



MEMORANDUM

To: Colleagues with University-Affiliated Foundations

From: Dennis Press *Dennis Press*
University Controller

Re: Procedures for June 2009 Payout

Date: June 8, 2009

The purpose of this memorandum is to provide information regarding the procedures for the June 2009 distribution of endowment earnings and your entity's involvement in ensuring that the distribution is correct. University-Affiliated Foundations invest their endowments in The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc. (Chapel Hill Investment Fund). Each June the Chapel Hill Investment Fund makes a distribution (or "payout") to the participating, affiliated foundations. The approved distribution rate each year is targeted to be approximately 5 percent of market value, but the actual distribution could be lower if necessary to prevent an unapproved invasion of the endowment principal.

With the recent passage of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), an invasion of principal of an endowment is allowed under certain circumstances. Attached is the memorandum from the Chancellor to Deans and Directors dated June 5, 2009, which provides the University's position on the application of the UPMIFA standards for underwater endowments. Your foundation should determine what portion of the calculated payout should be distributed for underwater endowments, and what portion should be retained for investment in the Chapel Hill Investment Fund to avoid an unapproved invasion of principal.

Your foundation's role in ensuring that the UPMIFA standards are accurately applied is critical. The University's Accounting Services Office maintains the *Unit Accounting System (UAS)*, which tracks the detailed market values, contribution values, and other data for each endowment fund. Your affiliated foundation has the complete documentation for each of your endowment funds, and also the authority and responsibility to determine how UPMIFA applies to each endowment.

If the calculated payout for an endowment fund does not require an adjustment, no action is needed. If the calculated payout for an endowment fund does require an adjustment, University Accounting Services is able to provide two alternative options:

- A. Use an automated adjustment to avoid any principal invasion based on UAS data.

This option will provide an automated process to prevent any invasion of endowment principal caused by the distribution of the calculated payout. Accounting Services will automate the process to return any portion of the calculated payout that causes an invasion of endowment principal for the University Statutory Endowment and the endowments of The UNC-CH Foundation, Inc. based on the data in the

UAS system. If your foundation wishes to select this option for all of your endowment funds in the Chapel Hill Investment Fund, please indicate your decision in a memorandum to me which would need to be received by June 19, 2009.

B. Process an online journal entry to modify the calculated payout for selected endowment accounts.

This option will provide an online process to prevent invasion of endowment principal caused by the distribution of the calculated payout for selected endowment accounts based on your foundation records.

To use this option, the foundation should take the following actions:

- 1) Review Foundation records and the UAS Variance Report for UPMIFA to determine the amount of any needed adjustment to the calculated payout for an endowment fund. The variance report displays detailed data on each participating fund for your foundation that is underwater. Your foundation records can be used to determine if the contributions included any net accumulated gains for the endowment. In these instances, the column for the *No Invasion Transfer* on the report may need to be recalculated. The variance report can be obtained by contacting John Carlson, Investment Accountant, in Accounting Services at jrcarlso@email.unc.edu or 843-4476. The report will be available on June 29, 2009.
- 2) For any adjustments to the calculated payout for an endowment fund, use the online journal entry system.
 - a) Select option for *Trust & Special Transfers / Agency Endowment Income to Agency Endowment Principal Account*.
 - b) From the Justification drop down box, select *Required UMIFA / UPMIFA Additions according to Policy*.
 - c) The dollar amount of the journal entry for each endowment will be the portion of the calculated payout that should not be distributed in order to avoid a principal invasion.

To record an entry prior to the close of fiscal year 2008-09, submit the entry no later than July 6, 2009.

Please contact me or John Carlson if you have any questions. Thank you for your collaborative efforts regarding this important issue.