I.5 Gift Designations

Unrestricted
By designating a gift unrestricted the donor allows the University flexibility in allocating resources to the most pressing needs.

Restricted
Donors may specify purposes for how their donations are spent for scholarships, specific major, program, etc.

See “GIFT PURPOSES” for more information on how donors can restrict their gifts to the University.

Endowments
Endowments at the University of Alaska are managed and invested by the UA Foundation. As approved by the Foundation Board of Trustees, a small portion of each gift received by the Foundation will be used to defray the costs of administering and raising funds for the benefit of the University of Alaska.

Two Types of Endowments

1. True Endowment
   A true endowment is a gift that has been restricted by the donor to be held in perpetuity. It is established with a minimum gift amount which is currently $25K at the University of Alaska. An endowment fund works like a permanent savings account. The amount the donor gives (the "principal") is never spent. Only the earnings are spent and only for the purposes specified by the donor. The principal is invested as part of the Foundation Consolidated Fund (CF). Each individual endowment fund is always accounted for separately within the CF, which is currently about $216 million. As the principal grows through investment, a portion of these earnings are transferred into a separate "spending" account for the fund and used as specified by the donor to benefit the University.

2. Quasi-Endowment
   The University of Alaska Foundation, in consultation with University departments and personnel, may make internal decisions to allocate or designate funds as quasi-endowments, in order to achieve the institution’s initiatives and to serve the

This document is located at: http://www.alaska.edu/foundation/
Operations: Policies and Procedures >> Foundation Manuals >> Gift Acceptance >> I. Gifts for the Benefit of the University of Alaska
needs of its students. A quasi-endowment functions in the same manner as a true endowment except that a quasi-endowment is created by the Foundation rather than the external donor. The creation of a quasi-endowment fund may be recommended to the Foundation Board of Trustees. The creation of a quasi-endowment, once made, is considered to be permanent. However, the Foundation Board of Trustees can terminate, discontinue or “invade” a quasi-endowment at any-time, though this is not common practice. The principal can be “invaded”, but the original purpose or donor intent cannot be reduced. Only in the case where a donor gave an unrestricted gift and the Foundation Board of Trustees designated the gift to be used for a specific purpose can the Foundation Board of Trustees then change the purpose that the money can be used for. Quasi-endowments cannot be merged with true-endowments.

Who invests the principal?
The Board of Trustees of the Foundation, through its Investment Committee, sets an investment policy for the CF and chooses investment managers to invest the fund. The managers’ investment performance is evaluated twice a year by a performance investment firm.

How is the principal invested?
The CF is invested in a mix of stocks, bonds, and other investments with the goal of preserving the principal, providing earnings to support the University, and guarding the fund against inflation. Over the past 17 years the CF has earned at an average annual rate of 8% (total return).

How much is available from the Endowment for the University to spend each year?
Distributions from the endowment for use by the University start on July 1 following the year the endowment is created. The amount distributed is determined by a formula which specifies that 4% of the market value of the principal averaged over five years is made available for use over the succeeding year, provided that sufficient earnings have built up in the fund to make such a distribution (the donated principal may never be spent - only its accumulated earnings). The annual distribution amount is divided into equal monthly payments and thus the entire amount is fully available only at the end of the year. (see chart below)

New endowments are phased into this five-year formula year by year. This allows for some funds to be available for use in the early years of the endowment. However, since these new endowments may have been invested for less than a year, or for only one or two years, the pool of accumulated earnings may not be large enough (especially in periods of slow market activity) to allow for a distribution of the full amount called for by the formula. In extreme cases there could be no distribution available at all.

Donors may specify that new endowments make no distributions for a period of years in order to build up the principal and its earnings and thus eliminate this concern.
Following is an example of an endowment started with a $25,000 gift in June of 2010:

<table>
<thead>
<tr>
<th>Year</th>
<th>Principal on December 31</th>
<th>Available July 1*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>$26,000</td>
<td>$0</td>
</tr>
<tr>
<td>2011</td>
<td>$27,560</td>
<td>$0</td>
</tr>
<tr>
<td>2012</td>
<td>$28,709</td>
<td>$1,040</td>
</tr>
<tr>
<td>2013</td>
<td>$29,922</td>
<td>$1,071</td>
</tr>
<tr>
<td>2014</td>
<td>$31,206</td>
<td>$1,097</td>
</tr>
</tbody>
</table>

*Assumes fund is started in June, 2006, with a gift of $25,000, grows at 8% per year total return, and all amounts made available on July 1 are spent before the next year's distribution is made.

**What can be done to provide larger amounts to spend during the first three "building" years of the fund?**

The gift can be split so that a portion goes into the principal to establish the endowment and a portion is placed in a companion account where it may be used to provide awards while the principal builds. Or the donor may establish a different type of endowed fund call an "Annuity Endowment." With this type of fund the donor gives the Foundation the authority, within certain limits, to spend portions of the donated principal to make awards.

See “MINIMUMS FOR ESTABLISHING NEW FUNDS” for more information on how donors can establish and endowment at the University of Alaska.