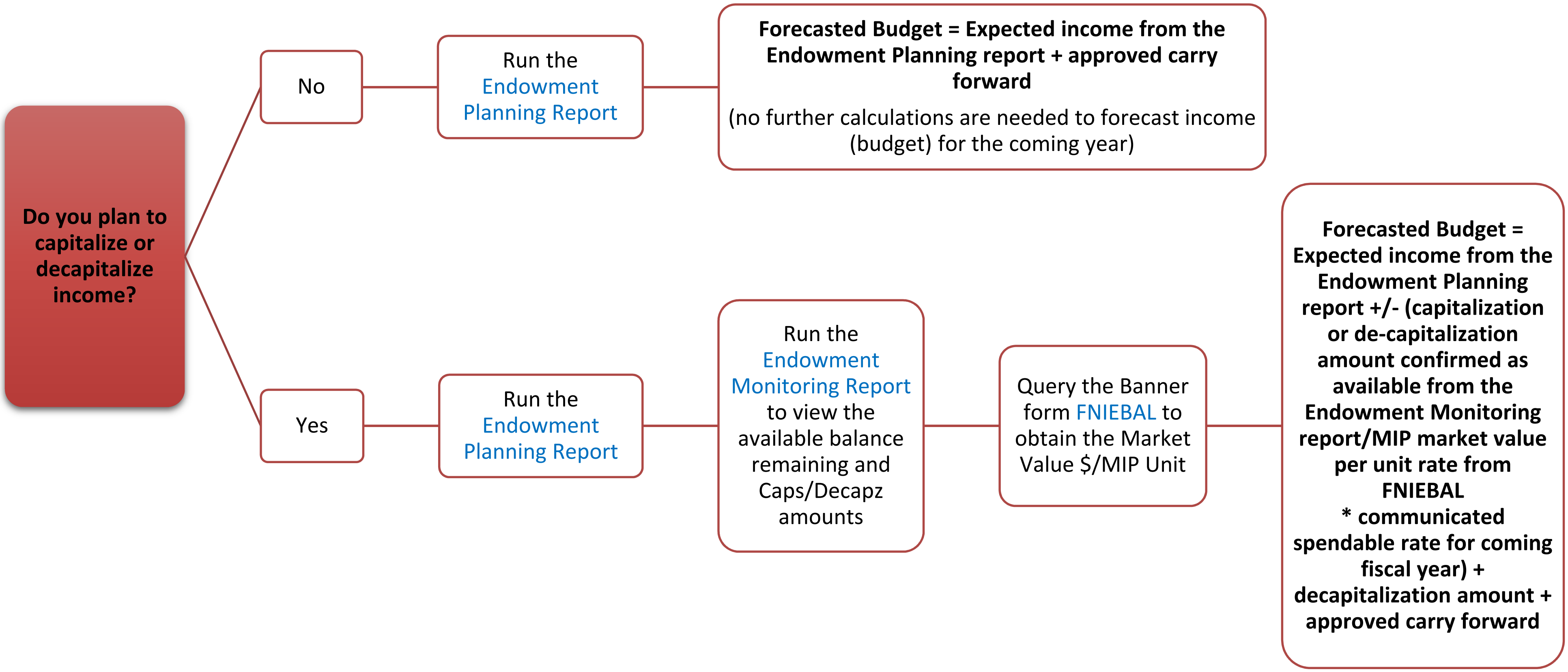
Forecasting Budget for Endowment Spendable Income Funds

Decision Tree: Capitalizing or Decapitalizing Income



See examples on the next page

Notes:
Communicated spendable rate for coming fiscal year = MIP unit income distribution rate as communicated via the FFO listserv in the Fall Endowment Monitoring Report:

- For each fund, displays a value for *Current Year Endowment Income to be Capitalized.*
- This value is the lesser of Endowment Income and (Available Balance Remaining + Commitments).
- As Commitments are released, this amount will fluctuate.

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Example: Capitalization

Forecasted Budget = Expected income from the Endowment Planning report + (capitalization amount confirmed as available from the Endowment Monitoring report/MIP market value per unit rate from FNIEBAL * communicated spendable rate for the coming fiscal year) + approved carry forward

Scenario:

- The expected income for Endowment Fund 123456 is $10,000 as per the Endowment Planning report.
- There is a $1,000 available balance which needs to be capitalized. We won't request for it to be a carry forward balance.
- In order to forecast the budget for the coming fiscal year, calculate how much income the $1,000 which will be capitalized will generate in addition to the income generated by the current holdings in the endowment. The Endowment Planning report only takes into consideration existing capital.
- According to FNIEBAL, the current Market Value $/Unit is 394.388 (always use the fourth quarter figure entered in FNIEBAL). This represents the cost of purchasing 1 MIP unit.
- Since investment income is generated based on the number of MIPS units held multiplied by the spendable rate, calculate how many MIP units may be purchased with the $1,000 that will be capitalized.
- The spendable rate (MIP unit income distribution rate) for FY17 is 16.68 (as communicated via the FFO listserv in the Fall).

The calculation:

Forecasted Budget = $10,000 + ($1,000/394.388 * 16.68) | Forecasted Budget = $10,042

Example: Decapitalization

Forecasted Budget = Expected income from the Endowment Planning report - (decapitalization amount confirmed as available from the Endowment Monitoring report/ MIP market value per unit rate from FNIEBAL * communicated spendable rate for the coming fiscal year) + decapitalization amount + approved carry forward

Scenario:

- The expected income for Endowment Fund 789456 is $30,000 as per the Endowment Planning report.
- There is no available balance remaining.
- Four years ago, $2,000 was capitalized. Since then, no other money has been decapitalized.
- It has been decided that this $2,000 needs to be decapitalized for the coming fiscal year. This is an allowable request as per the Endowment Regulation - *De-capitalization requests are limited to unspent income capitalized in the five previous fiscal years*.
- In order to forecast the budget for the coming fiscal year, calculate how much income the $2,000 which will be decapitalized would have generated. The Endowment Planning report takes into consideration existing capital – since money will be decapitalized, the amount of capital will be lower than the amount used to estimate income in the report.
- According to FNIEBAL, the Market Value $/Unit is 394.388. This represents the cost of purchasing 1 MIP unit.
- Since investment income is generated based on the number of MIPS units held multiplied by the spendable rate, calculate how many MIP units the $2,000 which will be decapitalized represents.
- The spendable rate (MIP unit income distribution rate) for FY17 is 16.68 (as communicated via the FFO listserv in the Fall).

The calculation:

Forecasted Budget = $30,000 - ($2,000/394.388 * 16.68) + $2,000 | Forecasted Budget = $31,915