

## Rensselaer Polytechnic Institute

### Procedure on Accounting for True Underwater Endowments

Is the endowment Underwater (UW) as of June 30, 2011?

- a. Calculation: Book +/- Market Value = Appreciation
- b. If Appreciation is less than \$0, YES, endowment is UW for FY12
- c. All other endowments are classified as Above water for FY12.

If an endowments market value is less than its original book value the endowment is considered to be underwater.

True endowments are classified into two categories and are designated with the two leading digits of their endowment fund numbers. Endowments that begin with 64 are endowments where the donor has agreed to the invasion of corpus to support spending. Endowments that begin with 66 are endowments where the donor has stated that the corpus may not be invaded.

#### Fund Type 64: Donor has stipulated corpus **can** be invaded to fund spending formula

1. **64 Funds will receive the entire spending formula.** Prior to FY12, underwater funds only received the interest and dividend portion of the spending. This change has resulted from the donor's direction of the ability to invade the corpus for spending.
2. The per share spending formula (\$2.18404 for FY12) will be split between interest/dividends and appreciation. For FY12, 20% of the per share spending allocation is due to interest/dividends and 80% is attributable to appreciation.
3. Per share income will be posted to the endowment spending fund on a monthly basis for FY12.
4. Allocation of the entire spending formula on underwater funds will reduce the amount of the endowment (based on donor's intent) unless the earnings of the fund are greater than the spending plus the underwater amount. Every effort should be made to spend these funds in the year in which they are allocated for spending.

#### Fund Type 66: Donor has stipulated corpus **cannot** be invaded to fund spending formula

1. **66 Funds will not receive the entire spending formula, only the interest and dividends.**
2. The per share income estimate (\$2.18404 for FY12) will not be posted to fund for FY12. The interest and dividends estimate (\$0.45 for FY12) will be posted on a monthly basis.
3. Quarterly, UW endowment spending funds will be reviewed.
  - a. If the fund balance is positive, no action is necessary.
  - b. If the fund balance is negative, a review of expenditures will be made for determination of Institute reimbursement. Expenditures eligible for reimbursement are:
    - i. Faculty salary/fringe per Chair holder agreement
    - ii. Student support (UG Scholarship, Graduate tuition/stipend)
    - iii. Presidentially approved exceptions
  - c. If expenditures are appropriate, a transfer from an Institute fund will be made to bring balance back to \$0.
  - d. If expenditures are identified to be outside the restrictions, the actual expense will be moved. The portfolio business manager will supply a fund number to move the expenditure to. After expenditure is moved, if the fund balance is negative, a transfer from an Institute fund will be made to bring balance back to \$0.

**Example of True Endowment Underwater:**

Market Value:	\$1,093,756
Appreciation:	(238,387)
Total FY12 Spending Formula:	69,431
From interest/dividends	13,886
From Earnings	55,545

1. Is the Endowment UW?  
Appreciation is less than \$0, YES, Endowment is UW
2. Fund Type is 64
3. Spending formula of \$69,431 is posted to fund for FY12.
4. Fund Type is 66
5. Earnings due to interest/dividend of \$13,886 are posted to fund for FY12.  
Quarterly, expenditures and fund balances are reviewed. Using FY12 1<sup>st</sup> Qtr expenditures as an example:

Starting Balance	\$40,963
Income (3 mos of \$13,886)	3,472
Expenses:	
Faculty Salary	16,912
Fringe Benefits	5,107
Travel	15,000
Equipment	10,000
Surcharge on Income	347
Balance at end of 1 <sup>st</sup> Qtr	(2,931)

1. Is the balance negative? Yes
2. Are expenses within restrictions?
  - a. Faculty salary/fringe? Endowment restrictions would need to be reviewed. For this example, determination made that it is appropriate.
  - b. Travel & Equipment – not within restrictions for True endowments (assume no Presidential approval on hand)
  - c. Transfer of inappropriate expenditures, up to amount of deficit, to other portfolio funds.