

Policy Statement

All endowment pool funds will be operated in compliance with the following spending policies and procedures adopted by the Institute in compliance with the New York Prudent Management of Institutional Funds Act (NYPMIFA) effective beginning fiscal year 2012. The primary change from the enactment of NYPMIFA was the removal of restriction on appropriations from 'underwater' endowment funds whose market value had fallen below the original gift value (known as Historical Dollar Value/ 'Book Value'/'Corpus).

Roles and Responsibilities

The Financial Reporting team, under the leadership of the Controller, is responsible for operation of the Endowment Pool Spending program and maintenance of the Endowment Pool Spending records in accordance with the following procedures.

Fund Type Definitions

Quasi Endowment

51 – Quasi Endowment – Unrestricted. Funds that have been earmarked by the board for investment in the endowment pool. As these funds are not donor-restricted, they do not fall under the purview of NYPMIFA. The purpose of these funds is to provide general unrestricted support to the Institute, and as such there are no restrictions imposed on appropriations.

53/54 – Quasi Endowment – Designated. Funds that have been earmarked by the board for investment in the endowment pool. The purpose of these funds is to support designated purposes (e.g. scholarships, chairs) as approved by the Institute. As these funds are not donor-restricted, they do not fall under the purview of NYPMIFA, and there are no legal restrictions related to appropriations.

True Endowment

61 – True Endowment – Unrestricted. Funds that have been designated by donors for investment in the endowment pool. The purpose of these funds is to provide general unrestricted support to the Institute. In accordance with N-PCL § 553(a), the Institute may prudently appropriate amounts for expenditure, even if the funds current market value is below its Historical Dollar Value (HDV).

64 – True Endowment – Restricted Purpose – Corpus Spendable. Funds that have been designated by donors for investment in the endowment pool. The purpose of these funds is to provide support for specific designations (e.g. scholarships, awards, chairs) as outlined by the donor in the endowed agreement. In accordance with N-PCL § 553(a), the Institute may prudently appropriate amounts for expenditure, even if the funds current market value is below its HDV.

66 – True Endowment – Restricted Purpose – Corpus Non-Spendable. Similar to a ‘64’ fund, with the exception that the donor has provided explicit direction that the Institute **may not** appropriate in situations where the market value has fallen below the HDV of the original gift(s).

Share Participation and Allocation Procedures

Gifts and transfers to endowment funds are awarded shares based upon the Endowment per share market value at the end of the month in which the addition occurred through the Banner “Unitization” process. The summation of unitized shares to date comprise the total number of endowment pool shares.

EXAMPLE: Unitization of New Endowment Gift			
	Donor Provides Gift of \$1,000,000 to Fund a new Endowment on June 15th 20XX	1,000,000.00	{A}
	Market Value of Endowment on 6/30/XX	585,000,000.00	{B}
	Total Number of Endowment Shares	14,000,000.000	{C}
{B}/{C}	Endowment Market Value/Share on 6/30/XX	41.786	
{A}/{D}	# Shares Assigned to Donated Gift	23,931.624	

The shares are allocated their prorated share of the monthly net changes in the endowment market value (consisting of Investment Return, Allocated Costs of endowment management, and Endowment Spending) through a monthly Banner system “Distribution of Gains/Losses” process.

Similarly, the Board approved endowment spending program is applied monthly through the application of a spending rate per share (discussed below) through the Banner System “Distribution of Spendable Income” process. Each endowment has an assigned ‘income fund’ which serves as an operating fund setup for the endowments designated purpose. The expendable portion of endowment income (as adopted by the Board) is allocated to these funds on a monthly basis, and expenditures for the endowment’s designated purpose are made utilizing these funds. Designated purpose quasi endowments (53/54 Fund Types) are assigned a corresponding income fund beginning in ‘23’, designated purpose true endowments (64/66 fund types) are similarly assigned an income fund beginning in ‘24’.

Calculation of Projected Spending

The endowment spending rate is reviewed and approved annually by the Board of Trustees. Currently, the target gross spending amount is 5% of the total endowment, with the spending calculation being made as of September 30th of the year preceding the effective year. For instance, the FY18 Spending Projection would be calculated 'as of' the endowments market value on 9/30/16.

