UNIVERSITY of HAWAI'I FOUNDATION

Endowment Procedures

I. Endowment Overview

A. An endowment is a financial gift that provides income in perpetuity for a specified use.

B. Endowments are needed to provide funding for faculty chairs and professorships, graduate fellowships, undergraduate scholarships, program support, visiting scholars/lectureships, research support and student internships.

C. Endowment gifts to the Foundation are placed in a pooled fund for investment and oversight purposes. Decisions regarding the investment of the endowment are made by the Investment Committee of the Foundation's Board of Trustees.

D. There are minimum funding levels for endowment accounts based on the purpose and/or the naming of the account.

II. Definitions

A. Book Value ("Historic Dollar Value")
Book 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.

B. Fully Endowed Account
An account is fully endowed when the cash gifts received (before the reduction for the one-time gift assessment) equals or exceeds the target amount. Reinvested income distributions do not count towards the fully endowed amount.

C. Distribution
There are two types of distributions. A payout is the movement of cash from the endowment to an expendable account or, if the account is not fully endowed, to the endowment account for reinvestment. The second type of distribution is the movement of funds from the endowment for the Foundation's administrative fee.

D. Expendable Account
A separate account is maintained to receive quarterly payouts from the endowment as well as to record and disburse expenditures in accordance with the terms of the endowment. In addition to receiving the payout from the endowment, gifts may be made directly to the expendable account.

E. General Endowment Accounts

1. General endowment accounts provide broad support to a campus, college, or school.

2. Payouts from the endowment may be used for faculty support, supplies, equipment, travel, or virtually any purpose that would support the broad objectives of the unit.

3. An unnamed general endowment account will be considered fully endowed at $25,000.

4. A named general endowment account will be considered fully endowed at $50,000.

F. General Scholarship Endowment

1. General scholarship endowments for a campus, college, or school provide broad flexibility for the unit and the criteria of the scholarship awards may be set entirely by the unit according to its needs and priorities.

2. An individual or organization may make a gift to a general scholarship endowment in the name of (for example, in memory of) an individual and the gift will be so acknowledged.

G. Market Value
Market value is the total of the book value plus investment earnings and appreciation, less distributions.

III. Documentation

A. Prior to acceptance of an endowment gift a Gift Agreement ("GA") should be generated.

B. The GA helps specify the donor's intentions and the policies under which the gift will be administered.

C. The GA will be executed upon acceptance of the gift and a copy will be provided to the donor.

D. Endowments that have purposes that will require an ongoing commitment by the University, including certain naming opportunities, require Board of Regents approval. Please see the "Naming Opportunity Procedure" for further details.

IV. Minimum Endowment Gift Levels

A. Initial gifts must total $25,000 or more to open an endowment account and must be made no later than one year after the GA has been executed.

B. If the initial gift is less than $25,000, Foundation management's approval must be obtained to hold all monies in a "proposed endowment" account until total gifts equal $25,000.

1. No expenditures will be allowed from this account and no earnings will accrue to the account. The funds are not invested in the endowment pool.

2. Once gifts equal $25,000, the funds will be transferred to an endowment account and invested.

C. An endowment account will be considered fully endowed when total gifts equal the specified level required within 5 years of the initial gift.

D. Until the fund is fully endowed, the net earnings generated from the fund will be reinvested and retained in the endowment account.

E. Only gifts will be counted toward endowment funding levels.

1. Any reinvested earnings will not be attributable to the gift level needed for the account to be fully endowed.

2. No payouts to an expendable account will be made until the specified gift level is met and the account is fully endowed.

F. If the specified gift level is not achieved within five years, all funds in the account will either revert to a general endowment account determined by the applicable unit and the Foundation or be converted to an expendable account with a purpose substantially similar to the donor's original intent. The course of action should be guided by the original GA.

V. Management of Endowment Accounts

A. Endowment funds are managed under investment policies adopted by the Foundation's Board of Trustees as recommended by its Investment Committee. Those policies specify that the primary investment objective of the endowment pool is to invest portfolio assets prudently for long-term growth.

B. Asset allocation, investment manager selection, and distributions including the payout and endowment administration fee are key areas administered with Investment Committee oversight and Board of Trustees' approval.

