



## Policy on the Administration of Underwater Endowments

The endowment spending rules contained in UPMIFA require that an endowment, foundation or other charitable organization 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 purposes 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.

The position of the Saddleback College Foundation is that implementing the flexibility afforded by UPMIFA to invade principal should be an **option of last resort**. We have therefore developed and prioritized steps that we recommend be taken as we navigate through this process:

- Examine the activity(ies) 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(ies) is essential, pursue the following funding options in this order:
  - Use any income from the prior year's distribution remaining in the endowment's spending account;
  - Use any unspent income that has been re-invested into the fund;
  - Seek other institutional or un-restricted moneys to support the activity(ies).
- If, after considering the funding options described above and reviewing the applicable endowment(s) agreements, it is determined that invading the principal of an endowment may be prudent, consider the following alternatives (if applicable, contact the donor to discuss):
  - An expendable gift equal to or in excess of the amount needed to avoid invading principal; or
  - Invading principal, subject to prudent limitations on expenditures, so that the actual distribution is reduced by 2.5% of the calculated distribution for each 1% the endowment is underwater with no use of principal if the endowment is 20% or more underwater.