

# Endowment Utilization Committee Report

## Endowment Utilization Committee Report

### Table of Contents

	<b><u>Page</u></b>
I. Committee Members and Charge	3
II. Comments from Committee	4
III. Endowment Utilization Plan Guidelines (all endowments)	5
IV. Endowment Utilization Policy for Chairs and Professorships	7
IV. Additional Recommendations	10

# Endowment Utilization Committee Report

## Committee Members

- Co-Chairs:** Trish Polly, College of Medicine  
Susan Sponcil, College of Agriculture
- Members:** Pat Lloyd, Library  
Karen Minton, College of Nursing  
Kathee Norris, College of Pharmacy  
Debbie O'Daniel, Business & Economics  
Chris Showalter, Law
- Ex-officio:** Diane Gagel, IT  
Sharon Klock, Endowment Services
- Advisory:** Kathy Fryer, Provost Budget Office  
Lisa Wilson, Provost Budget Office

## Committee Charge

The Endowment Utilization Committee, a group composed of budget officers from various Provost colleges and units, is charged with the following objectives:

- 1) Develop guidelines and an electronic format for approval and reporting to the Provost of endowment utilization for all endowments under the Provost. This reporting mechanism should include the following:
  - An easy-to-read and easy-to-follow format
  - A time frame (quarterly or semi-annually)
  - An ability to update the utilization comments "at-will" for budget officers as endowment utilization changes
  - Special focus and attention on endowments (chairs and professorships) currently unfilled but showing expenditures
- 2) Develop recommendations as appropriate for utilization of the endowment database currently in use in the Medical Center in the new reporting process.
- 3) Consider how this reporting mechanism could tie into the current CPE reporting process for RCTF II and III by enhancing and potentially simplifying both processes.
- 4) Be watchful of unintended consequences noting additional issues discovered but not part of the charge as potential problems that should be further discussed in future committees.

The Committee is requested to complete its task no later than November 15, 2003 [this date was extended per Lisa Wilson]. All recommendations forthcoming from this committee will be shared with all Provost Budget Officers. Regular reports to all Provost Budget Officers are expected and encouraged.

# University of Kentucky Endowment Utilization Committee Report

## Comments from Committee

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The committee recommends the following:

- 1) Add the following three documents to the Provost website: 1) Endowment Utilization Plan Guidelines; 2) the Endowment Utilization Policy for Chairs; 3) Professorships and Utilization Budget Form.
- 2) Include hyperlinks to the above documents in the following manuals:
  - a) Business Procedures Manual
  - b) Administrative Regulations "Named Professorships" [AR II-1.0-1]
  - c) Administrative Regulations "Policies Governing Private Funding of Academic Positions" [AR II-1.2-3]
- 3) Incorporate the Endowment Utilization Plan process in the operating budget calendar.
- 4) Departments/units will enter the endowment utilization plans into the endowment database. This database will utilize value-based security to limit access to data by department/unit. The target date for availability of the system is May 1, 2004, in time for entry and submission of plans after the annual operating budget process. In order to meet the target date, the application will be developed as a windows-based client.
- 5) To effectively manage the endowment funds, it is important that the Business Officers have a clear understanding of how the endowment funds operate. The committee feels the endowment funds have been on "auto pilot" in years past and with the increased number of accounts along with the RCTF initiative, education of endowment management is essential to proper management of the endowment funds. Currently the Office of Controller and Treasurer conducts an Endowment Management class thru HRD. The committee recommends that the Provost Budget Office coordinate a "mini" Endowment Management class with the Office of Controller and Treasurer. This class would be specifically designed for the Business Officers and could be conducted at one of the scheduled monthly Provost Business Officers meetings.
- 6) Since the Endowment Utilization Plan Guidelines and Endowed Chair and Professorship Policy Guidelines have a direct relationship to the Endowment Management class presented by the Office and Controller and Treasurer, the committee recommends the policies should be mentioned in the classes and participants should be informed where to find the policy and guidelines. This will provide an effective educational link to those who are responsible for submitting the utilization plans.
- 7) Use earnings code 527 for salary supplements payments for endowed chairs and professorships. Also, update the current earnings code title to "Chair or Professorship Supplement Payment".
- 8) In addition to the review by the Provost Business Officers, the report should be reviewed by individuals directly involved with endowments. Those individuals would include, but not be limited to, Development Administration Office, Assoc Provost for Academic Affairs, representative from the OPBPA Office and Development Officers.

