

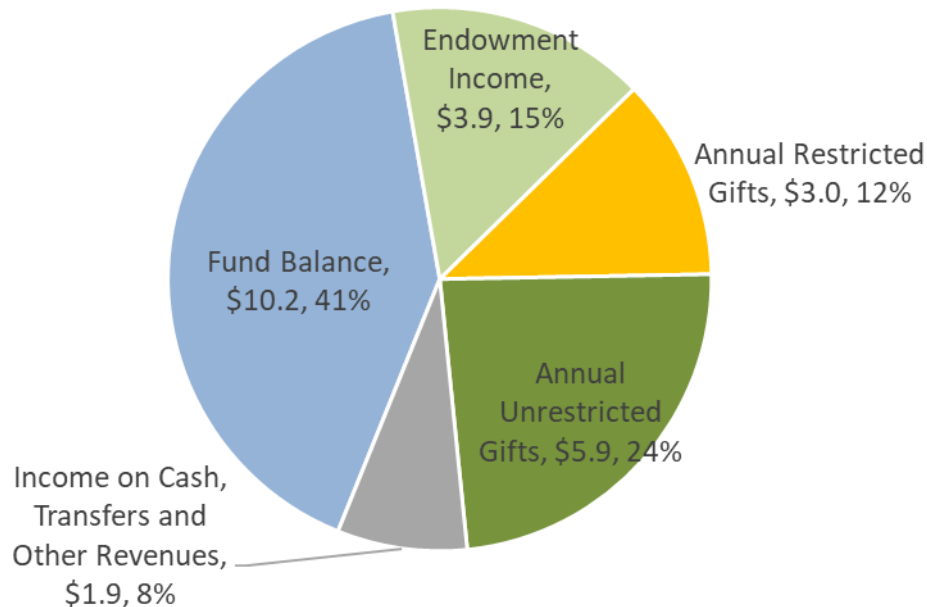
**WILLIAM & MARY
FY20 OPERATING BUDGET DETAIL
FOR UNIVERSITY PRIVATE FUNDS**

The Board of Visitors of the College of William and Mary in Virginia is charged with the responsibility of administering endowed and other expendable funds privately donated to the university for restricted and unrestricted purposes, collectively known as university private funds. As a result, each year the Board authorizes spending for the upcoming year consistent with donor guidance on restricted endowment and expendable funds; Board policy on the spending of endowment income; and projections of unrestricted revenue, expense, and available fund balances.

For FY20, a spending rate of 4.75% is applied to a rolling three-year average value of endowments to determine income available from each endowment. This spending rate is unchanged from FY19 and is established with consideration of the criteria outlined in Uniform Prudent Management of Institutional Fund Act ((UPMIFA) (Code of Virginia, Section 64.2-1102)) as outlined on pages 9-12 of this item.

FY20 begins with an estimated total beginning fund balance (including restricted and unrestricted funds) of approximately \$10.2 million and projected revenues of \$14.7 resulting in \$24.9 million available for expenditure. Sources of revenue are shown in the chart below.

FY20 Available University Private Funds
(\$ in millions)



Budgeted expenditures total \$17.9 million with \$11.1 million in expenditures anticipated from the unrestricted fund and \$6.8 million in restricted funds. Estimated current year expenditures will bring the beginning fund balance for unrestricted funds in FY20 to \$871,200, due in large part to an unanticipated bequest of \$3.2 million, which has been designated primarily in the short-term to provide planning funds for the Integrated Science Center 4 until the university can request reimbursement from the Commonwealth. In the long-term, the Board designated that those funds be placed into a quasi-endowment for the president to fund the most pressing needs of the university.

Given anticipated expenses for FY20, unrestricted funds are expected to show negative balance of \$2.2 million by the June 30, 2020. Although overall giving is up at the university, unrestricted giving continues to perform below expectations, which has created a structural imbalance in that fund. Overall, university private funds remain in a positive position with a budgeted \$7.6 million balance projected by the end of FY20 taking into account the combined total of restricted and unrestricted funds.

