account. UBO staff disseminates the Earnings Report to campuses and schools. Any changes and/or corrections that arise will be
disseminated to the campuses and schools. If there are questions regarding the documents disseminated by UBO, or regarding whether action should be taken in a particular instance, they may contact UBO staff for clarification.

Each campus and/or school must compare its account budgets quarterly against the IUF Earnings Report to determine whether the earning and match figures have changed significantly. If the IUF Earnings Report indicates a decrease in earnings or match funds, the department/school should contact the school budget office and UBO immediately to discuss alternatives.

Donations below $500,000 do not receive matching funds and are not maintained with a 28-XXX-XX account. Donations between $500,000 and $999,999 receive matching funds at a rate of 1:2. Donations of $1,000,000 and over are matched at a ratio of 1:1. The match ratio is based on the total gift from the donor. Some donors split their gift and the match ratio is based on the total gift.

The Earnings Report contains the following information.

<table>
<thead>
<tr>
<th>Report Field</th>
<th>Report Field Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>IU Account Number</td>
<td>The standard IU account number assigned to Endowment Match accounts. All Endowment Match accounts follow 28-XXX-XX.</td>
</tr>
<tr>
<td>IUF Account Number</td>
<td>IUF account number used to track Endowment match contributions.</td>
</tr>
<tr>
<td>Donors and/or Title</td>
<td>The names of the donors. Where the Donor(s) wishes to remain anonymous, the account title is listed.</td>
</tr>
<tr>
<td>Approved Match Amount</td>
<td>Indicates Planned Gift.</td>
</tr>
<tr>
<td>Contribution</td>
<td>Amount of contribution or pledge</td>
</tr>
<tr>
<td>Campus Match</td>
<td>Amount campus matches based on contribution</td>
</tr>
<tr>
<td>President Match</td>
<td>Amount President's Office matches based on contribution</td>
</tr>
<tr>
<td>Match Based on</td>
<td>Category Matching funds are calculated on.</td>
</tr>
<tr>
<td>Estimated Annual Earnings</td>
<td>Estimate of account earnings.</td>
</tr>
<tr>
<td>Income Balance</td>
<td>Amount campus matches based on contribution</td>
</tr>
<tr>
<td>Principal Balance</td>
<td>Principal balance of the account.</td>
</tr>
</tbody>
</table>

**BEQUESTS**

Endowment Match accounts based on delayed bequests may opt to receive early matching funds in the current year, based on the availability of an Irrevocability Agreement signed by the donor(s). The amount of match funding is based on the level of anticipated bequest.

The Earnings Report assumes that departments with delayed bequest accounts will want to take advantage of the early matching funds. If a department wishes not to match funds, they may do so. The following conditions apply:
1. The bequest must still be outstanding.

2. The department cannot turn the match on and off. At the initiation of the account, the department or school had to inform UBO and the campus budget officer in writing prior to budget construction that they were not matching. The match will remain withheld until the department or school chooses to begin matching. Once the match is initiated, the department is not allowed to rescind it, and must provide funds for the match until the bequest comes in, at which point normal matching requirements go into effect.

3. The department must notify UBO and the campus budget officer in writing prior to budget construction of the next fiscal year, if they wish the match to begin in the upcoming fiscal year (only if withheld in prior years).

4. No budget should be established, and no expenses incurred, on accounts where the match is being delayed.

All bequests, CRUTS, trusts, testamentary gifts, and life insurance policies are matched at the full match value during the time when the gift is outstanding. The bequest match is an "all or nothing" offer.

Only bequests that are under IUF control (e.g., IUF-owned insurance policies) or are accompanied by an "Intent to Donate" or similar irrevocability document will be matched early. IUF will determine whether the bequest has the necessary documentation to qualify for early match. The IUF Earnings Report will indicate which accounts have the necessary documentation.

**BUDGETING**

As a part of the budget construction process each year, a budget must be submitted for all FEMP accounts that are going to receive and spend matching funds in the forthcoming and subsequent fiscal years (ongoing & permanent in nature). The endowment earnings and matching fund levels of income available to be budgeted will be based on information provided by the most current Earnings Report. Generally, the income to be budgeted should include only funding that will be received or earned during the operating year.