# University of Kentucky Endowment Utilization Committee Report

## Endowment Utilization Plan Guidelines - All Endowments

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### A. Background

In the annual Endowment Utilization Plan process, Deans/Directors will recommend to the Provost the use of all endowment earnings. It is important to demonstrate that the endowment earnings are used to support the purpose as specified by the donor. The endowment utilization policy is intended to ensure effective management of endowed funds and will enable accurate reporting to donors on how the funds are expended. It is expected the endowment funds will play a larger part in the overall budget strategy of a college or unit and cannot be viewed as unallocated reserve funds. They must be carefully budgeted and wisely used to carry out the University's mission of instruction, research and service as well as the wishes of the donors.

For definition purposes, endowment funds are gifts that are held in perpetuity and generate earnings to support expenses as specified by donor designations that are in line with the University's missions of instruction, research and public service. The endowment provides stability since the principal cannot be spent. The endowment earnings are distributed to an endowment spending account, typically a 5-ledger.

For information related to the University's Endowment Investment Policy, please refer to the following website: <http://www.uky.edu/EVPFA/Controller/endowhome/POLICY.doc>

Upon completion of the annual operating budget, departments/units will enter their utilization plans in the UK Endowment Database based on the projected income/expenditure budgets submitted during the operating budget process. The system will facilitate generation and approval of the plans. A plan will be required for all endowments even if there are no projected expenses for the upcoming fiscal year. The utilization plan will specifically describe how the endowment earnings will be used to support the endowment purpose.

### B. Guidelines

- 1) The endowment utilization plan details how the endowment earnings will be utilized to support the purpose of the endowment.
- 2) The utilization plan shall be submitted directly following the annual operating budget process [generally in late May]. The revenue and expense projections submitted during the restricted budgeting process will be elements populated in the endowment database.
- 3) Authorized department/unit personnel will enter the utilization plans into the endowment database. Endowment account information such as title, type, occupant name and other attributes will be populated from existing data sources and each level of approval will be coded to create a workflow process. Using the endowment database, the department/unit will enter a line item budget that will be summarized automatically [see Appendix A for the Utilization Budget Form].
- 4) In situations where there are no plans to spend the endowment earnings, the utilization plan must include an explanation why the funds will not be used and what actions will be taken to ensure efficient management of the endowment earnings. Statements might include, per the terms of the

## **Endowment Utilization Plan Guidelines - All Endowments**

endowment agreement (or other gift instrument) any unused spending distribution will be reinvested in the principal for growth purposes, or distribute into itself until a certain level of funding is met.

- 5) For documentation and file purposes, the Utilization Budget Form can be printed for each endowment.
- 6) Once the utilization plan is completed and approved at the department/unit level, it will be submitted to the respective College Budget Office for review and approval. The plan will then be submitted to the Provost for review.
- 7) After the utilization plans are reviewed by the Provost Office, notification of approval or disapproval will be sent to the College Budget Offices.
- 8) When modifications to existing plans are necessary, the system will automatically assign a "version" number to the new plan. A history of all plans will be maintained by fiscal year and version number.

# University of Kentucky Endowment Utilization Committee Report

## Endowment Utilization Policy - Chairs & Professorships

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### A. Background

Endowed Chairs and Professorships are gifts that permit the University of Kentucky to recognize exceptional teaching and research achievements. As with any endowment, the income earnings from the endowment are to be used to support expenses as specified by donor designations.

Departments/units may have different methods of choosing an occupant for an endowed Chair or Professorship. However, all endowment appointments must be submitted through the proper channels and eventually submitted to the University's Board of Trustees for approval.

