



THE UNIVERSITY OF ALABAMA®

WHERE LEGENDS ARE MADE

Endowment Fund Training

Understanding Endowments – Procedures,
Calculations & Sources



What Will You Learn?

We will discuss the definition of and types of endowments, funding levels of endowments and how they are invested, earnings calculations for endowment funds, legal documents associated with endowments, and sources of information.



Definitions & Types

- Endowments are resources that are invested to produce current & future revenue, rather than being immediately expended
- Types – True Endowment, Quasi Endowment, Term Endowment & To Be Endowed (Pending) Funds
- Each Endowment consists of a Corpus Fund and an Earnings (or Spending) Fund. To Be Endowed Funds are an exception.

Definitions & Types

- Corpus Fund – Principal amount, most often the gift amount from the donor
- Earnings (Spending) Fund – The spendable income and gains earned on the corpus
- Book Value – Original value of the fund contributions, including any earnings that are reinvested
- (Fair) Market Value – The actual value of the fund at a specific point in time (changes monthly)
- Underwater Endowment – Occurs when the market value is less than the book value



True Endowment Funds

- A true endowment fund is one specified by the *donor* to be held in perpetuity and invested to produce income.
- The original principal, or corpus of the fund must remain intact and unspent.
- True endowments are classified as restricted assets. In rare instances, mainly on Chair funds, the income/gains earned is unrestricted.
 - True restricted – Corpus 62xxx 63xxx or 64xxx, Earnings (Spending) 5xxxx
 - True restricted w/Unrestricted income – Corpus 67xxx, Earnings (Spending) 15xxx



Quasi Endowment Funds

- A quasi endowment fund is one specified by the **Board** to be held in perpetuity and invested to produce income.
- The original principal, or corpus, of the fund can be spent with Board approval.
- Quasi endowments can be restricted or unrestricted based on the source of the funds.
 - Quasi restricted – Corpus 611xx or 612xx, Earnings (Spending) 5xxxx
 - Quasi unrestricted – Corpus 615xx, Earnings (Spending) 155xx



Term Endowment Funds

- A term endowment fund is one in which the corpus is specified by the *donor* to be held for a specified time or until a specified event occurs.
- The corpus amount, in most cases, would become expendable after the terms are met.
- UA only has one term endowment.

To Be Endowed (Pending)

- To Be Endowed funds are funds that will be endowed once they reach the appropriate endowment level.
- Earnings are reinvested in the corpus until the corpus reaches the endowment level, therefore no earnings (spending) fund exists.
- To Be Endowed funds are restricted. No spending is allowed from the funds and the entire balance, including reinvested earnings, is moved to a new corpus fund once the endowment level is attained. An earnings fund is then created from which spending is allowed.
- Fund number: 39xxx



Endowment Levels

- Endowments are established at various funding levels, currently ranging between \$25,000 for an endowed scholarship or support fund to \$3,000,000 for an endowed Deanship.
- UA's Naming Guidelines are revised periodically. Current minimum amounts for funding levels are available in the Office of Development.