Following standard IU practices, balance carry-forward from prior fiscal years should be used for one-time expenditures, processing a current budget adjustment to recognize those uses in a given year, and should not be included in the base budget. There could, however, be exceptions to this, for example, cash balances or earnings accumulated over a period of time could enable the support of certain expenditures for an extended period of time.

The current budget should include all planned income & expenditures for the current fiscal year whether permanent or one-time in nature. The base budget should be reflective of only those items that are expected to be long-term.

Earnings are to be budgeted as object code 1179, President’s Match funds are to be budgeted as 9915, sub-object PRS, and Campus Match funds are to be budgeted as 9915, sub-object SCH.
REIMBURSABLE EXPENSES

HOSPITALITY

Hospitality expenses on Endowment Match accounts must follow standard IU policy as stated in Policy I-50. In addition, other hospitality expenses may be allowed when the following criteria are met:

1. the account must have hospitality expenses budgeted in the account;
2. the expenses must be related to the donor intentions or have a clear business purpose; and,
3. the expense must be reasonable.

Whenever hospitality expenses are charged to an account, the department must submit documentation to UBO to verify expenses meet these criteria. The necessary documentation includes date, time and location of the event, attendees (including title and organization), and an agenda of the event. This documentation could be the approved hospitality form for the Bloomington campus accounts.

Hospitality expenses that meet the current policy may be charged to any account. Hospitality not meeting current IU policy cannot exceed the available earnings for an account. Therefore, hospitality expenses not meeting current IU policy may not be charged to accounts that have no earnings income (bequest accounts).

Departments should be aware that specific hospitality charges might not be approved even though the budget includes hospitality expenses.

DONOR INTENTIONS

It is expressed to the donor the need for detailed donor intentions in the donor agreement, especially where unusual expenses are anticipated.

Chair holders may charge expenses that are directly related to supporting the position of the chair, or that enhance the distinction of the chair.

Departments must be prepared to identify how the expenses relate to the chair holder’s position, or how the expenses improve the stature of the scholar, department, and University, in keeping with donor intent, and recognize that some expenditures may be disapproved by IU or IUF administrators if deemed inappropriate for the FEMP account.

ACCOUNT MATCH REIMBURSEMENT

The procedures for reimbursement to the Endowment Match accounts include a draw against all IU funding first, then if expenditure amounts exceed the IU match (from both the department and the President) a reimbursement is requested from the Foundation endowment earnings. If the IU Foundation earnings were not required during the last fiscal year, then the Foundation earnings have not been recognized in the IU records and will remain available for reimbursement at the Foundation until required. The sequence of reimbursement for current year expenses is:
1. IU current year matches (from both the department and the President) (except for hospitality)

2. IU unused prior year(s) matching funds (carry-forward)

3. IUF current year endowment earnings

4. IUF prior year(s) earnings not yet required for reimbursement

Since the FEMP policies state that the IU matching amounts are required to be transferred to the account even if no FEMP expenditures are incurred in a given year in the 28 account it will draw against the current matching funds first. The Foundation endowment earnings are isolated and available for reimbursement as needed, but UBO does not submit a request for reimbursement to the IUF until all current year IU matching funds and prior year carry-forward have been drawn down to $0.00.

**PRESIDENT’S MATCH PROCEDURES**

After year-end closing for the previous fiscal year, UBO staff review all Endowment Match accounts currently slated to receive funding, according to the Earnings Report. Based on that report, UBO staff initiates KFS documents to transfer the matching funds from the President’s University Administration account to the individual Endowment Match accounts.

The UBO oversees an account called the Endowment Match control account. UBO staff transfers funds from the control account to the various Endowment Match accounts, via a KFS Transfer of Funds document. The UBO then reimburses the control account from the President’s Fund account. This provides sufficient tracking of all President’s Match funds to the various accounts.

Endowment Match accounts that have earnings from the endowment must be matched according to the program guidelines. Departments with accounts that have no earnings yet (bequest accounts and other delayed-gift accounts) may choose whether to accept early matching funds for those accounts, with restrictions, as stated in the "Budgeting" section above.

