Endowment Funds
Training and Workshop
April 22, 2014
Objectives

Participants understanding of:

- What is an endowment?
- Types of Endowment Funds
- Additional Terms and Definitions
- UHCL Endowment Funds and Income Cost Center Funds
- True, Term or Quasi Endowment Funding and Establishment
- Minimum Funding Levels for True, Term or Quasi Endowment
- How is an Endowment Fund and associated Income Cost Center established?
- Recommended Spending Policy
- Excessive Accumulation Operating Fund Equity
- Roles and Responsibilities
  - Office of University Advancement
  - Office of General Accounting
  - Office of Budget
  - Office of Financial Aid Office
  - Office of Finance
  - Department Heads/Deans/Business Coordinators
Objectives (cont’d)

Participants understanding of:
- Jointly Accountable and Responsible
- PeopleSoft Navigation
  - Endowment Agreements
  - UGLS1074 – Revenue & Expense – Budget Node Account Summary, Balance Sheet
  - UGLC0085 – Endowment Report (By Endowment Fund Type)
  - UGLC0086 – Endowment Analysis Report (By Department/College)
- Additional Reports and How to Read
  - Annual Risk Assessment and Budget Analysis Report
  - Annual Market Value Report (Obtained from UHS System by end of February)
- Questions and Answers
What is an Endowment?

Endowment = Donation, Gift, Bequest (inheritance)

“Endowments provide ongoing benefits for those that receive them by earning a market rate of interest while keeping the core endowment principal intact to fund future years of scholarships, or whatever efforts the donor sought to fund.”
Types of Endowment Funds

- True Endowment Fund
- Term Endowment Fund
- Funds Functioning as Endowments (Quasi Endowments)
Types of Endowments - Definitions

**True Endowment:** Principal amount can never be spent, and but investment income expended

**Term Endowment:** Principal may be spent on or after a predetermined date or period of time or the occurrence of a specified event

**Quasi Endowment:** Established by the university using spendable current funds, treated as an endowment but not subject to any legal prohibitions against spending
**Endowment Agreement**: The written document, including an university’s solicitation, under which property (cash, real estate, etc.) is donated or granted to the university and held as an endowment.

**Distributable Income**: The portion of income available for expenditure according to the purpose of the endowment.

**Income**: Interest, dividend income, realized gains and royalties received from the principal of the endowment.
Additional Terms and Definitions

Corpus (Historic Dollar Value)
The aggregate amount of all contributions by a donor or donors to an endowment. This is not the same as book value

Book Value (Carrying Value; Fund Balance)
The original cost basis of an endowment, plus adjustments for gains or losses, additional gifts, external management fees and any other transfers to or from the fund
Above Water: A term used to describe an endowment whose current market value is more than its corpus

Under Water: A term used to describe an endowment whose current market value is less than its corpus
## Endowment Fund Group

<table>
<thead>
<tr>
<th>Fund</th>
<th>Type</th>
<th>Description</th>
<th>Currently UHCL has</th>
</tr>
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<tbody>
<tr>
<td>6045</td>
<td>True</td>
<td>Restricted Student Aid</td>
<td>X</td>
</tr>
<tr>
<td>6046</td>
<td>True</td>
<td>Unrestricted Student Aid</td>
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</tr>
<tr>
<td>6061</td>
<td>True</td>
<td>Restricted General Purpose</td>
<td>X</td>
</tr>
<tr>
<td>6062</td>
<td>True</td>
<td>Unrestricted General Purpose</td>
<td>X</td>
</tr>
<tr>
<td>6048</td>
<td>Term</td>
<td>Restricted Student Aid</td>
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</tr>
<tr>
<td>6054</td>
<td>Term</td>
<td>Unrestricted Student Aid</td>
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<tr>
<td>6063</td>
<td>Term</td>
<td>Restricted General Purpose</td>
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<td>Unrestricted General Purpose</td>
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<td>Quasi</td>
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<tr>
<td>6052</td>
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<td>Unrestricted Student Aid</td>
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<tr>
<td>6065</td>
<td>Quasi</td>
<td>Restricted General Purpose</td>
<td>X</td>
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<tr>
<td>6066</td>
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<td>Fund</td>
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<td>4028</td>
<td>Restricted Scholarship - Endowment Income</td>
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<td>4042</td>
<td>Restricted General - Endowment Income</td>
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**True or Term Endowment Funding**

- With an initial gift of at least $1,000
- Has a minimum funding level
- Within a specific time

**Minimum Funding Level Maximum Payoff Years**

<table>
<thead>
<tr>
<th>Minimum Funding Level</th>
<th>Maximum Payoff Years</th>
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<tbody>
<tr>
<td>$25,000 or more</td>
<td>5 years</td>
</tr>
<tr>
<td>$15,000 to $24,999</td>
<td>3 years</td>
</tr>
<tr>
<td>$10,000 to $14,999</td>
<td>2 years</td>
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<td></td>
<td>Minimum Funding Level</td>
</tr>
<tr>
<td>--------------------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>Chairs</td>
<td>$500,000</td>
</tr>
<tr>
<td>Professorships</td>
<td>$250,000</td>
</tr>
<tr>
<td>Other Academic Appointments</td>
<td>$100,000 - $250,000</td>
</tr>
<tr>
<td>Graduate Student Fellowships</td>
<td>$50,000</td>
</tr>
<tr>
<td>All Others</td>
<td>$10,000</td>
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</tbody>
</table>
Endowment Establishment

- University Advancement initiates solicitation

- All endowment establishment originates at UA

- Standard System Endowment Agreement for True and Term Endowments

- Written Memorandum of Understanding (MoU’s) for Quasi-Endowments

- General Accounting coordinates with UHS and UHCL Business Coordinators to establish Endowment Cost Center and corresponding Income Cost Center respectively
Recommended UHCL Spending Policy

- Endowment Department/College Income Cost Centers Managers have full responsibility to utilize endowment income and not allow distributed income to accumulate excessively.

