

Jeffrey J. West
Associate Vice President
Financial & Accounting Services
University of Utah
801.581.7520

I'm writing to see if an item could be added to the agenda of the Draft Committee to Revise the UMIFA. For some time, we have struggled with the lack of language within UMIFA to address "under-water" endowments - especially as pertaining to the spending policy. I have talked with several people from throughout higher ed on this issue, and I am still unsatisfied with current practice. Larry Goldstein has told me that (to his knowledge) neither the AICPA, FASB or GASB have addressed this issue - primarily because it's assumed to be a function of State law. He stated that Elliott Spitzer (NY state attorney general) has proclaimed that New York law does not allow distributions to underwater endowments- but that's the only definitive word that Larry has heard on the issue.

The simple question is this - what spending policy prevails when distributing "earnings" to an endowment that is under-water? Our own practice here is NOT to distribute the full spending rate to these endowments, but rather to distribute only the "current income" - or the income attributable to dividends and interest only (not appreciation). I think current practice is all over the map. Some schools distribute nothing to under-water endowments; others distribute something, but not the full amount (like Univ. of Utah). I believe this is true for both public and independent institutions. I would argue that for those of us who administer endowments as part of a unitized endowment pool, the mechanics of the pool accounting process "level" the amount distributed to under-waters, and that they should get the full spending rate, just like any other endowment. But I don't think my view is embraced by many.

Thanks. Jeff

Jeffrey J. West
Associate Vice President
Financial & Accounting Services
University of Utah
801.581.7520