

Policy: Implementation of Uniform Prudent Management of Institutional Funds Act (UPMIFA)

Background:

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) was enacted in North Carolina in March 2009. UPMIFA replaces the earlier Uniform Management of Institutional Funds Act (UMIFA), enacted in North Carolina 1985. Like UMIFA, UPMIFA is designed to provide guidance and authority to institutions within its scope concerning the management, investment, and expenditures of institutional funds, the delegation of investment authority, and the release of donor-imposed restrictions on the use or investment of institutional funds.

UPMIFA provides updated, more specific standards for the prudent management and investment of institutional funds and spending from endowment funds, balancing protection of donor intent with flexibility that will improve an institution's ability to cope with economic upturns and downturns. UPMIFA eliminates UMIFA's provision that allows an institution to spend only amounts above "historic dollar value" (the value of contributed funds at the time of contribution) the institution determines to be prudent and replaces this standard with better guidance on making prudent determinations about accumulating or spending endowment funds. UPMIFA allows the invasion of principal of an underwater endowment fund under certain circumstances. The term "underwater endowment fund" is used to mean one in which the total market value is less than its historic book value or principal- i.e., the actual dollars contributed to the fund.

Justification:

The endowment spending rules contained in UPMIFA require an endowment, foundation or other charitable organization to act in good faith, with the care that a prudent person would ordinarily exercise under similar circumstances and consider, if relevant, the following seven factors:

1. The duration and preservation of the endowment fund
2. The purpose of the institution and the endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the institution
7. The investment policy of the institution

Recommendation:

The position of the University of North Carolina Wilmington is that implementing the flexibility afforded by UPMIFA to invade principal should be an *option of last resort*.

The University has developed and prioritized steps for implementing UPMIFA:

- Examine the activity supported by each underwater endowment to determine if it is essential to continue in the upcoming fiscal year or if it can be deferred.
- If it is determined that continuing the activity is essential, pursue the following funding option in the order listed:
 - Use any income from the prior year's distribution remaining in the endowment's spending account;
 - Seek other institutional funds to support the activity.
- If, after considering the funding options described above and reviewing the applicable endowment agreement, it is determined that invading the principal of an endowment fund may be prudent, contact the donor and discuss the following alternatives:
 - An expendable gift equal to or in excess of the amount needed to avoid invading principal;
or
 - Subject to prudent limitations on expenditures, expend from the principal as an option of last resort, but such spending and use of principal shall not exceed 85% of the historic value of the subject endowment fund
- After discussion of the above alternatives, if the election is made to expend from the principal, then written confirmation describing the nature and amount of this funding option shall be provided to the donor within 30 days of the date of execution.

This policy is to demonstrate UNCW's commitment to the highest levels of stewardship of underwater endowments.

Approved by the Board of Trustees of the Endowment Board on August 25, 2011