


THE GEORGE
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UNIVERSITY
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TO: Finance Directors
FROM: Don Boselovic 
Associate Vice President for Budget
SUBJECT: Background Information on the Endowment

From time to time questions have arisen regarding the University's endowment. The attached document provides information on:

- How gifts are added to the endowment
- The University's endowment payout policy

Please contact this office should you have any questions regarding this matter.

cc: Don Lindsey

Attachment

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Budgeting Endowment Payout

Gifts and the Endowment

Excluding real estate, the University's endowment investments are pooled and function like a mutual fund. As donations are received, they are allocated units (the equivalent of shares) based on the market value of a unit as of the end of the prior month. For example, as of June 30, 2007, the market value of a unit was \$76.43. A \$500,000 cash contribution received in July 2007 would have been allocated 6,542 units. The units are added to the endowment in the month after the gift is received and begin receiving a distribution of endowment earnings (payout) in the month after they are added to the endowment. In the above example, the 6,542 units would have been added to the endowment in August 2007 and would have begun receiving a payout distribution in September 2007.

Endowment Payout

Through FY 06, the payout rate for the pooled funds was expressed in terms of an annual payout per unit that was adjusted each year based on CPI increases. In FY 06, the annual payout rate was \$3.04 per unit. Based on this rate and endowment real estate earnings, the endowment payout for FY 06 in absolute dollars represented 4.3 percent of the average market value of the endowment during FY 06.

In developing the FY 07 budget, the Board of Trustees approved a one-time adjustment to the payout rate to provide additional funding for the Strategic Plan and Development. Based on the units as of March 31, 2006, and the market value of the endowment as of that date, the FY 07 payout in absolute dollars was set at 5 percent of the market value of the endowment as of March 31, 2006. This produced \$6.2 million in additional payout above what would have otherwise been distributed had the FY 06 payout rate per unit been adjusted for CPI. Of the \$6.2 million, \$5.5 million was associated with University (non-Medical Center) endowments.

For budget purposes, the FY 07 payout was separated into two allocations:

- The payout that would have been distributed under the previous policy whereby the payout rate per unit was adjusted for CPI continues to support the operating budget. This is referred to as the "Base Payout". The amount of Base Payout distributed during FY 07 increased as new gifts were invested in the endowment.
- The \$5.5 million in incremental payout resulting from adjusting the absolute dollar amount of the payout to 5 percent of the March 31, 2006 market value was used to

Budgeting Endowment Payout

provide additional funding for the Strategic Plan (\$4.5 million) and Development (\$1 million). This is referred to as the “Supplemental Payout” and is taken from the University’s unrestricted endowment. The amount of Supplemental Payout distributed during FY 07 remained fixed at \$5.5 million.

In subsequent years, the Base and Supplemental Payouts are adjusted as follows:

- For the Base Payout, the payout rate per unit is increased annually based on CPI. In absolute dollars, the Base Payout will increase as a result of the adjustment to the payout rate per unit and the additional units created by gifts invested in the endowment during the year.
- The FY 07 Supplemental Payout of \$5.5 million is adjusted annually based on CPI.

Because the market value of the endowment has increased at a higher rate than CPI since March 2006, the absolute dollars distributed under the revised payout policy represents less than 5 percent of the current market value of the endowment.