



TEXAS TECH UNIVERSITY™

Operating Policy and Procedure

OP 02.09: Gifts of Securities

DATE: July 16, 2008

PURPOSE: The purpose of this Operating Policy and Procedure (OP) is to define and clarify the policies and procedures necessary to properly accept, record, and acknowledge gifts of securities from donors to Texas Tech.

REVIEW: This OP will be reviewed in April of even-numbered years by the vice chancellor for institutional advancement (VCIA) and the Texas Tech University System (TTUS) chief financial officer (CFO).

POLICY/PROCEDURE

1. Transfer of Securities

a. Notification of Transfer

- (1) The donor, a development officer, or the donor's agent should notify the Office of Institutional Advancement's legal counsel when a transfer of stock is to be made for a gift to Texas Tech.

Note: If possible, the transfer of ownership should be made from the donor to Texas Tech Foundation, Inc., (TTFI). Transfers to Texas Tech University and Texas Tech University Health Sciences Center also may be made.

- (2) When notification has been confirmed, a *Gift of Stock Transmittal Form* should be initiated by the primary person of notification (e.g., legal counsel) or representative of Institutional Advancement Financial Services to capture the necessary information to properly record and designate the donor's intent. Refer to the attachment for an example of the form and the required information.

Note: The transmittal is not complete until the stock is sold, the proceeds deposited, and the funds properly allocated.

- (3) In certain circumstances, the donor will not notify Texas Tech of a gift of stock. To help in determining if transfers have been made to Texas Tech, the Institutional Advancement Financial Services should review the active TTFI stock brokerage accounts weekly for indications of any new transfers.

b. Acceptance and Restrictions

- (1) Marketable Securities

- (a) Securities that are traded on the Stock Exchange or other readily marketable securities, including mutual funds, shall be accepted by Texas Tech.
- (b) Such securities shall be sold **immediately** upon proper receipt by TTFI unless a compelling reason (such as direction of the donor) exists to hold the securities, in which case, the donor should make the request in writing directed to the Office of Institutional Advancement. Such requests must be approved by the VCIA.
- (c) Acceptance of stock with restrictions on the immediate sale of stock, such as Rule 144, should be reviewed with caution. During times of market volatility, the delay in the sale of stock by TTFI may result in loss of funding for programs and student financial aid, contrary to the donor's original intent.

(2) Closely Held Stock

- (a) Securities from corporations organized with fewer than thirty-five shareholders and that are not required to register their stock certificates with the Securities and Exchange Commission are deemed to be closely held. This type of stock must follow direct rules of acceptance because of the uncertainties in valuation and hidden restrictions; therefore, more information needs to be obtained before acceptance.
- (b) The development officer or Institutional Advancement legal counsel must determine if there are transfer restrictions on the transfer contained in the bylaws and/or reflected on the stock certificates. This is accomplished by examination of the certificates and other available documentation.
- (c) The development officer must also obtain the most recent audited financial statements or financial appraisal. Other financial history and profitability forecasts may be required upon request.
- (d) Before acceptance, the development officer must provide the requested information obtained to the treasurer of TTFI and inform the prospective donor that the information will be reviewed by TTFI and that a timely response will be following.
- (e) The VCIA will be informed of any questions or circumstances that will delay or reject the acceptance of the closely held stock. The development officer or prospect manager will correspond with the donor on the status of the gift.

c. Date of Record

- (1) The delivery date of the stock (date of record) is the date that the donor has unconditionally relinquished all rights to the stock and **all** necessary and complete documentation is available to execute the transfer.
- (2) Institutional Advancement Financial Services should be primarily responsible for determining the date of record. The market source used to determine the stock transfer valuation that will be acknowledged to the donor normally will be recorded from an established stock brokerage Web site or daily investment publication (e.g., *Wall Street Journal*).

- (3) If the stock certificate is not endorsed, the donor should give TTFI a properly endorsed stock power with the certificate.

Basic Rules:

- (a) If the securities are hand-delivered to TTFI by the donor or the donor's broker or agent, then the date of record is the day TTFI receives the securities.

The physical address for delivery is:

Institutional Advancement
 Financial Services
 Texas Tech Plaza, Suite 406A
 Lubbock, Texas 79410

- (b) If the donor or the donor's broker or agent mails the securities to TTFI, the date of record is the day the securities are mailed to TTFI. This applies only to the U.S. mail, not to private couriers. Rule (a) applies when other couriers are used for delivery.
- (c) If the securities are delivered by the donor to her/his bank or broker or to the issuing corporation with instructions that the securities be reissued in TTFI's name, the date of record is the day the stock is transferred to TTFI on the corporation's books.
- (d) On closely held stock, the date of record will be the date that TTFI has accepted the transfer of the certificates, any restrictions, and determined value.

d. Valuation Methods

(1) Publicly Traded Shares (Based on Selling Price)

- (a) When there is a market for the securities on a stock exchange, in an over-the-counter market or otherwise, fair market value is the mean between the highest and lowest quoted selling prices on the date the gifts are delivered or deemed to be delivered.

Example: The highest quoted selling price on the date of record is \$100 per share. The lowest quoted selling price is \$90 per share. The fair market value (gift amount) is \$95 per share $[(\$100 + \$90) / 2]$.

- (b) If there are no market sales on the date of record but there were sales on dates within a reasonable period both before and after delivery, fair market value is a weighted average of the mean between the highest and lowest sales on the nearest trading dates before and after the date of record. The respective numbers of trading days between the selling dates and the date of record weights the average inversely.

Example 1: Donor delivers listed securities to charity on Saturday when the Stock Exchange is closed. Sales of stock nearest the date of record of delivery occurred one trading day before (Friday) and one trading day after (Monday). The high on Friday was \$11 per share and the low was \$9. The high on Monday was \$13 per share and the low was \$11.