If any of these policies are in conflict with current practice regarding use of endowment funds, units should either make changes to be in compliance or send an exception request with appropriate rationale to the Provost.

For the Administrative Regulations (AR) related to the endowed Chair and Professorships, please refer to the following websites:

- Named Professorships [AR II-1.0-1, K], <http://www.uky.edu/Regs/AR/ar007.pdf>
- Private Funding of Academic Positions [AR II-1.2-3], <http://www.uky.edu/Regs/AR/ar049.pdf>

### B. Guidelines

- 1) As described below, there are differences in the funding of a chair and professorship. Generally, whenever possible, the primary position support for a chair is the endowment income and the primary position support for a professorship is the general fund budget.
  - a. The endowment earnings in a named chair may be used to support a faculty position. If the earnings are not sufficient to support a faculty position, general fund dollars may be used to supplement the salary.
  - b. The endowment earnings from a named professorship may be used to supplement the recurring general fund base salary.
- 2) The endowment earnings are recurring and will be used to support the named chair or professorship as well as other reasonable associated expenses as specified by the endowment agreement or other gift instrument in conjunction with donor wishes. If the chair or professorship position is vacant, a portion of the endowment earnings may be used for reasonable expenses associated with recruiting for chair/professorship occupants. Any uses other than recruiting must be approved by the Provost, as well as in conjunction with donor designations.
- 3) As stated in the Administrative Regulations [AR II-1.2-3], a chair will be established with a minimum gift of \$1,000,000 or the equivalent in annual contributions arranged according to agreements

recommended by the President and approved by the Board of Trustees. The University may provide from University funds such supplemental amounts as are necessary to set the salary of the holder of the chair at a level commensurate with the individual's record, experience, and position in the faculty. Income from the gift will be used for both salary and other professional support of the holder of the chair, including assistance for research.

- 4) A *professorship* will be established with a minimum gift of \$100,000 or the equivalent in annual contributions arranged according to agreements recommended by the President and approved by the Board of Trustees. Income from the gift will be used chiefly to supplement the salary of the holder of the professorship but will be available for other professional support, including assistance for research. Refer to the Administrative Regulations at: <http://www.uky.edu/Regs/AR/ar049.pdf>
- 5) An appointment to an endowed professorship or chair position is permitted prior to completion of applicable pledge payments. However, the funding for such a professorship or chair will be referred to as "conditional" until such time as the pledge payments are made in full. During this conditional funding phase, the college/unit is responsible for any shortfall between the monetary commitment made to the faculty member and the spending distributions generated by the endowment. If the donor should default on his or her required matching pledge (i.e. RCTF), and a replacement gift is not made, the University will be forced to return the RCTF matching funds to the State, and the professorship or chair will be terminated unless the college/unit can continue to fund the professorship/chair through other means.
- 6) Per the Administrative Regulation, Named Professorships [AR II-1.0-1, K], endowed professorship appointments can be made at the Associate Professor or Professor level. Generally, assistant professors cannot be appointed to an endowed Professorship or Chair. However, the Council on Postsecondary Education has approved the utilization of Research Challenge Trust Fund Endowment Match Program endowment earnings for supporting up to ten tenure-track faculty positions at the assistant professor level in the College of Medicine.
- 7) Endowed Professorship appointments cannot exceed a five-year renewable term, unless otherwise provided in the terms of the endowment agreement or other gift instrument.
- 8) Generally, endowed chair appointments are not subject to a specified term limit, unless otherwise provided in the terms of the endowment agreement or other gift instrument. However, each college/unit may choose to enforce time-limited appointments.
- 9) In cases where an endowed professorship reaches the appropriate level of funding for a chair, the college/unit has the discretion to process a change of appointment for the occupant from an endowed professor to an endowed chair as long as the endowment agreement (or other gift instrument) permits the change.
- 10) An occupant may not continue to hold an endowed chair or professorship in an Emeritus status.
- 11) Once the endowed chair or professorship appointment is approved by the Board of Trustees and an endowment utilization plan is approved, the endowment earnings can be utilized to support expenses related to the purpose of the endowment and in accordance with donor designations.

