

UH Foundation Guide to Understanding Your Endowment Fund

Endowment Account and Expendable Account

A true endowment account is established when a gift instrument conveying funds to the Foundation intends for those funds to support a university program in perpetuity. A separate account, called an expendable account, is maintained to receive quarterly distributions from the endowment as well as to record and disburse expenditures in accordance with the terms of the endowment.

University of Hawai'i Foundation Unitized Endowment Pool (UEP)

The UEP is an investment pool similar to a mutual fund. Each participating endowment is assigned a number of units in the pool at the time the endowment is established. The number of units is adjusted up for any additions to the endowment. The value of the individual units is calculated quarterly. New endowment funds buy into the pool at the unit price as of the end of the calendar quarter in which funds are received.

Book Value

Book Value ("historic dollar value") consists of the original donation plus any other additions to the fund, less, in most cases, a one-time gift assessment at the time the gift was received. For accounts that are not yet fully endowed, the book value may include reinvested income distributions.

Market Value

Market Value is the total of the book value ("historic dollar value") plus investment earnings and realized and unrealized gains and losses, less distributions.

Fund Management

Based on the market value of the account versus the book value of the account, donors have one of two options for the Foundation's management of their endowment. Option 1: distributions/payout continue even if the market value falls below the book value. Option 2: distributions/payout are suspended if the market value falls below the book value. If this option is selected, the account is assessed at June 30 of each fiscal year; distributions will commence in the following fiscal year if the market value exceeds the book value by 6% or more. (The 6% threshold is utilized to help avoid potential whipsaws of the market value swinging above and below the book value.)

Distributions /Payout

A distribution/payout is the movement of cash from an endowment account to an expendable account. The funds in the expendable account are available to the university program to be used in accordance with the terms of the agreement with the donor.

For fiscal year 2006-07, the distribution/payout will be computed based on 4.6% applied to the twelve-quarter average market value ending June 30, 2006. An additional 1.5% of the June 30, 2006 market value of the endowment is designated as an administrative fee to support Foundation operations.

Endowment Growth

When current income and market appreciation exceed the amount required for the quarterly distribution/payout and administrative fee, the excess is retained in the endowment pool for future growth.

Contact Information

If you have questions about this report, please contact Martha Hanson, Associate Vice President for Communications & Donor Relations, at 808-956-3716 or e-mail at martha.hanson@uhf.hawaii.edu.