A more detailed review of revenues and expenditures is provided in the tables below.

**WILLIAM & MARY
SUMMARY OF BOARD OF VISITORS PRIVATE FUNDS
RESTRICTED ENDOWMENTS
REVENUE AND EXPENDITURES
FY 2019 AND FY 2020**

	<u>FY 2019</u>	<u>FY 2020</u>
REVENUE		
Actual/Estimated Beginning Fund Balance (cash, receivables & payables)	\$293,262 (A)	\$295,062 (E)
Estimated Fiscal Year Revenue	<u>3,301,296</u>	<u>3,336,713</u>
TOTAL AVAILABLE REVENUE	\$3,594,558	\$3,631,775
EXPENDITURES		
Instruction	463,301	481,928
Research	133,579	136,670
Public Service	15,033	14,988
Academic Support	958,446	947,293
Student Services	35,904	36,129
Institutional Support	21,876	26,159
Campus Facilities and Maintenance	58,682	63,730
Student Aid	<u>1,612,675</u>	<u>1,627,716</u>
TOTAL EXPENDITURES	\$3,299,496	\$3,334,613
ESTIMATED ENDING BALANCE TO CARRY FORWARD	\$295,062	\$297,162

(A) actual

(E) estimate

**WILLIAM & MARY
SUMMARY OF BOARD OF VISITORS PRIVATE FUNDS
RESTRICTED EXPENDABLE GIFTS
REVENUE AND EXPENDITURES
FY 2019 AND FY 2020**

	<u>FY 2019</u>	<u>FY 2020</u>
REVENUE		
Actual/Estimated Beginning Fund Balance (cash, receivables & payables)	\$8,251,196 (A)	\$9,077,376 (E)
Estimated Fiscal Year Revenue	<u>4,110,000</u>	<u>3,290,000</u>
TOTAL AVAILABLE REVENUE	\$12,361,196	\$12,367,376
EXPENDITURES		
Instruction	545,000	520,000
Research	732,000	678,000
Public Service	10,000	10,000
Academic Support	439,000	335,000
Student Services	275,000	275,000
Institutional Support	292,100	241,000
Campus Facilities and Maintenance	230,720	200,000
Student Aid	760,000	1,174,500
TOTAL EXPENDITURES	\$3,283,820	\$3,433,500
ESTIMATED ENDING BALANCE TO CARRY FORWARD	\$9,077,376	\$8,933,876

(A) actual

(E) estimate

**WILLIAM & MARY
SUMMARY OF BOARD OF VISITORS PRIVATE FUNDS
UNRESTRICTED ENDOWMENTS AND EXPENDABLE FUNDS
REVENUE AND EXPENDITURES
FY 2019 AND FY 2020**

REVENUE	<u>FY 2019</u>	<u>FY 2020</u>
Actual/Estimated Beginning Fund Balance (cash, receivables & payables)	(\$37,891) (A)	\$871,172 (E)
Estimated Fiscal Year Revenue	<u>11,212,243</u>	<u>8,049,058</u>
TOTAL AVAILABLE REVENUE	\$11,174,352	\$8,920,230
EXPENDITURES		
Instruction	285,206	269,066
Research	12,020	11,974
Academic Support	22,058	49,162
Student Services	500,493	489,289
Institutional Support		
Fund Administration	128,000	128,000
Advancement	5,300,000	5,300,000
Admin. Support/Special Events	1,114,528	1,186,820
Campus Facilities and Maintenance	1,213,500	1,935,000
Student Aid	<u>1,727,375</u>	<u>1,721,949</u>
TOTAL EXPENDITURES	\$10,303,180	\$11,091,260
ESTIMATED ENDING BALANCE TO CARRY FORWARD	\$871,172	(\$2,171,030)

