



## University of Notre Dame Endowment Policies

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### Account Initiation

Requests for new accounts are to be established by the presentation of an account request form from the Development office to the Accounting and Financial Services office. The form is to be properly signed by Development personnel and have supporting documentation attached. The form should outline the type, amount, and classification of account to be opened. The request is to be given to John Kush in Accounting and Financial Services for establishment of account.

### Gift Receipt

All gifts are to be routed through the Development office for processing and acknowledgement (i.e., gifts received in the General Accounting office for departments, donors, etc. are to be taken to Development for processing).

### Notre Dame Endowment Pool (NDEP)

Notre Dame's endowment pool has the following basic characteristics:

- Notre Dame utilizes a “new units” method of unitized pool accounting under which funds routinely surrender and purchase units in the pool in order to maintain an equitable position. Changes in the net asset value (NAV) reflect per unit capital appreciation/depreciation.
- Each fund in the pool maintains its own “subsidiary record” in the pool which tracks its Fund Balance, units held, and the participating share of the total market value of the pool.
- Funds are allowed to be in either a “spending” or “reinvestment” mode.
- The pool is valued once each quarter. The NAV is calculated by the Investment Office and is equal to the total market value of the pool divided by the total number of units in the pool. The market value of any individual fund is the NAV times the number of units owned by the fund.
- All unit transactions during a quarter are transacted at the prior quarter ending NAV.
- Quarterly pro rata distributions of current income are made to all funds based on their prior quarter end unit holdings, regardless of whether they are in spending or reinvestment mode.
- Funds on reinvestment purchase new units with their income allocation. Funds on spending use the income allocation to fund a portion of their spending for the quarter.

- Spending in excess of current income is covered by a fund's accumulated gains, which when distributed for spending necessitates a surrender of units.
- Funds that receive new gifts or make withdrawals or other transfers during the quarter must purchase/sell units to maintain an equitable position in the pool.
- The Accounting and Financial Services Office utilizes a software system known as the Unitized Pool Management System (UPMS) to generate journal entries on a quarterly basis for the allocation of current income as well as the distribution of dollars under the university's spending plan. These transactions are uploaded to Notre Dame's core Finance system (Banner) where they are combined with other gift, withdrawal and transfer entries that are posted directly to Banner. The Banner system is used to transact and track all of the combined transactions in both dollars and units.
- NDEP investments are held by the University's custodian bank and are managed under the guidance and direction of the investment committee of the University's Board of Trustees.
- The University's Investment Office is charged with tasks such monitoring manager performance, reconciling detail investment balances and transactions with the custodian bank and calculating total pool market value on a quarterly basis. The University's Accounting and Financial Services Office is charged with tasks such as reconciling all cash flows between the University and the custodian bank and maintaining the detail unit records for every fund in the pool. The two offices collaborate often and on many items, including adoption of all relevant auditing, accounting and reporting standards.

### **Spending Plan Distributions**

Notre Dame establishes the endowment payout rate during the annual budget process. The goal is to set the spending rate on the endowment between 4% and 5% of the twelve quarter trailing average of the net asset value. Because most of the expenses supported by the endowment are fixed costs (e.g. salaries and financial aid) a secondary goal is to increase the endowment payout amount each year by at least the inflation rate in higher education.

As discussed previously, endowment payout is funded both by current income and accumulated gains. As new endowments do not have any accumulated gains, they must wait two fiscal quarters before they can begin participating in the spending plan. This waiting period is meant to allow the endowment to appreciate in value and mitigate the likelihood the market value of the new endowment will fall below its book value when placed on spending.

Spending plan distributions are calculated and posted to the individual spending accounts on a quarterly basis. The amount distributed is equal to the quarterly spending rate per unit times the number of units held by the fund at the end of the prior quarter. For example, if the annual spending rate established during the budget process is \$100 per unit, the quarterly spending rate would be \$25 per unit. If an individual endowment owns 300,000 units in the pool at the end of

the prior quarter, they will receive a payout of \$7,500 during the current quarter, calculated as 300.00 units x \$25/unit quarterly spending rate.

Annual spending plan projections can be estimated by multiplying the number of units owned by the endowment at the end of the prior fiscal year times the annual spending rate times an erosion factor (due to the spending rate being funded in part by the sale of units each quarter). For example, if the annual spending rate is \$100 per unit and an individual endowment owns 300.000 units in the pool at the end of the prior fiscal year, an estimate for the current year spending plan distributions would be \$28,800, calculated as 300.000 units x \$100/unit spending rate x 96% erosion factor.

### SAB Report

On a quarterly basis, A&FS prepares the Statement of Account Balances (SAB) report, which reports each unit holder's fund balance, units held, and participating share of the total market value of the NDEP. This report is typically prepared 4-6 weeks after a quarter end, after the NAV is received from the Investment Office.

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