## **Endowment Utilization Policy - Chairs & Professorships**

12) If the endowment earnings are used to support the endowment occupant's salary, the earnings may be used in one of the following three ways:

a) To support the base salary as a *funding source* [i.e. occupant receives no extra pay].

Action required: The department/unit would process a DOE to charge the appropriate endowment spending account.

b) To support an additional amount *added to the occupant's base salary* and is subject to benefits and recurring salary increases in accordance with the University's salary guidelines.

Action required: Once approved at the department/unit level, process a new assignment with the additional pay amount.

Note: In these instances, the departments/units are expected to manage the endowed funds in a manner that will allow for salary increases in base salary. In those cases where sufficient funds for salary increases in base salary are not available, general fund dollars can be used.

c) To support a *non-base salary supplement* and is not subject to benefits or recurring salary increases.

The Chair or Professorship occupant is paid a non-base salary supplement, in one of two methods:

1. Paid as a lump sum at a specific date
2. Paid as an equal amount on a monthly basis

Action required: The department/unit will create an additional HRS assignment [not an M52 "one-time payment"] using earnings code 527 [Chair or Professorship Salary Supplement].

Paying as an additional assignment versus a one-time payment maintains a historical record of payment.

Note: If a supplement is paid, the unit should ensure there are appropriate funds in the spending distribution account to support the payment and that the amount and timing of the payment will not place the account in a deficit balance.

13) Generally, an amount up to a maximum of 60% of the annual endowment earnings can be recommended for support of compensation (salary + benefits) for the named chair or professor. The remaining 40% would be used for other program expenditures, such as travel, equipment, graduate students, operational support, etc.

14) The college/unit should conduct a periodic review of the Professorship or Chair holders to ensure the objectives of the endowment agreement (or other gift instrument) are being fulfilled.

15) If a Chair or Professorship appointment is terminated and the occupant received a salary increase as base pay, the individual's salary may be decreased by the supplement amount.

# University of Kentucky Endowment Utilization Committee

## Additional Recommendations from Committee

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In line with item #4 of the committee's charge (*Be watchful of unintended consequences noting additional issues discovered but not part of the charge as potential problems that should be further discussed in future committees*), the committee would like to make the following recommendations.

- 1) **Concern**: The committee feels the Provost Business Officers would greatly benefit from reference materials regarding endowment accounts and specific rules and practices. Currently, there are no reference materials available to the Business Officer.

**Recommendation**: Make available the Endowment Management class materials on the Endowment Services website. Also, develop and provide online reference materials [i.e. FAQ or reference manual, etc.] to include, but not be limited to, the following:

- a) The timing when interest can be pooled to the endowment distribution account.
  - b) The procedure to change the pooled distribution [i.e. prorate the distribution so that interest is pooled back to the endowment account in code 4310 to be used at a later date].
  - c) The process to transfer interest pooled in the endowment to the 5-acct for spending purposes.
  - d) The projected endowment earnings need careful consideration before developing the expenditure budget. Plans will not be approved when the projected endowment earnings are not sufficient to support the expenditures.
  - e) If the endowment earnings are not to be used in the upcoming fiscal year, consideration should be given to reinvesting the funds back to the principal.
  - f) Rules for distribution of interest to the spending account [i.e. why and when it should be changed on U50].
- 2) **Concern**: Each year the Office of Research Assessment requests departments/units to update a database pertaining to the RCTF endowed chairs and professorships. The database is a web-based application and is managed by the Office of Research Assessment. This data is compiled, summarized and submitted to CPE. In the past, the information for the previous year is deleted and the users must duplicate various sections that were submitted in the previous year.

**Recommendation**: The "history" in the database should be saved in some manner and be made available along with the new form each year for RCTF reporting. Require user IDs and security to the database to prevent users from modifying records belonging to other departments or units.