Endowment Funds
Definitions

Endowment Funds – 320, 350, 352, 354, 400
Endowment Definitions

• “I, the donor, give $100,000 to UVM to establish an endowment in my name and the income will be used to support scholarships for Vermonters.”

• An endowment has multiple funds depending on its terms and restrictions.
  – Fund 352 term endowment
  – Fund 400 true endowment
  – Fund 320 income for spending
  – Fund 354 reinvested income
  – Fund 350 quasi-endowment
Each Endowment is assigned a unique Source

<table>
<thead>
<tr>
<th>Fund</th>
<th>Source</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>320, 350, 352, 354, 400</td>
<td>30xxxx</td>
<td>Discretionary or Restricted Endowments</td>
</tr>
<tr>
<td></td>
<td>31xxxx</td>
<td>Award and Prize Endowments</td>
</tr>
<tr>
<td></td>
<td>32xxxx</td>
<td>Chair and Professorship Endowments</td>
</tr>
<tr>
<td></td>
<td>33xxxx</td>
<td>Scholarship and Fellowship Endowments</td>
</tr>
</tbody>
</table>
Endowment Definitions

• Source identifies the donors and any restrictions on using their endowment

• Source has a governing document noting:
  – who established the fund
  – restrictions on spending and/or investing
  – who can give to the fund
  – contingency plans

• Sources are created by DAR based on requests by donors and/or departments
Endowment Definitions

- Source is controlled by a primary UVM unit, such as a dean’s office or a department or a program or a team.

- Operating Unit, Department, and Program combine with Fund and Source to define the Endowment:

<table>
<thead>
<tr>
<th>ACCT</th>
<th>OU</th>
<th>DEPT</th>
<th>FND</th>
<th>SOURCE</th>
<th>FNC</th>
<th>PROJ</th>
<th>PROG</th>
<th>PURP</th>
<th>PROP</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>XX</td>
<td>XXXX</td>
<td>XXX</td>
<td>XXXXX</td>
<td>%</td>
<td>%</td>
<td>XXXX</td>
<td>%</td>
<td>%</td>
</tr>
</tbody>
</table>
Each unique Source has a governing document noting:

- who established the fund
- restrictions on spending
- who can give to the fund
- restrictions on investing
- contingency plans

<table>
<thead>
<tr>
<th>ACCT</th>
<th>OU</th>
<th>DEPT</th>
<th>FND</th>
<th>SOURCE</th>
<th>FNC</th>
<th>PROJ</th>
<th>PROG</th>
<th>PURP</th>
<th>PROP</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>15</td>
<td>55000</td>
<td>320</td>
<td>330550</td>
<td>%</td>
<td>%</td>
<td>0000</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>%</td>
<td>15</td>
<td>55000</td>
<td>400</td>
<td>330550</td>
<td>%</td>
<td>%</td>
<td>0000</td>
<td>%</td>
<td>%</td>
</tr>
</tbody>
</table>
Endowment Definitions

• FIDUCIARY RESPONSIBILITY
  – The Board of Trustees has fiduciary responsibility for the long-term investment pool (consolidated endowment).

• UNITS
  – Each fund has units (or shares) of the long-term investment pool and the market value of each unit is calculated monthly.
Endowment Definitions

• **BOOK VALUE**
  - Consists of the original corpus (gifts) and reinvested income. The book value represents the money used to buy units (or shares) of the long-term investment pool and is used to determine when an endowed fund reaches term and becomes a true endowment. Book value is also called Historical Dollar Value.

• **MARKET VALUE**
  - Value of the endowment at that point in time.
Endowment Definitions

• GIFTS
  – New Gifts buy units (or shares) of the long-term investment pool.

• INVESTMENTS
  – Investments are made via several fund managers. Performance of investments (net appreciation) increases market value of the long-term investment pool.
Endowment Definitions

• INCOME
  – Policy determines income distributed for spending. This policy provides a smoothing effect to the highs and lows of market values.
  – The amount of income distributed in the current fiscal year is based on 4.5% of the 13-Quarter Average Market Value as of the prior December (not based on the current market value).
  – Income is pro-rated for true endowments established in the middle of a fiscal year.
Endowment Definitions

- **REINVESTED INCOME**
  - While a term endowment, distributed income is immediately reinvested into the long-term pool, buying more units.

- **SPENDING BUDGET**
  - When the endowment has reached its term, distributed income is made available for spending.
Endowment Definitions

• RESERVE (NET ASSETS)
  – Unspent year-end balances accumulate as a reserve and are made available for spending in subsequent years. FAB’s guideline is to hold an amount equivalent to 25% of annual budget as a reserve. The department has the option to reinvest reserves.

• ADMINISTRATIVE FEE
  – An administrative fee of 0.25% is assessed against the long-term investment pool, to offset expenses associated with administrating the endowment.
Endowment Definitions

- UNDERWATER
  - If market value of a donor's fund is less than book value, then the donor's fund is underwater. Vermont law, University policy and donor restrictions provide guidance on prudent steps for protecting the corpus of the fund, which may include temporary suspension of, or reduction in, distributions.