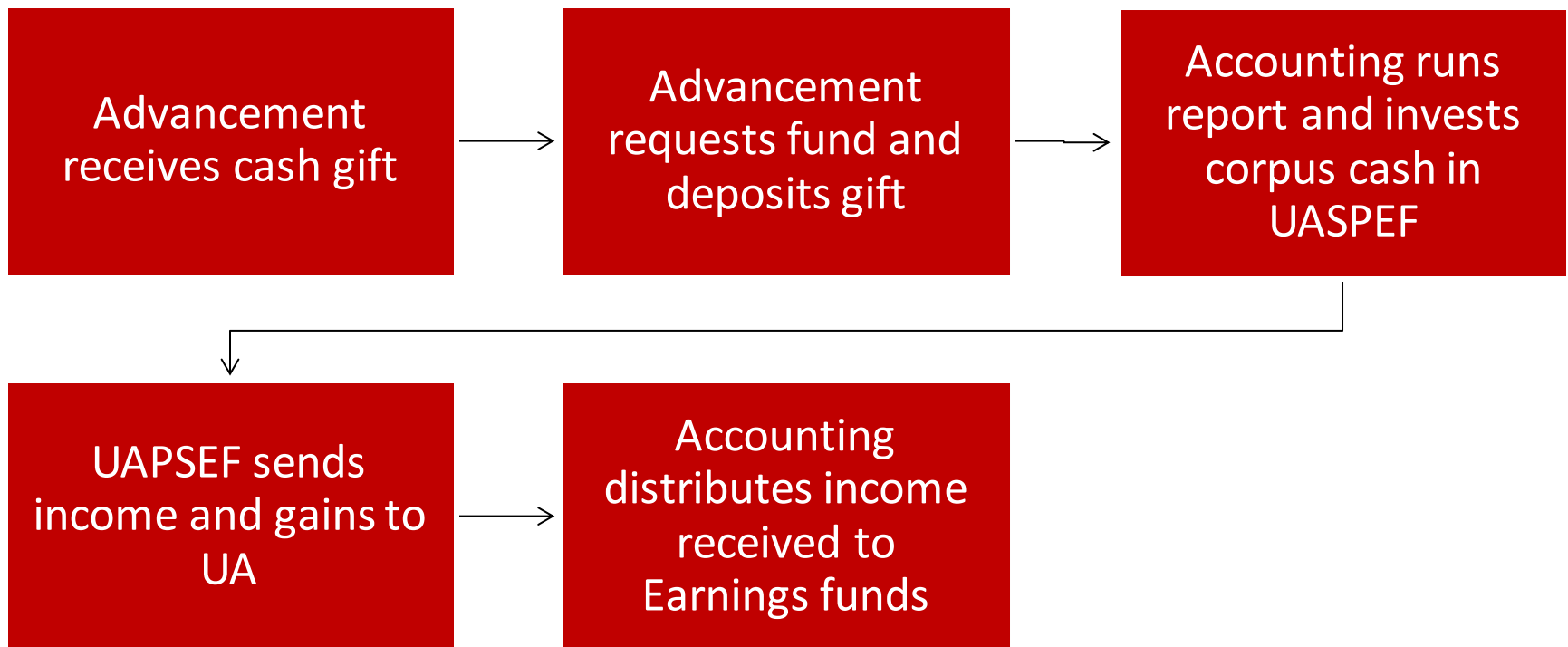


HOW ARE ENDOWED FUNDS INVESTED?

