



Endowment Management Whitepaper

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The Challenges of Endowment Management

Higher education currently faces real challenges that raise the stakes for effective endowment management: Key among them:

- The call for greater accountability and transparency
- The necessity of growing private gifts
- The importance of maximizing the benefit from private gifts
- The need for efficiency in managing the business of education

Universities seeking to address these critical issues created Kuali Endowment Management. This system meets the specific requirements of higher education endowment management because those who best understand endowment management processes developed it.

The Kuali Approach

Kuali Endowment Management is part of a larger collaboration among colleges, universities, and commercial partners at the not-for-profit Kuali Foundation. The foundation was formed by a group of higher education institutions to design and develop software systems that meet the special administrative and business needs of colleges and universities.

Kuali relies on a unique approach:

- Institutions come together, dedicating resources to develop software systems that meet their needs.
- These users who best understand university processes define the system requirements, determine its priorities, and test its functional performance. Programmers dedicated by community institutions develop, test, and sustain the software together.
- The Kuali community makes the software freely and openly available to all, under an ECL 2.0 license.

The Kuali Community

In late 2009, the Kuali community released version 3.0 of the Kuali Financial System. This version is currently being used at five institutions, with an additional nine undergoing implementation. The table below shows the institutions involved in the development of the Kuali Financial System and other Kuali projects.

Kuali Projects	Partner Organizations
Kuali Rice Middleware	Cornell University, Indiana University, Iowa State University, University of Arizona, University of California, Davis, University of California, San Diego, University of Maryland, University of Washington
Kuali Financial System including Kuali Endowment Management	Colorado State University, Cornell University, Indiana University, Michigan State, rSmart, San Joaquin Delta College, University of Arizona, University of Hawaii, University of California, Davis, University of Maryland, University of Southern California
Kuali Student System	University of British Columbia, University of Maryland, University of California, Berkeley, San Joaquin Delta College, University of Southern California, University of Washington, Carnegie Mellon University Naval Post Graduate School, Indiana University
Kuali Coeus Research Administration	Colorado State University, Cornell University, Indiana University, Iowa State University, MIT, Michigan State University, University of Arizona, University of California, Berkeley, University of California, Davis, West Virginia University
Kuali Ready Disaster Recovery	University of British Columbia, University of Illinois, University of Toronto, San Joaquin Delta College, California State University, Tufts University, University of Southern California, Indiana University, Pennsylvania State University
Kuali Open Library Environment	Duke University, Florida International University, Florida State University, Lehigh University, Library of University of Central Florida, Indiana University, North Carolina State University, University of Central Florida, University of Chicago, University of Florida, University of Maryland, University of Miami, University of Michigan, University of Pennsylvania

The Kuali Foundation is a not-for-profit 501(c)3 corporation.

Kuali’s unique approach is required to meet specialized higher education needs such as endowment management. Paul Courant and Rebecca Griffiths explain in a study of this topic:

“ It is not obvious, at first blush, why a vibrant and competitive software market is not better able to meet the needs of [the higher education] sector. One theory (which to us seems highly compelling) is that the problem lies in the distance between the software producers and users - developers working in the commercial world do not have a nuanced appreciation of the ways in which software is used in higher education.¹ ”

In no area is this gap more pronounced than endowment management. Few software systems provide the basic functionality needed for endowment management. Most institutions have developed a series of spreadsheets, niche systems, and difficult work-arounds. Others use systems developed for trust banking or other corporate activities and lack the ability to provide information to the large, complex, and decentralized groups that characterize higher education.

The community-source approach employed by the Kuali project addresses this issue by bridging the gap between those developing the software and those with deep expertise in higher education endowment management processes. It has the added benefit of integrating endowment management with other financial and business processes of the institution as well.

1 Paul N. Courant and Rebecca J. Griffiths, “Software and Collaboration in Higher Education: A Study of Open Source Software,” July 26, 2006, <http://www.ithaka.org/about-ithaka/announcements/ooss-study-final-report>.

Kuali Endowment Management Functionality

Kuali Endowment Management provides functionality that meets the most important requirements of effective endowment management.

Kuali Endowment Management Provides:	Kuali Endowment Management Is Not:
Management of and detailed reporting for endowments	A tool for managing investment managers
Functionality that addresses the unique compliance and reporting requirements for charitable trusts	A donor relations or gift reporting system
A structure for: <ul style="list-style-type: none"> • Donor due diligence and stewardship • Trust accounting • Reporting requirements 	
A subsidiary ledger to the general ledger	

The Kuali Endowment Management system can be used in conjunction with the Kuali Financial System, integrated with a different financial system, or used as a stand-alone module.

The Call for Greater Accountability and Transparency

The Issue

The trend toward greater accountability and transparency requirements is on the rise.

- Scrutiny by the US Senate Committee on Finance
- Increased legislation in the Uniform Prudent Management of Institutional Funds Act
- Increased regulation in FASB FSP117-1 (FASB ASC Subtopic 958-205)

The consequence of failing to manage or accurately report endowment funds is significant. Also significant is the time required of staff to sift through and validate data for reporting and information requests. An effective system is needed to ease this burden.

