

# *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 2009-10, the payout will be computed based on 4.1% applied to the twelve-quarter average market value ending June 30, 2009. An additional 1.5% of the June 30, 2009 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**

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: 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.