UH Foundation
Guide to Understanding Your Endowment Fund

Endowment Account and Expendable Account
An endowment account is established when a gift instrument conveying funds to the Foundation intends for those funds to support a university program in perpetuity. For each endowment account there is a separate account, called an expendable account, which 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.

Endowment Pool
The Endowment Pool is similar to a mutual fund. Each participating endowment account is assigned a number of units in the pool at the time the endowment is established. The number of units is based on the latest market value per unit. This process takes place at the end of the calendar quarter in which funds are received.

Book Value
The book value consists of the original donation plus any other additions to the fund, less a one-time gift assessment at the time the gift was received. The book value will also include the reinvested payout for accounts that are not yet fully funded. (This occurs when the total of the gifts received does not yet meet the minimum required for the account; this is usually due to pledge payments outstanding.)

Market Value
Market Value is the total of the book value plus investment earnings and realized and unrealized gains and losses, less payout.

Payout
A 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 2011-12, the payout will be computed based on 4.9% applied to the twelve-quarter average market value ending June 30, 2011. An additional 1.5% of the June 30, 2011 market value of the endowment is designated as an administrative fee to support Foundation operations. (The Foundation's fiscal year ends on June 30.)

Account Management
Accounts initiated after July 1, 2009 are managed in accordance with the latest Hawaii Revised Statutes regarding institutional funds, the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

In discussing the payout, the UPMIFA statute says:

"In making a determination to appropriate or accumulate, the institution shall act in good faith, with the care that an ordinary prudent person in a like position would exercise under similar circumstances, and shall consider, if relevant, the following factors:

1) the duration and preservation of the endowment fund
2) the purpose of the institution in the endowment fund
3) general economic conditions
4) the possible effect of inflation or deflation
5) other resources of the institution
6) the investment policy of the institution"

Guide to Understanding Your Endowment Fund (continued)

UPMIFA was designed to provide for immediate and continued ongoing uninterrupted support for the University programs.

Each year, the Foundation's Investment Committee reviews the accounts that are subject to UPMIFA, considers the relevant factors and determines the appropriate payout for these accounts.

Older endowment accounts, accounts initiated prior to July 1, 2009, are managed in either one of two ways. Based on the market value of the account versus the book value of the account, the options are as follows... Option 1: the payout continues even if the market value falls below the book value. Option 2: the payout is suspended if the market value falls below the book value. If Option 2 is selected, the account is reviewed at June 30 of each fiscal year; the payout 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.)

Endowment Growth

When current income and market appreciation exceed the amount required for the quarterly payout and administrative fee, the excess is retained in the endowment pool for future growth and to offset periods of bear market performance.