The per share gross spending rate and total gross unadjusted spending dollar amount are calculated as follows;

$$\text{Spending Rate} = A * ST$$

Where;

A = Average Quarterly Share Price, as determined by a simple average of the prior 20 quarter market value per share, ending with the 'as of' date.

ST = Spending Target as a percentage of endowment (Currently 5%)

The spending rate is then prorated to determine a monthly spending rate, which will be applied in Banner via the 'Distribution of Spendable Income' process.

EXAMPLE: Calculation of Gross Projected Spending and Monthly Spend Rate

	Average Quarterly Share Price (20 Quarter Rolling Average ending 9/30/XX)	\$38.073	{A}
	Spending Target Rate	5%	{B}
	Number of Units at 9/30/XX	14,500,000	{C}
	{A}*{B} Spending Rate	1.904	{D}
	{D}/12 Monthly Spending Rate	0.159	
	{A}*{B}*{C} Gross Unadjusted Projected Spending	27,602,925	

NOTE: The 'Distribution of Spendable Income' process distributes spendable income to income funds linked to the endowment, but does not directly impact the principal funds market value. The effect of spending on the market value of a principal fund is distributed through the change in share value allocated in the 'Distribution of Gains/Losses' Banner process.

Calculation of Projected Spending – Income Portion

The income portion is defined as the portion of annual spending which is to be funded through current interest and dividend distribution income of the endowment.

The income portion is calculated as the average of the percentage of income from actual total spending from the two completed fiscal years preceding the ‘as of’ date of the projection. This percentage is then multiplied by projected gross spend to arrive at the income portion. For instance, for the FY18 spending projection calculated as of 9/30/16, this calculation would be performed on the average of actual income divided by actual spending appropriated for years FY15 and FY16.

EXAMPLE: Calculation of Income Portion of Spending			
	FYX0	FYX1	
Endowment Income	7,000,000	6,000,000	{A}
Spending Allocated (Net of Adjustments)	26,000,000	26,500,000	{B}
	{A}/{B}	26.92%	22.64% {C}
	Average {C}	Income Percentage	24.78%

Endowment Income Surcharge

The Institute imposes a surcharge of 10% of the spending allocation (net of any underwater adjustments, discussed below) to designated purpose income funds (23/24 Fund Types). Endowments intended for unrestricted support (i.e. Income Funds for 51/61 Fund Types) are not assessed a surcharge. This surcharge is assessed automatically via an overnight Banner process following the posting of the monthly spending allocation.

Spending Projection Modifications

Modifications to the gross spending projection for individual endowments are determined annually in conjunction with the underwater analysis performed using the ‘as of’ date of the spending calculation. These adjustments are then implemented concurrent with the monthly allocation of spending in Banner.

Underwater Analysis for Spending Projection Modifications

The Institute monitors individual endowment fund market and HDV annually. This analysis is conducted in conjunction with the calculation of the spending projection as of September 30th in the year preceding the spending projection effective date. For instance, an analysis of market and HDV values for the FY18 spending projection were performed as of market and share values for 9/30/16.

When the market value is less than the HDV of the gift, it is considered 'underwater'. At the time of the gift the donor stipulates whether the Institute may appropriate funds for expenditure from endowments which are underwater.

The Institute utilizes this underwater analysis in conjunction with known donor stipulations to determine if any reduction of gross appropriated spending is necessary. Since the Banner Endowment module does not allow for individual front-end reductions, adjustments are performed monthly following the application of the 'Distribution of Spendable Income' Banner process.

Spending Modifications by Fund Type

51 – Quasi Endowment – Unrestricted – As these funds are under Board control and are intended to provide unrestricted support to the Institute, no adjustments are made to the calculated gross projected spending.

61 – True Endowment – Unrestricted – These funds are intended to provide unrestricted support and do not have donor restrictions limiting appropriation when the fund has fallen below HDV, therefore no adjustments to gross spending are made. Spending calculation is similar in nature to 51 funds.