If required, UBO staff will make additional draws from the control account according to the match requirements of the Earnings Report.

**CAMPUS MATCH PROCEDURES**

The Bloomington Provost’s office has created a control account for campus matching funds on the Bloomington campus. The Bloomington campus has determined that the matching funds for Endowment Match accounts will come from the school receiving the endowment. The matching funds are transferred from the schools to the campus control account. Usually, the school or college takes responsibility for making those funds available for transfer to the campus control account.

The campus budget officer transfers the funds from the campus control account to the various Endowment Match accounts via a KFS Transfer of Funds document and then reimburses the control account from the various schools and/or departments. This provides sufficient tracking of all Bloomington campus Endowment Match funds to the various accounts.
Indianapolis, East, Northwest, South Bend, and Southeast campus Budget Officers transfer their Endowment Match funds directly to the various Endowment Match accounts. While the procedure for these campuses may be different from Bloomington, the transfer documents and object codes should follow the example. Match funds are expensed before earnings, so it is important for match funds to be transferred in the fall semester.

ACCOUNT EARNINGS REIMBURSEMENT

PROCEDURES

According to IUF Policy, Endowment Match accounts are reimbursed from the endowment earnings only after all matching funds have been expended. On a quarterly basis, UBO staff monitors the expenses for each account to determine which accounts need reimbursement.

For each account requiring reimbursement, UBO staff initiates a KFS invoice. An ETA document is then initiated and routed to the Foundation. An Income/Expense report pdf file accompanies the ETA document, as well as a pdf file of the IU invoice. IUF staff has the capability to review the expenditures on each account at any time via the Indiana University Information Environment or the Kuali Financial System. IUF staff members review the invoice for appropriateness and accuracy, paying the invoice if no questions arise.

When the invoice is created in IU’s KFS, the account is credited with the earnings income, under object code 1179, "IUF Income". KFS also makes an entry in the 8118 category, "Accounts Receivable". When the invoice is paid by IUF, the 8118 category is offset, canceling out the prior entry.

The departments have no specific duties during this process, but may be called by IUF staff if IUF staff has questions about expenditures. Departments may also be asked to move expenses to less restrictive IU or IUF accounts, if the expenses are determined to be unrelated to donor intentions.

IUPUI departments should review the billing and associated expenses as quickly as possible to expedite approval of payment.

As stated above, the invoice document in KFS automatically allocates the earnings payment to the account when the invoice is created. It also generates an equal line item in Accounts Receivable, object code 8118. When IUF pays the invoice, IUF FMS offsets Accounts Receivable, object code 8118.

Departments have no specific duties in this process, however, if departments notice errors have been made with IUF payments on Endowment Match accounts they should contact the FMS help desk or UBO staff.

REPORTING

DEPARTMENTS

For the fall and spring semesters as departments designate endowed chairs and professorships, they will update the People Soft Administrative Post and contact UBO with the title information.
Departments may be asked to provide IUF with a stewardship report. Departments may also be required to provide additional information as requested by IUF regarding particular expenses associated with Endowment Match accounts.

**UNIVERSITY BUDGET OFFICE**

Before October 1st, UBO will provide IUF with an annual report of fiscal year revenues and expenditures for each of the accounts qualifying for the faculty endowment match program.

**IU FOUNDATION**

The IUF will provide a report to each donor of the endowment performance for the year by October 1st. The IUF will also provide each donor with a report of income and expenses for each account.

**AUDITS**

Departments may be required to provide information to the auditors or to UBO staff as part of the audit process. In particular, departments will maintain documentation on travel expenses by persons other than the chairholder, hospitality and conference expenses, equipment purchases, and non-chairholder salaries. This is not an exhaustive list of expenses reviewed by IU auditors, and departments may be required to provide additional information on other expenses as well.

In particular, auditors check to ensure the proper staff members are receiving the benefits of the program. To assist the auditors in this task, and to assist UBO staff with ongoing review of account expenditures, the departments should provide UBO with the names of designated chairholders, professors, and other personnel associated with the Endowment Match account.