C. In determining the payout rate for endowment accounts, the Board of Trustees exercises ordinary business care and considers the following:

1. Preservation of principal.

2. Present and anticipated financial requirements to fulfill the designated purpose of the fund.

3. Continuity in funding such purpose.

4. Expected total return on investments over the long term.

5. Price level and income trends.

6. General economic conditions.

D. Endowment Account Management. The endowment pool is managed using a unitized approach. Each account is assigned a specified number of units based on the market value per unit at the time the funds are added to the endowment pool.

E. Endowment Payout

1. At June 30 each year, the payout amount is determined for the coming year by applying a payout rate to the average of the previous twelve quarters of endowment market value.

2. Technically, the endowment utilizes a unitized methodology whereby each endowment account is assigned a number of units based on the current market value per unit at the time new endowment funds are added to the endowment. The endowment payout amount is determined by applying a dollar amount per unit to the number of units for each account. The dollar amount per unit is calculated by applying a percentage rate (as determined by the Board of Trustees) to the average market value of the twelve preceding quarters; the result is divided by the total number of units to come up with the dollar amount per unit. This calculation is made once a year at June 30, for the coming fiscal year. The amount is applied quarterly. Consequently, for each account, the payout stays the same throughout the fiscal year regardless of the market value changes through the year (assuming no additional gifts were made to the account).

F. Based on the comparison of the market value of an endowment account versus the book value of the account, donors have one of two options for the Foundation's management of their endowment.

1. Option 1 - distributions continue even if the market value falls below the book value.

   a. If this option is selected, distributions will commence in the following quarter after investment in the endowment pool.

2. Option 2 - distributions are suspended if the market value falls below the book value.

   a. If this option is selected, the account is assessed annually at June 30 of each fiscal year; distributions will commence when the market value exceeds the book value by 6% or more.

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b. The 6% threshold is utilized to help avoid potential whipsaws in the payout if the market value swings above and below the book value.

c. Additional units will be allocated to compensate accounts whose distributions have been suspended.

3. Option 3 - Payouts are subject to the Hawaii statute referred to as the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA allows for payouts even if the market value of an endowment account is less than its book value (corpus, original gift). UPMIFA was designed to provide for immediate and continued ongoing uninterrupted support for university programs.

a. 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:
- the duration and preservation of the endowment fund
- the purpose of the institution in the endowment fund
- general economic conditions
- the possible effect of inflation or deflation
- other resources of the institution
- the investment policy of the institution

b. The Foundation's Investment Committee determined if this option is selected, distributions are suspended if the account has a 6/30 market value 15% below book value.

G. Fees

1. Gift Fee

a. A one-time gift fee will be assessed on all incoming gifts, including endowment gifts, and other non-gift income deposited in an account. See the "Account Administration Policy" for the current gift fee rate.

b. This fee may be paid from an unrestricted account for the same unit if authorized by the appropriate account administrator.

2. Endowment Fee

a. An endowment administrative fee is based on the average endowment market value of the last 8 quarters. This amount is determined annually and is applied quarterly. See the “Account Administration Policy” for the current endowment administrative fee rate.

VI. Quasi Endowment

A. Quasi endowments consist of a transfer of money from an expendable account to an account that will be invested in the endowment pool. Funds may come from gifts or surplus operating funds.

B. Funds invested as a quasi endowment will go up or down based on the market and there is a risk that it will lose money. Therefore, a waiting period of one year is advised before withdrawals are made.

C. Quasi endowments are treated the same as permanent endowments; they generate payouts to an expendable account and are subject to the endowment administration fee.

D. Account Set Up

1. No special form is required to request the establishment of a quasi endowment.

2. A letter from at least two account administrators requesting the quasi endowment is all that is required.

3. Quasi endowments of less than $100,000 must be approved by the Foundation’s management.

4. Quasi endowments of $100,000 or more must be approved by the Foundation’s Board of Trustees.

a. Contact the Chief Operating Officer or Chief Financial Officer to set up this approval process.

E. Minimum Amounts

1. The minimum amount to establish a quasi endowment account is $50,000.

2. The minimum book balance for an existing account is $25,000.

3. The minimum transaction for additions or redemptions for an existing account is $5,000.

4. Additions and withdrawals are made on a quarterly basis.

Appendix A
01/19/2006 version was formatted from 11/03/2003 endowment procedure version.

03/31/2006 added general named endowment level to the policy. See II. E.

07/26/2006 updated endowment fee and endowment payout percentages and languages.

08/12/2020 updated minimum gift levels required to create an endowment; removed current gift and endowment fee rates (refer to the "Account Administration Policy" for current rates).