Calculation of Adjusted Spending - 51/61 Funds				
		Fund	51XXXX	
		As of Date	Above Water	Under Water
	# of Shares	9/30/20X0	35,714.29	35,714.29 {S}
	Book Value	9/30/20X0	\$ 1,000,000.00	\$ 1,000,000.00 {A}
	Market Value	9/30/20X0	\$ 1,200,000.00	\$ 800,000.00 {B}
{B}-{A}	Appreciation	9/30/20X0	\$ 200,000.00	\$ (200,000.00) {C}
{C}/{A}	Underwater %	9/30/20X0	N/A	20.00%
	Gross Spending Rate	9/30/20X0	1.904	1.904 {D}
{D}*{S}	Final Projected Spending	For FYX2, calculated as of 9/30/X0	\$ 67,987.50	\$ 67,987.50

53/54 – Quasi Endowment – Designated – These funds are under Board control but are intended to provide support designated for a specific purpose. As such, appropriations from these funds are limited to the income portion of appropriated spending plus available appreciation to arrive at adjusted spend. Any spending reduction is credited to the fund via share addition entry for the amount not allocated.

66 – True Endowment – Restricted Purpose – Corpus Non-Spendable – “NYPMIFA NO” These funds have donor imposed limitations on appropriations for spending on funds that are underwater. Appropriations from these funds are limited to the income portion of appropriated spending plus available appreciation to arrive at adjusted spend. Any amounts in excess of this adjusted spend are credited to the fund via share addition for the amount not allocated. Spending calculation is similar in nature to 53/54 funds.

Calculation of Adjusted Spending - 53/54/66 Funds					
	Fund	53XXXX/54XXXX/66XXXX			
	As of Date	Above Water	Above Water	Under Water	
# of Shares	9/30/20X0	35,714.29	35,714.29	35,714.29	{S}
Book Value	9/30/20X0	\$ 1,000,000.00	\$ 1,000,000.00	\$ 1,000,000.00	{A}
Market Value	9/30/20X0	\$ 1,200,000.00	\$ 1,020,000.00	\$ 800,000.00	{B}
{B}-{A} Appreciation	9/30/20X0	\$ 200,000.00	\$ 20,000.00	\$ (200,000.00)	{C}
{C}/{A} Underwater %	9/30/20X0	N/A	N/A	20.00%	
Gross Spending Rate	9/30/20X0	1.904	1.904	1.904	{D}
{D}*{S} Gross Projected Spending	For FYX2, calculated as of 9/30/X0	\$ 67,987.50	\$ 67,987.50	\$ 67,987.50	{E}
Income %	Average FYX9/FYX0	24.78%	24.78%	24.78%	{F}
{F}*{E} Income Portion		\$ 16,848.86	\$ 16,848.86	\$ 16,848.86	{G}
{G}+{C} Income Portion Plus Appreciation		\$ 216,848.86	\$ 36,848.86	\$ (183,151.14)	{H}
Adjusted Gross Spend		\$ 67,987.50	\$ 36,848.86	\$ 16,848.86	{I}
{I}*(10%) Surcharge		\$ (6,798.75)	\$ (3,684.89)	\$ (1,684.89)	
Final Projected Spending		\$ 61,188.75	\$ 33,163.98	\$ 15,163.98	

64 – True Endowment – Restricted Purpose – Corpus Spendable – “NYPMIFA YES” - These funds do not have donor imposed restrictions regarding spending appropriation when underwater. However, the Institute imposes a prudency threshold that will eliminate spending if a funds underwater percentage is greater than or equal to a set ‘cutoff’ amount as approved by the Institute. In FY19, this percentage was set at 20%. The underwater percentage is defined as

$$\text{Underwater \%} = - \frac{(MV - BV)}{BV}$$

Where;

BV = Book Value of Fund at annual spending calculation ‘as of’ date

MV = Market Value of Fund at annual spending calculation ‘as of’ date

In December 2017, the Institute adopted the following schedule regarding the cutoff percentage for “NYPMIFA YES” funds.

Fiscal Year	Percent to Stop Spending
FY19	20%
FY20	10%
FY21	0%

For FY19, if a fund’s underwater status is determined to be greater than or equal to 20%, the fund’s spending allocated will be eliminated (via reversing entry following the spending allocation process) and the fund will be given credit for the eliminated spending through a share addition entry.

