What is an endowment?

An endowment is established when we receive a relatively large donor gift with the requirement that the *gift principal* be permanently retained. The earnings or “distributions” from this gift are to be spent according to the donor’s restrictions written in the endowment agreement.

The endowment principal is merged with the University’s long term investments. *By definition, the principal of these “permanent” endowments can never be spent*.

How many endowments does OLLI have?

Two -- One from the Osher foundation; the other from the Lynne Blake Memorial fund. Duke University manages the money from both on our behalf.

How are endowment distributions used?
What happens to any endowment distributions or general revenue funds left over at the end of the year?

Endowment Distributions: *The Blake Endowment is quite small and produces very little in annual distributions. So, the following comments pertain specifically to the Osher Endowment.* Distributions from the Osher Endowment are transferred into an expendable fund at the end of each fiscal year. According to the Osher endowment agreement, these funds can be used for such things as: program facilities and operations, capital replacement to replace computers and other equipment, faculty support and development and staff and board development. Any unspent distributions are retained and used to offset future expenses.

General Revenue: These are the funds we receive for membership, course registrations, etc. This money is deposited into an Operating Account from which we pay our day-to-day expenses. Any money left at the end of the year, is retained and used as a cushion against future expenses.

OLLI's income is not constant. It varies by session depending on the number of people who sign up as members, the number of courses, and the number of people attending retreats, etc. Expenses, however, are relatively fixed since major items like management and administration expenses, interdepartmental services and space rental tend to remain constant over the course of the year. Consequently, there have been times when our expenses have exceeded our revenue. That's when it's nice to have some extra cash around so we can stay current with our bills.

Do we always have spendable distributions from the endowment?

No, not always. Duke University has somewhere around 4,100 individual endowments. Funds received from endowment donors (i.e. the Osher Foundation) are invested in the "Long Term Pool". This pool is managed by a Duke affiliate and operates similar to a mutual fund. And, as with a mutual fund, there are three important numbers to watch: Book Value, Market Value and Total Return.

Book Value is the original gift (principal) received plus any reinvested distributions. Market Value is the current value of the underlying assets. Total Return includes both the annual distributions and the change in Market Value over time.

To determine the annual distribution or "spending" rate Duke averages the market value per share or "unit market value" over the previous three calendar year ends. The result is multiplied by the spending rate set by the Board of Trustees (currently 5.5%) to determine the annual spending rate per unit.

In order to prevent large fluctuations from year to year, the Trustees have set a cap of 10% on the annual increase in the per unit spending rate. Over the past several years, no increase has been approved.

What if an endowment is underwater?

When an endowment's market value is less than its book value, the fund may be considered "underwater," which means distributions could deplete its principal. If this is the case, the University ensures that distributions are reduced by the amount by which the fund is underwater. If the amount by which the fund is underwater exceeds the total annual distributions, all distributions will be reinvested to the fund's principal; no distributions will be available for expenditure.

Here's an example. If the distribution were to be $100,000 and the fund was underwater by $90,000, the distribution would be reduced to $10,000 and the other $90,000 would be reinvested in the funds' principal. On the other hand, if the fund were underwater by $120,000, the entire $100,000 would be retained and reinvested in the funds' principal."

The impact on OLLI is clear. In those years when a distribution is received, we have extra money to work with. When no money is received, we must rely solely on current revenue and any funds we've put away for a rainy day.

This is not a remote possibility; it has happened several times over the past few years - most recently for the fiscal years ending June, 2010 and 2011.