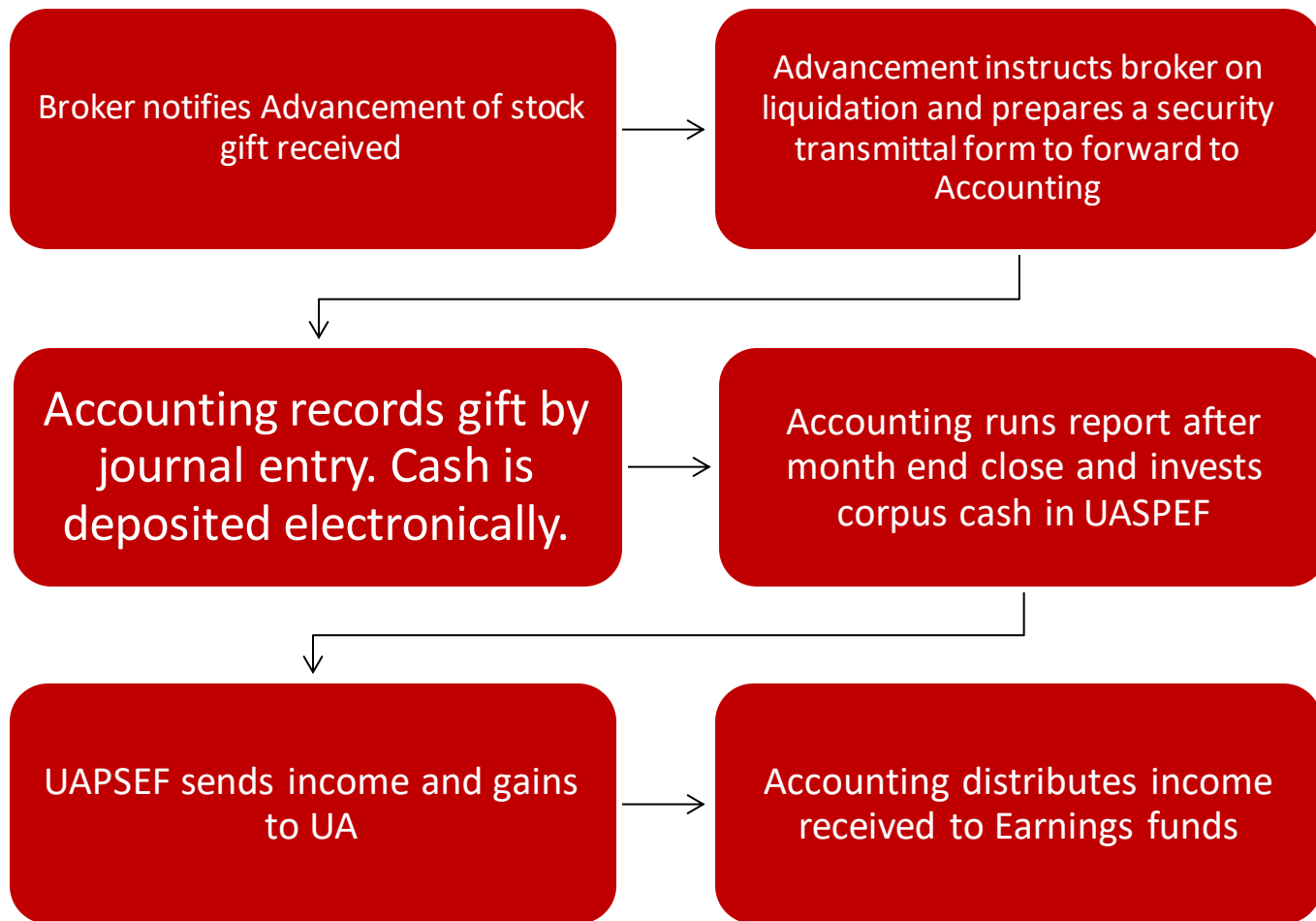


WHERE LEGENDS ARE MADE

Investment Process of Cash Gift to Endowment



Investment Process of Stock Gift to Endowment



Investment of Endowed Funds

- As a general rule, all endowments from the three campuses (UA, UAB, UAH) and most Foundations are held and invested by the System Office (“Pooled” together) and are administered and reviewed by the investment committee of the Board of Trustees.
- UASPEF – University of Alabama System Pooled Endowment Fund



Investment of Endowed Funds

- Total UASPEF value at 2/28/2024 is \$2.3B, UA (chart A) \$1.2B
- At 2/28/2014, value was \$1.1B, UA \$580M
- Total # of units at 2/29/2024 - 748,204,892
UA chart A units- 376,247,794
- Current (2/29/2024) unit value- 3.094943



Investment of Endowed Funds

- Each endowment fund invested in the UASPEF owns shares (or units) of the total pooled investment.
- The number of units purchased by a gift is determined by the value of each unit at the most recent month end date. The value changes monthly.
 - Timing example:
Assume a donor gives \$100,000 on January 10, 2019. Accounting pulls all cash amounts for the month of January after the month is closed. Cash is wired to the UASPEF in February 2019. If the value of each unit in the pool is \$2.5 at January 31, 2019, the gift would purchase 40,000 units.

Endowment Earnings

- Each endowment fund receives a proportionate amount of the total investment income and gains of the pool based on the shares (or units) owned.
- Endowment Spending Policy – In order to provide a sustainable level of income, the earnings currently distributed is 4.5% of the average five-year unit value.
- Actual income earned is distributed. If the market value is above the book value, additional gains are distributed as income to reach the full spending rate.



Spending Rate

- FY18 & forward spending rate – 4.5% of the average five-year unit value
- FY17 prior years spending rate – 5.0% of the average three-year unit value
- See worksheet #1 for spending rate calculation
- See worksheet #2 for endowment income example



Return of Gains

- Gains are returned for any quarter that a fund is underwater (market value below book value)
- Gains are returned for the first year a fund is invested at endowment level
- Funds invested prior to 9/30/17 are exempt from first year return provision



Return of Gains

- Return increases units owned by the fund
- Return does not increase book value, unlike reinvested earnings on TBE funds or those that reinvest per donor stipulation
- Return of gains will decrease overall spendable earnings posted to the fund for the year. This is vital to remember when reviewing scholarship projections.