- Expend budgeted funds in accordance to the endowment terms.

- Endowment Department/College Income Cost Centers Managers to provide justification for excessive accumulation and details of future spending plan annually approved by President/Provost.
Roles & Responsibilities – University Advancement Office

- Initiates solicitation
- Originates an endowment request, agreement and signature approvals
- Initiates Memorandum of Understanding (MoU’s)
- MoU’s required for:
  - Any change in use of endowment funds
  - Endowment Funds raised through special event or activity with no primary donor
  - Quasi-Endowments
Roles & Responsibilities – University Advancement Office

- Responsible for appropriate stewardship and reporting to donors

- UA and Finance will coordinate to produce Annual Endowment Reports with corresponding income cost center for all departments/colleges

- Responsible for maintaining information on endowment purposes, endowment appointments, account holders, account balances, and endowment reporting

- Serves as liaison for donors on all matters relating to UHCL endowments
Roles & Responsibilities – Office of General Accounting (GA)

❖ Establishes endowment cost center based on endowment agreement terms and conditions

❖ Communicates and coordinates with UA on endowment cost centers on regular basis

❖ Review quarterly departmental financials with Business Coordinators

❖ Follow through on outstanding items from quarterly review meetings

❖ Record all endowment related journal entries

❖ Reconcile and report quarterly and annually
Roles & Responsibilities – Office of Budget

- Responsible for providing estimated endowment income to departments during budget development cycle to be entered into Budget Development Module (BDM)
Office of Student Financial Aid (Scholarship)

- Request Income cost center and Item type set up for new scholarship
- Item type set up in PeopleSoft Financial Aid Module
- Collaborate with respective Business Coordinators and Finance Office on Reports and projected Fund Equity available for Fall, Spring and Summer Semesters
- Review and allocate scholarship awards based on endowment terms and conditions (also known as criteria and/or restrictions)
- Communicate and collaborate with Department Head and University Advancement for any revisions to the original endowment agreement
- Post and disburse awards (credit student account)
Roles and Responsibilities – Office of Finance

- Serves as liaison for department heads, business coordinators, on matters relating to UHCL endowments financial reports and follow through non-compliance

- Provide Annual Risk Assessment and Budget Analysis Report to Upper Management, Department Heads and Deans

- Provide Annual Endowment Market Value Report

- Provide detailed donor report to UA as requested
Roles & Responsibilities – Department Heads, Deans and Business Coordinator’s

- Responsible for budgeting distributed income and ensuring that it is expended in accordance with endowment terms/restrictions

- Business Coordinators to meet and communicate to Department Heads/Deans on a quarterly basis on the status of endowment operating income cost centers

- Ensure funds are expended per terms and conditions of the endowment agreement. Otherwise provide justification and spending plan approved by President and/or Provost

- Business Coordinators to prepare budget journal as needed for any additional budget or amendment to the original budget
Roles & Responsibilities – Department Heads, Deans and Business Coordinator’s (cont’d)

- Department Heads/Deans/Business Coordinators to communicate and collaborate with University Advancement Office for any revisions to the original endowment agreement or anything related to potential endowment prospects/solicitations.

- Provide justifications on unexpended funds and future plans to expend the funds as requested by Finance Division and/or UA.

- Communicate to UA how the funds are being used generally and specifically highlight specific success stories and/or special uses that will help UA communicate to donors the value that their donations have to the operations and vision of the university.

- Department Heads/Deans held accountable for non-compliance and excessive accumulation of endowment operating funds.

- Be good stewards of Donor’s contribution.
Together We Are Accountable to Donors

Roles and responsibilities for adhering to the terms of the official endowment rests jointly with those benefiting from the generosity of our benefactors. This includes the President, Provost, Vice President A&F, Office of University Advancement, Deans, Department Heads, AVP’s, Directors, and those with signature authority for endowment operating accounts.
PeopleSoft Navigation – Endowment Agreements

Follow path on the left hand side.

Select Program Code and change business unit to 00759.
PeopleSoft Navigation – Endowment Agreements

Change the “Set ID” to 00759.

Put the program code from the ENDOWMENT cost center (not the income cost center).
PeopleSoft Navigation – Endowment Agreements

Click on the Endowment Document Image tab.

Click on the “Print Endowment Registry” link to see summary level information for this endowment.

Click here for the endowment agreement documentation. Click on “View All” to ensure you have all documents.
Useful Reports

- UGLS1074 – Revenue & Expense – Budget Node Account Summary, Balance Sheet
- UGLC0085 – Endowment Report (by Endowment Fund Type)
- UGLC0086 – Endowment Analysis Report (by Department and College)
- Annual Risk Assessment and Budget Analysis Report
References and Suggestions Used From

- University of Houston System Administrative Memorandum # 03.F.02
- http://www.uh.edu/treasury/
- UT Fund Workshop held in 1994
Questions and Answers