

## *Monthly Long-Term Investment Pool Distribution*

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### Purpose

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This document summarizes Vanderbilt University's internal procedures related to monthly **long-term investment pool ("LTIP")** distributions, and documents the manual journal entries necessary to record the transfer in the university's **general ledger ("GL")**. These procedures are effective April 30, 2012.

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### Introduction and Background

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The **Office of Investments ("OoI")** coordinates with **Treasury** on a monthly basis to facilitate actual cash transfers equivalent to approximately one-third of a given quarter's *estimated* distribution, net of gifts and other OoI expense and transfer items. This cash transfer, which may be one or more wires, is made via **Due To/Due From ("DTDF")** account (GL account 11000) settlement between OoI's bank account at **State Street**, and the university's operating cash account at **The Bank of New York Mellon ("BNYM")** managed by the Treasury Office. OoI typically transfers approximately \$10-12M, net of gifts and other items, to Treasury at each month-end in order to avoid having to transfer \$30-\$36M (est.) as a lump-sum cash payout at quarter-end. This helps to smooth out OoI's cash outflows in the broader context of the LTIP's capital calls and other cash requirements related to the LTIP's various investments.

With the implementation of this procedure, GL journal entries will now be made on a *monthly* basis to reflect the above activity, including a monthly LTIP distribution. Historically, such entries were made via the **Unit Accounting System ("UAS")** at each quarter-end with the posting of the actual quarterly distribution to the GL. The Hospital and School of Medicine already manually accrue their quarterly LTIP distributions to operating centers on a monthly basis. At the direction of senior management, persons from OoI, Treasury, and the **Provost's Office of Finance and Administration** met in March 2012 to develop a plan to begin a monthly LTIP distribution of cash and the requisite GL distribution. This document summarizes the new procedures.

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### Proposed Plan

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Manual *monthly* journal entries will be posted by the Provost's Office of Finance and Administration to reflect the continuing actual monthly cash transfers between OoI and the university's operating account related to the LTIP distribution. The monthly cash transfers dictate the need for an accompanying LTIP distribution proxy to occur *monthly* so that the LTIP does not have a DTDF balance earning zero returns in the interim months.



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## GL Centers and Accounts

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GL centers and income accounts involved are:

6-97-000-9100 / 35460 (Payout-LTIP Income Distribution)  
1-92-421-0000 / 44740 (Current Fund-Long Term Investments Income)  
2-01-771-0000 / 44700 (Hospital Unrestricted Endowment Income)  
1-04-054-0000 / 44700 (School of Medicine-Endowment Income)

GL centers and bank accounts involved are:

6-97-000-0295 / 11700 (VAA4 State Street Cash Account-Cash Equivalents)  
1-97-000-0000 / 10340 (BNYM Acct #5346 VU Disbursement Funding & Wires bank account)

The aforementioned bank accounts are affected (e.g., debit/credit) when actual cash is transferred between the LTIP bank account at State Street and the university operating cash bank account at BNYM to settle DTDF on the last business day of a given month.

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## Procedures and GL Journal Entries

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The following procedures and GL journal entries outline the manual and automated UAS entries that are to occur related to the monthly and quarterly LTIP distribution. Note that the dollar amounts below represent actual amounts from the quarter ending December 31, 2011, and are included for illustrative purposes only. Each quarter, the monthly accrual amounts should be revised based on the prior quarter's actual payouts.

Currently, the **Hospital** and **School of Medicine** (Department of Finance) perform, and will continue to perform, the following entries on a monthly basis:

### **Hospital and School of Medicine Centers - Interim Month (x2)**

Manual entry to accrue an estimate for quarterly distribution to operating centers (e.g., approximately one-third of the prior quarter-end amount):

DR.	6-97-000-9100 / 35460	\$ 865,516	
	CR.	2-01-771-0000 / 44700	\$ 86,720
	CR.	1-04-054-0000 / 44700	\$ 778,796

### **Hospital and School of Medicine Centers - Quarter End**

Manual entry to reverse previous two Interim Month entries:

DR.	2-01-771-0000 / 44700	\$ 173,440	
DR.	1-04-054-0000 / 44700	\$1,557,592	
	CR.	6-97-000-9100 / 35460	\$1,731,032



Another monthly journal entry is required for all other LTIP distributions (less the Medical Center interim accruals identified above), including distributions for working capital side-by-side units and planned giving asset units (i.e., CRUTs). The following outlines the general internal procedures and journal entries to be performed by the Provost's Office of Finance and Administration (Ben Franklin) to accrue all other monthly LTIP distributions:

**Calculation of Amount for Monthly Journal Entries**

Prior Quarter (12/31/2011) Total	
LTIP Distributions	\$40,147,269
	<u>        / 3</u>
Gross Monthly LTIP Distribution	\$13,382,423
Less: Hospital Accrual Booked Separately	\$    86,720
Less: School of Medicine Accrual Booked Separately	<u>\$   778,796</u>
Net Interim Monthly Accrual for	
All Other LTIP Distributions	<u>\$12,516,907</u>

**All Other LTIP Centers - Interim Month (x2)**

Manual entry to accrue an estimate for quarterly distribution for all other LTIP centers, excluding Hospital and School of Medicine interim accruals identified above (e.g., approximately one-third of the prior quarter-end amount):

DR. 6-97-000-9100 / 35460	\$12,516,907
CR. 1-92-421-0000 / 44740	\$12,516,907

**All Other LTIP Centers - Quarter End**

Manual entry to reverse previous two Interim Month entries:

DR. 1-92-421-0000 / 44740	\$25,033,814
CR. 6-97-000-9100 / 35460	\$25,033,814

**All LTIP Centers Quarter End**

UAS automated entry, initiated by the Provost's Office of Finance and Administration, to record actual quarterly distribution, which includes all LTIP centers (University, Medical Center, working capital, and planned giving assets):

DR. 6-97-000-9100 / 35460	\$40,147,269
CR. x-xx-xxx-xxxx / xxxx	\$    x,xxx [UAS]
CR. x-xx-xxx-xxxx / xxxx	\$    x,xxx [UAS]
CR. x-xx-xxx-xxxx / xxxx	\$    x,xxx [UAS]
CR. x-xx-xxx-xxxx / xxxx	\$    x,xxx [UAS]
CR. x-xx-xxx-xxxx / xxxx	\$    x,xxx [UAS]
CR. x-xx-xxx-xxxx / xxxx	\$    x,xxx [UAS]



CR.	x-xx-xxx-xxxx / xxxx	\$	x,xxx [UAS]
CR.	x-xx-xxx-xxxx / xxxx	\$	x,xxx [UAS]
CR.	x-xx-xxx-xxxx / xxxx	\$	x,xxx [UAS]
CR.	x-xx-xxx-xxxx / xxxx	\$	x,xxx [UAS]
CR.	x-xx-xxx-xxxx / xxxx	\$	x,xxx [UAS]
CR.	x-xx-xxx-xxxx / xxxx	\$	x,xxx [UAS]

The interim month and quarter-end entries (reversal of interim entries and posting of the actual quarterly distributions via UAS) need to occur **before the last business day of each month** in order to create a DTDF to settle via actual cash transfers before month-end. The initial effect of the monthly payout entries will be to create a debit DTDF balance in the operating accounts and to create a credit DTDF balance in the LTIP fund 6. An actual cash transfer from the LTIP to operating accounts before month-end will result in an offsetting credit to DTDF in the operating accounts (and a debit to cash in the operating accounts) and an offsetting debit to DTDF in the LTIP fund 6 (and a credit to cash in the LTIP fund 6).

The actual cash transfers will continue to occur each month with OoI communicating with Treasury the approximate DTDF settlement amount, which includes the monthly payout accrual estimate, net of gifts and other OoI-related transfer activity. This settlement will *typically* result in a wire *from* OoI's State Street bank account *to* the university's BNYM operating account on the last business day of the month. During certain months, to accommodate LTIP cash positioning, OoI may initiate the payout wire *several days prior* to month-end, followed by a separate wire on the last business day of the month from operating to the LTIP for gifts and other transfers. University Bank working capital contributions to the LTIP and/or quasi endowment contributions may result in a net wire *from* the university's BNYM operating account *to* OoI's State Street bank account at month-end DTDF settlement.

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### Trustee and Effective Dates

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This procedure document was created by the Treasury Office and was affirmed by the Office of Investments (Steve Bachus), the Provost's Office of Finance and Administration (Ben Franklin), and Finance (Dalana Frank). Relative to ongoing review for continued applicability and/or updating, the trustee of this policy is the Provost's Office of Finance and Administration

Effective: April 30, 2012

Last Revised: April 2012