Friday's mean:	\$10
Monday's mean:	<u>\$12</u>
Total:	$\$22 / 2 = \mathbf{\$11}$ fair market value

(2) Mutual Fund (Money Market Funds) Shares

- (a) For gifts of mutual funds in open-ended investment companies, the fair market value is the redemption price "bid" on the date of record. Close-ended investment company shares should be valued the same way as securities traded on a stock exchange or over-the-counter.

(3) Closely Held Stock

- (a) Stocks that are not (or cannot be) marketed through a public stock exchange or other means are subject to more scrutiny than marketable securities to determine value.
- (b) As mentioned under the topic of acceptance and restrictions, required information about the closely held company stock must be obtained before an objective valuation can be made.
- (c) Based on the information and analysis in each case, TTFI ultimately determines the value of the gift of stock.
- (d) As required by the Internal Revenue Service, if the determined value is more than \$10,000, then the donor is required to secure a formal appraisal.

e. End-of-Year Stock Transfer Considerations

- (1) In order for an official gift receipt to be issued for a gift of stock prior to December 31 of the giving year, the stock must be transferred to Texas Tech in one of the following methods:
- (a) The properly endorsed certificate or unendorsed certificate (with a properly executed irrevocable stock power) is physically delivered to Texas Tech, a development officer or agent representing the Office of Institutional Advancement and TTFI on or before December 31.
- (b) The properly endorsed certificate or unendorsed certificate (with a properly executed irrevocable stock power) is placed in the U.S. mail addressed to Texas Tech and postmarked on or before December 31.
- (c) The properly endorsed certificate or unendorsed certificate (with a properly executed irrevocable stock power) is placed with a courier other than the U.S mail, addressed to Texas Tech, and is physically delivered to Texas Tech on or before December 31.
- (d) The stock shares are actually transferred to Texas Tech on the records of the corporation by the donor or the donor's broker or agent on or before December 31.

- (2) Because of the restrictions and valuation requirements for transfer of closely held stock, such transfers need to be executed well in advance to allow time for TTFI to review and analyze.

2. Sale of Stock

- a. Stock should be sold as soon as possible using one of two selected brokers. These brokers will be independently selected through the RFP process for a period not to exceed three years.

Exceptions:

- All necessary and complete documentation is not available to conduct sale.
 - There is a 144 restriction in force.
 - The stock is closely held and TTFI has not approved the acceptance and the value.
- b. The associate director of Institutional Advancement Financial Services is responsible for issuing the request to sell and supplying any necessary document to complete the request.
 - c. Before the sale request is issued, any restrictions and/or donor requirements must be reviewed, and either the director of Institutional Advancement Financial Services or the associate CFO must approve sale.
 - d. Stock proceeds should be made payable to Texas Tech Foundation, Inc., (or Texas Tech University or Texas Tech University Health Sciences Center) and delivered to:

Institutional Advancement
Attention: Associate Director of Financial Services
P.O. Box 45025
Lubbock, Texas 79409-4025

- e. Upon receipt of the proceeds, the stock gain or loss, commissions, and other related costs of sale should be determined.
- f. The *Gift of Stock Transmittal Form* should be completed and copies forwarded as required.

3. Recording and Reporting Requirements

- a. Area Responsibility
 - (1) The Financial Services area of the Office of Institutional Advancement will be the primary source of tracking, recording, and filing gifted securities.
 - (2) The associate director will be the primary contact for questions and answers related to this function. The director of Financial Services and/or the associate CFO of the TTUS will serve as a secondary source of information and will perform similar responsibilities in the absence of the associate director.

b. Transfer of Stock

- (1) When the date of record and stock value have been determined, a journal entry should be prepared to record the outstanding stock as a current asset on the balance sheet as code 6308 and the gift in revenue code 48 in TechFIM.

The same information must be entered in the BSR/ADVANCE database to properly credit and acknowledge the donor for the gift (reference the BSR/ADVANCE policies and procedures).

- (2) The timing of this recording should follow the same rules set forth under OP 02.04, Section 1 ... "Upon receipt by the OIA , funds shall be deposited within three working days; however, funds of more than \$100 shall be deposited no later than the following day."

c. Sale of Stock

- (1) When the proceeds of the sale of stock have been received, a *Department Deposit Information Sheet* (DDIS) should be prepared to record the proceeds in TechFIM on the day of receipt or the next business day following delivery.

The entry will also include the net gain or loss from the sale, based on the value determined on the date of record.

- (2) The same information must be entered in the BSR/ADVANCE database to properly credit and acknowledge the donor for the gift (reference the BSR/ADVANCE policies and procedures).

d. Reporting and Filing Requirements

(1) Closely Held Stock

- (a) If the value of the stock gift is more than \$500, the donor should file an Internal Revenue Service *Form 8283*.
- (b) If the claimed gift amount is more than \$10,000, the appraiser and TTFI will be required to sign the *Form 8283*.
- (c) If TTFI signs the *Form 8283* and sells the stock within two years from the date of record, TTFI is required to file *Form 8282* with the Internal Revenue Service reporting the net proceeds from the sale.

(2) Gift of Securities Transmittal

- (a) When the stock has been sold and all required steps in recording and reporting have been performed, a copy of the completed transmittal form should be forwarded to the development officer or prospect manager, the account manager, and to the Institutional Advancement legal counsel.
- (b) The original transmittal form should be attached as a cover page to all documentation and correspondence applicable to the acceptance and sale of the stock.

The completed stock “packet” should be filed as designated. Retention of the “packets” should follow the retention schedule as maintained by Institutional Advancement Financial Services.

Attachment: Gift of Stock Transmittal Form