Calculation of Adjusted Spending - 64 Funds					
	Fund	64XXXX			
	As of Date	Above Water	Under Water	Under Water	
# of Shares	9/30/20X0	35,714.29	35,714.29	35,714.29	{S}
Book Value	9/30/20X0	\$ 1,000,000.00	\$ 1,000,000.00	\$ 1,000,000.00	{A}
Market Value	9/30/20X0	\$ 1,200,000.00	\$ 900,000.00	\$ 800,000.00	{B}
{B}-{A} Appreciation	9/30/20X0	\$ 200,000.00	\$ (100,000.00)	\$ (200,000.00)	{C}
{C}/{A} Underwater %	9/30/20X0	N/A	10.00%	20.00%	
Gross Spending Rate	9/30/20X0	1.904	1.904	1.904	{D}
{D}*{S} Gross Projected Spending	For FYX2, calculated as of 9/30/X0	\$ 67,987.50	\$ 67,987.50	\$ 67,987.50	{E}
{E}*(10%) Surcharge		\$ (6,798.75)	\$ (6,798.75)	\$ -	
Elimination of Spending if >= 20% Underwater		\$ -	\$ -	\$ (67,987.50)	
Final Projected Spending		\$ 61,188.75	\$ 61,188.75	\$ -	

**Reinvestment of Spending on New Endowments (True Endowment Only, 61/64/66 Fund Types) –
Reinvestment Restricted to Corpus**

Many of the Institute’s True Endowment agreements contain language specifying that until activation thresholds are met, income is to be ‘reinvested back to the fund’. If this language contains the words ‘corpus’ or ‘principle’, this represents a donor imposed restriction on income, and the Institute performs a spending modification to credit such funds with additional donor-restricted corpus.

This process is performed monthly subsequent to the allocation of spending. After spending is allocated, a transfer entry is made to transfer amounts allocated for spending from the endowments income fund to the principal/corpus fund of the endowment. This addition will add to the book value of the fund, and subsequent unitization of the transferred amount will increase the fund’s share participation and market value.

Market and Book Roll - 64 Fund - Reinvestment not Restricted to Corpus			
	As of		
Market Value per Share		39.00	{A}
# Shares	7/1/20XX	3,000.00	{B}
Monthly Spend Rate		0.159	{C}
July Spending	{B}*{C}	475.91	{D}
Market Value Per Share	7/31/20XX	40.00	{E}
Share Credit	{D}/{E}	11.90	{F}
Total Shares End of Month	{B}+{F}	3,011.898	
	Market Value	Book Value	
Value 7/1/XX	117,000.000	100,000.00	
Reinvested Income	475.91	475.91	
Market Return	3,000.000	-	
Ending Value 7/31/XX	120,475.91	100,475.91	

Reinvestment of Spending on New Endowments (True Endowment Only, 61/64/66 Fund Types) – Reinvestment not Restricted to Corpus

If the donor agreement does not specify that reinvested income is restricted to corpus, the aforementioned spending reduction and zero-balance share credit procedures would be followed for the amount not spent. As the donor has not restricted this reinvested income, there is no impact on book value.

Market and Book Roll - 64 Fund - Reinvestment not Restricted to Corpus			
	As of		
Market Value per Share		39.00	{A}
# Shares	7/1/20XX	3,000.00	{B}
Monthly Spend Rate		0.159	{C}
July Spending	{B}*{C}	475.91	{D}
Market Value Per Share	7/31/20XX	40.00	{E}
Share Credit	{D}/{E}	11.90	{F}
Total Shares End of Month	{B}+{F}	3,011.898	
		Market Value	Book Value
Value 7/1/XX	117,000.000	100,000.00	
Reinvested Income	475.91	-	
Market Return	3,000.000	-	
Ending Value 7/31/XX	120,475.91	100,000.00	

Reinvestment of Endowment Spending on Fully Funded Endowments – Resting Period

Endowments are reviewed bi-annually (in January and July of each year) by Finance in consultation with Institute Advancement, and are activated only if the fund has reached its minimum activation level (as outlined in the donor agreement based on gifts/contributions to date) and the market appreciation of the fund is sufficient to support one full year of estimated spending. In December 2017 the Institute adopted a policy that until both of these conditions are met, income is reinvested back to the endowment fund as outlined above.