Endowment Documents

Memorandum of Agreement (MOA) –

A University document that describes a mutual agreement between the donor and the University regarding a gift to the University. Its main purpose is to outline the details and use of the gift, including the restrictions, directions, purposes or intentions of the donor(s).



Endowment Documents

Resolution of the Board of Trustees –

All UA endowments must be accepted by the UAS BOT at the time minimum endowment levels are attained. Resolutions are recommended by the President to the UAS Chancellor who submits them to the board. Resolutions adopted by the board are public documents and are part of the University's historical record.



Possible Donor Specifications

- Specific college or department
- Specific purpose (Scholarship, Professorship, etc.)
- Student from specific geographical location or background
- Separately invested – requirement that the gift be invested outside of the UASPEF, such as in stocks.
 - Fund corpus typically is in the 665xx fund range, unless it has a UASPEF portion

Donor Specifications-*Retired Policies*

- Reinvestment of specific earnings percentage or amount, typically 10% of the income amount or yearly unspent earnings.
- “1231” fund – stipulation that the award or expenditure is limited to earnings that had accumulated as of December 31 of the year preceding the award (or expenditure)



Policy on Reinvesting Earnings

- UA does not establish new endowments with a donor requirement to reinvest earnings. Provisions for preserving the corpus value are built into the UA System spending policy. Earnings are expected to be used in a timely manner per donor specification.
- An exception to this policy is made when excess earnings have accumulated due to vacancies in Chair or Professorship positions.



Sources of Information

- Banner Finance
 - FGITBSR – best for fund balance inquiries or investment book value in the UASPEF (accounts 112060 & 114060)
 - FGIBDST – best for gift amounts, income/gains amounts and expenses/awards
- Eprint
 - Endowment Market Value, Historical Gift Value and Units (f_cr_endow_rep) – Accurate but prepared a couple of months later
 - Endowment Fund Balances, YTD Activity and Projected Income (f_cr_endow_ytdfb_rep) – based on units at 9/30 of most recent fiscal year



Who Can Help?

- Department Financial Manager
 - First point of contact, fund balances, scholarship projections after distribution date
- Financial Accounting & Reporting
 - Incorrect charges or FOAPs, scholarship projection questions, historical fund activity, general endowment questions
- Advancement Services
 - Donor intent issues, questions regarding gifts, MOA or Resolution requests



Contact Information

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Spending Rate Calculation
Fiscal Year 2022

Jan-16	2.4077133856		
Feb-16	2.3953877530		
Mar-16	2.4884419472		
Apr-16	2.5071840337		
May-16	2.4966132713		
Jun-16	2.5136289185		
Jul-16	2.5444585397		
Aug-16	2.5518218443		
Sep-16	2.5765161498		
Oct-16	2.5356148294		
Nov-16	2.5486252718		
Dec-16	2.5679140656		
Jan-17	2.5786648018	50,000.00	19,389.8796
Feb-17	2.6195162162		
Mar-17	2.6356731650		
Apr-17	2.6229506502		
May-17	2.6471705979		
Jun-17	2.6459195946		
Jul-17	2.6619365891		
Aug-17	2.6684641172		
Sep-17	2.6898853789		
Oct-17	2.6932770719		
Nov-17	2.7085297797		
Dec-17	2.7455013764		
Jan-18	2.7894740111	50,000.00	17,924.5262
Feb-18	2.7381951173		
Mar-18	2.7333683688		
Apr-18	2.7257400660		
May-18	2.7452696292		
Jun-18	2.7302304642		
Jul-18	2.7373934100		
Aug-18	2.7387873604		
Sep-18	2.7339675341		
Oct-18	2.6196849184		
Nov-18	2.6369353604		
Dec-18	2.5560253360		
Jan-19	2.6269538752		
Feb-19	2.6554758794		
Mar-19	2.6612916776		
Apr-19	2.6698949722		
May-19	2.6171833997		
Jun-19	2.6795928294		
Jul-19	2.6583078945		
Aug-19	2.6273918335		
Sep-19	2.6517502690		
Oct-19	2.6425483285		
Nov-19	2.6698840213		
Dec-19	2.7211790307		
Jan-20	2.6599951098		
Feb-20	2.5551747731		
Mar-20	2.2534440230		
Apr-20	2.3094972266		
May-20	2.3445369345		
Jun-20	2.3824675437		
Jul-20	2.4301975395		
Aug-20	2.5079598334		
Sep-20	2.4647516098		
Oct-20	2.4600991843		
Nov-20	2.6537354530		
Dec-20	2.7344181113		

