



# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

## Operating Policy and Procedure

**HSC OP:** 02.09, **Gifts of Securities**

**PURPOSE:** The purpose of this Health Sciences Center Operating Policy and Procedure 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 Health Sciences Center Operating Policy and Procedure will be reviewed on April 1 of each even-numbered year (ENY) by the Vice Chancellor for Institutional Advancement. Changes regarding financial procedures will be made with the concurrence of the Executive Vice President for Finance and Administration.

### **POLICY/PROCEDURE:**

#### **1. Transfer of Securities**

##### **a. Notification of Transfer**

1. Donor, development officer, or donor's agent should notify the Institutional Advancement's legal counsel at Central Office of Institutional Advancement 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 donor to Texas Tech Foundation, Inc. Transfers to Texas Tech University and Texas Tech University Health Sciences Center may also 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 Accounting Services for Institutional Advancement to capture the necessary information to properly record and designate the donor's intent. Refer to Attachment A 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 – Accounting Services should review the active TTFI stock brokerage accounts weekly for indications of any new transfers.

##### **b. Acceptance and Restrictions**

###### *Marketable Securities*

1. Securities that are traded on the Stock Exchange or other readily marketable securities including mutual funds shall be accepted by Texas Tech.
2. Such securities shall be sold immediately upon proper receipt by the Foundation 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 Institutional Advancement. Such requests should be brought to the attention of the Vice Chancellor for Institutional Advancement (VCIA).

3. 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.

#### Closely Held Stock

1. The stock subject to these considerations is stock in companies that are of a size such that they are not required to register with the Securities and Exchange Commission (fewer than thirty-five shareholders). These are generally small family companies.
2. The development officer must determine if there are restrictions on transfer contained in the bylaws and/or reflected on the stock certificate, and must inspect the certificate for transfer restrictions upon receipt of the certificate.
3. Prior to acceptance of the gift, the development officer must request a copy of the company's most recent audited financial statement or financial appraisal. The development officer should explain that this information will be used only to reasonably value the stock for purposes of recording the gift and its sale.
4. Since the primary market for this type of stock is often the company itself or the other stockholders, the development officer should determine the intent of these parties. It should be made clear to the donor and other interested parties that the primary intent of the Foundation is to sell the stock, and every effort will be made to accomplish this objective. It should also be made clear to the donor that the Foundation has the right to sell a gift of stock to any buyer at any time in order to protect the interests of the Foundation.
5. Before acceptance, the development officer should provide the information obtained to the treasurer of the Foundation and inform the prospective donor that it will be reviewed by staff and an answer provided on a timely basis. If there is any question about donor intent or financial solvency, the prospective gift and circumstances will be brought to the attention of the Chief Operating Officer for further consideration.
6. If the value of the gift is more than \$500, an Internal Revenue Service Form 8283 should be filed by the donor. If the claimed amount is more than \$10,000, the donor is required to secure a formal appraisal. The appraiser and the Foundation will be required to sign the Form 8283. If the Foundation signs the Form 8283 and sells the stock within two years of acceptance of the gift, the Foundation is required to file Form 8282 with the Internal Revenue Service, reporting the net proceeds from the sale.
7. The Foundation will communicate with the company periodically, at least annually, requesting financial information and other pertinent data as appropriate, while advising the company that the stock is for sale and asking for assistance in locating interested buyers.

#### 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 – Accounting 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 will normally 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 the Foundation a properly endorsed stock power with the certificate.

Basic Rules:

- a. If the securities are hand-delivered to the Foundation by the donor or donor's broker or agent, then the Date of Record is the day the Foundation receives the securities.

The physical address for delivery is:

Institutional Advancement  
Administration and Accounting Services  
Texas Tech Plaza, Suite 406 A  
Lubbock, Texas 79410

- b. If the donor or donor's broker or agent mails the securities to the Foundation, the Date of Record is the day the securities are mailed to the Foundation. This applies only to the U.S. Mail, not to private couriers. Rule 1 applies when other couriers are used for delivery.
- c. If the securities are delivered by the donor to his or her bank or broker or to the issuing corporation with instructions that the securities be reissued in the Foundation's name, the Date of Record is the day the stock is transferred to the Foundation on the corporation's books.
- d. On closely held stock, the Date of Record will be the date that the Foundation has accepted the transfer of the certificates, any restrictions, and determined value.

d. Valuation Methods

*Publicly Traded Shares (Based on Selling Price)*

1. 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  $[(\$100 + \$90) / 2]$ .

2. 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:	\$12
Total:	$\$22 / 2 = \$11$ fair market value

*Mutual Fund (Money Market Funds) Shares*

1. 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.

#### *Closely Held Stock*

1. Stocks that are not marketed (or cannot be) through a public stock exchange or other means are subject to more scrutiny than marketable securities to determine value.
  2. 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.
  3. Based on the information and analysis in each case, the Foundation ultimately determines the value of the gift of stock.
  4. 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<sup>st</sup> of giving year, the stock must be transferred to Texas Tech in one of the following methods:
    - 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 the Foundation on or before December 31<sup>st</sup>.
    - 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<sup>st</sup>.
    - 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<sup>st</sup>.
    - The stock shares are actually transferred to Texas Tech on the records of the corporation by the donor or broker or agent on or before December 31<sup>st</sup>.
  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 the Foundation 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 the Foundation has not approved the acceptance and the value.
- b. The Associate Director of 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 prior to the sale by the Associate Director of Financial Services.
- d. Stock proceeds should be made payable to: Texas Tech Foundation, Inc., 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 (Attachment A) should be completed and copies forwarded as required.

### **3. Recording and Reporting Requirements**

- a. Area Responsibility
  - 1. The Accounting Services area of Institutional Advancement will be the primary source of tracking, recording, and filing of gifted securities.
  - 2. The Associate Director of Financial Services will be the primary contact for questions and answers related to this function. The Director of Financial Services and/or Associate CFO of TTUS will serve as a secondary source of information and perform similar responsibilities in the absence of the Associate Director of Financial Services.
- b. Transfer of Stock
  - 1. When the Date of Record and stock value have been determined, a journal entry needs to be prepared to record the outstanding stock as a current asset on the balance sheet as code "170503" and the gift in revenue code "560300" in Banner.  
  
The same information must be entered in the Advance database to properly credit and acknowledge donor for gift (reference the Advance Policies and Procedures).
  - 2. The timing of this recording should follow the same rules set forth under OP 02.04, Section 1 ..."Cash, securities, or other gifts 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 Cash Receipt should be prepared to record the proceeds in Banner 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 Advance database to properly credit and acknowledge donor for gift (reference the Advance Policies and Procedures).

d. Reporting and Filing Requirements

Closely Held Stock

1. If the value of the stock gift is more than \$500, the donor should file an Internal Revenue Service Form 8283.
2. If the claimed gift amount is more than \$10,000, the appraiser and the Foundation will be required to sign the Form 8283.
3. If the Foundation signs the Form 8283 and sells the stock within two years from the Date of Record, the Foundation is required to file Form 8282 with the Internal Revenue Service, reporting the net proceeds from the sale.

Gift of Securities Transmittal

1. 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.
2. 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 IA - Accounting Services.