



THE CALIFORNIA INSTITUTE OF TECHNOLOGY
Pasadena, California 91125

Underwater Endowment Guidance

Policy:

Underwater funds are True Endowments whose corpus or Historical Dollar Value (“HDV” or “HC”) has fallen below the market value (“MV”). Historical Dollar Value is the aggregate of all donor-restricted contributions to a True Endowment.

The Institute administers underwater funds in accordance with a Board-approved policy dated July 27, 2009. This policy was implemented with the intent of balancing near-term needs with impact of market fluctuations with the long-term nature of these funds.

The policy requires the following:

- If the value of a restricted endowment account should fall below the original value of the fund, spending from the account may continue only with the approval of the Vice President of Administration and Chief Financial Officer and the Provost. The President shall receive advance notification of any such authorization to continue spending from an underwater account.
- If the value of a restricted endowment account should decline to 70 percent of the original value of the fund, spending may continue only with the advance approval of the Vice President of Administration and Chief Financial Officer, the Provost and the President.
- If the value of a restricted endowment account should decline to 50 percent of the original value of the fund, (generally) spending from the account will cease, unless the Business and Finance Committee’s specific approval is obtained.

Procedures:

The annual practice for administering individual underwater endowments is as follows:

- Except in extraordinary circumstances, the measurement date for evaluation of underwater endowments is June 30.
- Each August, Gift & Endowment Accounting prepares an underwater analysis as of June 30, which compares the HDV and MV for each fund. This report is distributed to each academic division or department that manages the endowment account.
- Divisions/departments submit distribution/reinvestment elections for each of their assigned funds.
- The Vice President of Administration and Chief Financial Officer and the Provost review division/department elections and determine which are approved, disapproved, and which require further investigation. That review process may involve further communications among the Provost’s office, Gift & Endowment Accounting, and the divisions or departments.
- Based upon the final outcome of the review process, each fund’s payout is either distributed or reinvested to principal in the first fiscal quarter of the next fiscal year.