Average for unit values for 60 mnths ended 12/31/2020 2.6029035380
 Multiplied by base spending rate 0.045
 Yield per unit/ per year payout \$ 0.1171306592 -

	Jane	Sue		
	19,389.8796	17,924.5262		
	\$ 2,271.15	\$ 2,099.51	\$	629.85
			\$	1,469.66
	4.5423%	4.1990%		
Current MV	53,020.04	49,013.15		

WORKSHEET #2: Endowment Earnings Example

1. Assume Jane Doe made a gift of \$50,000 for an endowed scholarship fund in January 2017. We would transfer this gift to the University of Alabama System Office for investment in UASPEF in February 2017. Since the unit value was \$2.5786648018 (units purchased at the prior month-end unit value), the fund would have purchased 19,389.8796 units ($\$50,000 / \2.5786648018). For FY22, the income/gains earned will be \$2,271.15 (19,389.8796 units x \$0.1171306592 spending rate). Based on the book value (\$50,000), the yield would be 4.5423% ($\$2,271.15 / \$50,000$).
2. Sue Smith made a gift of \$50,000 in January 2018. The fund purchased 17,924.5262 units and for FY22 will earn \$2,099.51, or 4.1990%. Suppose the current unit value is 2.7344181113. Janes endowment has a current total market value of \$53,020.04 (19,389.8796 units x \$2.7344181113 unit value). Sue’s endowment has a current total market value of \$49,013.15. Jane’s endowment has a current market value that is higher than the original book value (amount invested) and will keep the entire amount of distributed payout. Sue’s endowment, however, is considered “underwater”. This means the book value is greater than the current market value. Board Rule 404 revisions adopted by the Board of Trustees of the University of Alabama in June 2017 reinstated the policy of returning gains for underwater funds to purchase additional units. The gains portion of the payout is currently estimated at 70% of the total payout and income at 30%, so Sue’s endowment would retain an estimated \$629.85 of the total \$2,099.51 payout (30% of \$2,099.51). The above information is summarized below.

	Jane	Sue
Gift Amount/Book Value	\$50,000.00	\$50,000.00
Unit Value @ Purchase (Jan 2017)	2.578664802	
Unit Value @ Purchase (Jan 2018)		2.789474011
# Of Units Purchased	19,389.8796	17,924.5262
Suppose Current Unit Value is:	2.7344181113	2.7344181113
Current Market Value would be:	\$53,020.04	\$49,013.15
Over/(Under) Water	\$3,020.04	(\$986.85)
Spending Rate for FY 2022	0.1171306592	0.1171306592
Total Spending Payout for FY22	\$2,271.15	\$2,099.51
Estimated Gains Portion to Return	\$0.00	\$1,469.66
Net Spending Payout Retained	\$2,271.15	\$629.85

Common Questions/Misconceptions

- Spending/Earnings
 - 4.5% spending rate does not mean the fund will earn 4.5% of the gift amount. Earnings are always based on number of units and unit value, not book value. The spending policy is 4.5% of the average 5-year unit value.
 - We cannot guarantee that a \$250K gift will earn enough to cover a full tuition scholarship yearly.
 - An endowed fund's earnings can be spent in the first year.



Scholarship Projections

- Timing
 - Projections distributed in November
 - Projects estimated balance available @ September 30th
 - Awards for the following Academic Year
 - Example: Nov 2023, Balance Sept 2024, Academic Year 2024-25

