

## Policy on Underwater Endowments

### PURPOSE

Underwater endowments are endowments with a market value equal to or less than its historic dollar value. The Uniform Prudent Management of Institutional Funds Act (UPMIFA), as it was adopted under Illinois State law and stands today, addresses the treatment of such endowments. The following procedures will generally be followed by the Western Illinois University Foundation (Foundation) in relation to underwater endowments. An annual review of underwater accounts will be performed each fiscal year-end. A report of individual participant true endowment accounts with market values less than historical dollar values will be produced.

### APPLICABILITY

Consistent with modern endowment management practices, the Western Illinois University Foundation's investment and spending policy utilizes the total return concept. As such, funds are included in a consolidated endowment pool and invested in accordance with an investment strategy authorized by the Board of Directors.

The objective is to maximize long-term total investment return, maintain and grow the purchasing power of the principal and produce stable and predictable spending that is maximized and increases over time. Individual gifts made to the endowment purchase shares in the endowment pool and receives a proportional allocation of the investment return. The semi-annual spending allocation is calculated as a percentage of the moving average market value of the entire pool over the thirty-six prior weeks. The purpose of the averaging is to smooth out the effect of short-term market volatility. Should a current year shortfall exist (spending allocation is greater than earned income and realized gains), the prior cumulative excess of income and realized gain should cover the balance of the spending allocation.

### POLICY

Separate procedures, outlined below, relate to accounting procedures for underwater endowments depending on the type of endowment.

**Quasi Endowment Practices:** The practices outlined here will apply only to Board or otherwise internally designated endowments (Quasi endowments) and not to donor-designated endowments (True endowments):

- In the event that the Market Value of an endowment fund falls significantly below the historic gift value (significantly is defined as less than 80% of historic gift value) the Foundation reserves the right to make no distribution of that fund for the period in effort to help the market value of the fund recover.

- Unspent income distributions residing in earnings accounts, if any, will continue to be available for spending purposes during periods in which no distribution is made.
- Designated department heads or chairs will be informed promptly in the event that a cash distributions from an endowment will be suspended to help the market value of the fund recover.

**True Endowment Practices:** The practices outlined here will apply only to donor-designated endowments (True endowments) and not to Board or otherwise internally designated endowments (Quasi endowments).

- If the market value of a donor-designated endowment is at or below the account's historic gift value as of any June 30, the endowment will not receive cash distributions for spending purposes for the next fiscal year beginning July 1; instead, distributions will be reinvested into the fund. Funds will be reinvested regardless of the amount by which market value is below historic gift value. These practices are designed to ensure the principal of the fund is intact as desired by the donor.
- During a period in which income distributions are stopped on an endowment fund, unspent income residing in the earnings account, if any, will continue to be available for spending purposes and will be disregarded in comparing an endowment's market value to its historic gift value.
- During a period in which income distributions are stopped on an endowment fund in which no unspent income residing in the earnings account for spending purposes, an area has the option to, at its discretion, use a general fund account, when available, to continue to make expenditures to support the purpose intended to be funded by the endowment.
- Interested parties (Deans, Report Recipients, Business Managers, etc.) will be made aware of these intended practices and will be informed as and when cash distributions from an endowment are to be suspended.

## **CLARIFICATION**

Requests for clarification of this policy should be directed to Foundation Accounting or the Western Illinois University Foundation Executive Officer.

Certified as approved by the Executive Committee of the Western Illinois University Foundation Board of Directors on:

Date 12/10/2014

  
Marlin France, WIU Foundation Secretary

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Responsible Departments: Foundation Office

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