The Functionality

Kuali Endowment Management provides functionality to manage and report endowment funds and charitable trusts. Specifically, the system:

1 Captures information to track endowment funds

- Security information (number of shares, book and market values, etc.)
- Investment activity records
- Actual asset allocations for comparison with policy targets
- Investment pool data (number of units, market value per unit)

2 Tracks and records investment performance

- Investment income, realized gains and losses, unrealized gains and losses, and fees to the various funds
- Historical book value, accumulated earnings, and net gains

3 Supports standard and ad hoc inquiries

- Balance inquiries for current and historical balances
- Balances by individual funds, with drill-down capability to asset holdings
- Balances by security or other asset
 - Total institutional position
 - All funds holding the security

4 Assists in managing investment pools

- Automates investment of donor funds in the institution's pooled or common funds
- Provides historical unit values and spending policy rates by pool
- Projects the budgeted payout or the anticipated actual income for the current and subsequent fiscal year

The Result

Cornell University was managing all of its endowments in its general ledger as part of its thirty-eight-year-old financial system. It was extremely difficult to get information and reports out of the system. When the university was asked to submit endowment information to the US Senate Finance Committee, staff members spent several weeks extracting and verifying data to meet the requests. “Had we been using Kuali Endowment Management at that time, it would have required a fraction of the time it did,” says Kim Yeoh, assistant controller. “The system includes many different attributes and a very logical data structure. If it is implemented in conjunction with a data warehouse, then the creation of complex, individualized reports is greatly simplified. Answering questions like, ‘How much of our endowment supports student financial aid?’ becomes easy.”

The Indiana University Foundation has contributed to the Kuali Endowment Management project in hopes of easing the challenges of endowment management for all institutions. “The mechanics to support prudent fiduciary management of these funds with which the nonprofit managers have been entrusted are critical,” explains James Perin, senior vice president for finance and chief financial officer of the Indiana University Foundation. “We have over 6,500 accounts to track and report. At the end of the year we must categorize these into an effective report that reflects the requirements of IRS 990, which is growing exceedingly more complex. Those challenges affect all institutions; we all must create financial reports and are all subjected to these rigors. We believe that Kuali Endowment Management is one important piece of the puzzle to ease the reporting burdens that we share.”

The Necessity of Growing Private Gifts

The Issue

With reductions in public funding for private and public institutions alike, private gifts play an increasingly important role in funding higher education.

Kuali Endowment Management is not a donor relations system, but it does have key capabilities that can assist donor relations staff in performing stewardship duties that build trust with donors.

The Functionality

Kuali Endowment Management provides tools to track and report donor intent. Specifically, the system:

1 Captures donor intent

- Donor information in one location for reference by all
- Purpose and use criteria
- Special instructions

2 Provides data required to create stewardship reports for donors

The Result

For the Indiana University Foundation, this functionality has paid off. “We place significant importance on complying with donor intent and reporting to donors. This creates an atmosphere of trust that does impact giving, and Kuali Endowment Management really does help with the production of those reports,” explains Mr. Perin. “One of the factors of our success is our ability to nurture and maintain the trust of our donor population. That effort is not centered in the technology, but demonstrating compliance assists us in doing that well.”

At Cornell, compliance with donor intent is also of critical importance; however, responsibility for this aspect of stewardship is very decentralized. Having the information about donor restrictions readily available enables staff in the departments to fulfill this essential responsibility.

The Importance of Maximizing the Benefit from Private Gifts

The Issue

Tight funding in higher education increases the importance of making every gift have the greatest possible impact on the educational mission of the institution. This can be especially difficult in very large, decentralized institutions where the communication links between those soliciting and investing funds and those spending the allocations are not well developed.

The Functionality

Kuali Endowment Management provides tools to assist those receiving funds to plan and budget effectively. Specifically, the system:

1 Provides critical information to those receiving funds

- Identifies the organization that benefits
- Tracks and provides values of assets held
- Captures instructions for handling unspent income

② Eases budgeting and planning by receiving organizations

- Projects the budgeted payout or the anticipated actual income for the current and subsequent fiscal year
- Automates the distribution of a payout to one or more income accounts
- Has the ability to select investment time frames based on budget needs and to match funds and budgets between KFS and KEM

The Result

One principle shared at Indiana University is that the value of information needed for decision making goes up the more widely it is shared. Mr. Perin explains: “Kuali Endowment Management creates the information platform so that leaders across the university are not making decisions in a vacuum. IU is a very large place with seven campuses and the additional complexity of a medical center and professional schools. We operate under a decentralized management structure, and deans expect to manage affairs in accordance with priorities of the institution. Making information available to wide groups of constituents—deans, trustees, the president—is important and it is expected.”

The Need for Efficiency in Managing the Business of Education

The Issue

The cost of compliance is tremendous. The inefficiencies generated by manual systems and bureaucratic processes are difficult to avoid.

The Functionality

Kuali Endowment Management provides tools to assist those receiving funds to plan and budget effectively. Specifically, the system:

① Provides tools to increase efficiency across the organization

- Single point of entry for endowment management data
- Single point of access for endowment management information
- Automated workflow tools for routing approvals and expenditures

② Facilitates reporting and forecasting

- Reporting and forecasting tools
- Broad access for distributed decision making and budget optimization

③ Automates key functions and reports

- Manages disbursements to external beneficiaries of split-interest agreements
- Ability to create annual reports for the external party's tax information
- Automates cash sweeps to facilitate compliance with trust laws

The Result

Cornell University sees great value in the automation of workflow processes. “The ability to route approvals and information electronically was a primary factor in our decision to implement the Kuali Financial System and Kuali Endowment Management,” says Ms. Yeoh. “You can’t overestimate the benefit that the automated workflow provides, particularly on a large scale. If you only have fifty endowments to manage then a spreadsheet may work, but for larger, more complex endowments these kinds of tools become critical.”

The Indiana University Foundation expects similar efficiencies. “Our prior system was a kludge,” says Mr. Perin. “We had good staff creating endless work-arounds with a bureaucratic overhead that was a mess. When things were smaller, that worked. As we grew larger and compliance requirements increased, we needed a more sophisticated platform. You must balance the technology prowess of the infrastructure with the rigors of what you are being asked to do. Our ability to ease reporting, to provide immediate budgeting and planning information, and to automate approvals and distributions all increase our efficiency and our ability to focus on the things that matter most.”