(A) actual

(E) estimate

**WILLIAM & MARY
FY 2020 BOARD OF VISITORS PRIVATE FUNDS BUDGET
REVENUE DETAIL**

	ACTUAL FUND BALANCE 6/30/2018	ESTIMATED RESTRICTED ENDOWMENTS 6/30/2019	ESTIMATED RESTRICTED GIFT FUNDS 6/30/2019	ESTIMATED UNRESTRICTED FUNDS 6/30/2019	ESTIMATED TOTAL FUND BALANCE 6/30/2019
BEGINNING FUND BALANCE (cash, receivables & payables)	\$8,506,567	\$295,062	\$9,077,376	\$871,172	\$10,243,610
REVENUES	REVISED REVENUES FY 2018-19	RESTRICTED ENDOWMENT REVENUES FY 2019-20	RESTRICTED GIFT REVENUES FY 2019-20	UNRESTRICTED REVENUES FY 2019-20	TOTAL REVENUES FY 2019-20
Distribution of Endowment Income	\$3,794,707	\$3,299,613	\$0	\$551,158	\$3,850,771
Administrative Overhead Allocation	300,000	2,100	0	297,500	299,600
Transfers from Other Sources	110,000	0	0	100,000	100,000
Interest on Cash Balances	940,000	0	40,000	900,000	940,000
Annual Gifts:					
Restricted	3,815,000	0	3,000,000	0	3,000,000
Unrestricted	5,400,000	0	0	5,900,000	5,900,000
Drawdown from BOV Quasi Endow	500,000	0	0	0	0
Earnings From External Trusts	53,000	35,000	0	0	35,000
Unrestricted Gifts-Interim use ISC4	3,000,000	0	0	0	0
Unrestricted Gift -Campus Beautification	155,432	0	0	0	0
Other Revenue**	555,400	0	250,000	300,400	550,400
TOTAL PROJECTED REVENUES	\$18,623,539	\$3,336,713	\$3,290,000	\$8,049,058	\$14,675,771
AVAILABLE FOR EXPENDITURE	\$27,130,106	\$3,631,775	\$12,367,376	\$8,920,230	\$24,919,381

**FY 19 Other Revenue includes Undesignated Gifts of \$300,000

**WILLIAM & MARY
FY 2020 BOARD OF VISITORS PRIVATE FUNDS BUDGET
EXPENDITURE DETAIL**

	REVISED BUDGET FY 2018-19	RESTRICTED ENDOWMENT BUDGET FY 2019-20	ESTIMATED RESTRICTED GIFT BUDGET FY 2019-20	UNRESTRICTED BUDGET FY 2019-20	BUDGET FY 2019-20
BUDGETED EXPENDITURES					
INSTRUCTION:					
Faculty Awards and Prizes	\$48,448	\$50,752	\$0	\$0	\$50,752
Eminent Scholars	115,996	115,538	0	0	115,538
Faculty Salary Pool	326,911	171,655	0	144,066	315,721
Fringe Benefits & Disability Insurance	125,000	0	0	125,000	125,000
Faculty of Arts & Sciences	559,671	110,373	450,000	0	560,373
School of Business	40,000	0	40,000	0	40,000
School of Education	30,000	0	10,000	0	10,000
School of Law	27,481	33,610	0	0	33,610
School of Marine Science	20,000	0	20,000	0	20,000
SUBTOTAL	<u>\$1,293,507</u>	<u>\$481,928</u>	<u>\$520,000</u>	<u>\$269,066</u>	<u>\$1,270,994</u>
RESEARCH	<u>\$877,599</u>	<u>\$136,670</u>	<u>\$678,000</u>	<u>\$11,974</u>	<u>\$826,644</u>
PUBLIC SERVICE	<u>\$25,033</u>	<u>\$14,988</u>	<u>\$10,000</u>	<u>\$0</u>	<u>\$24,988</u>
ACADEMIC SUPPORT:					
Reves Center	22,058	0	0	49,162	49,162
School of Law	91,962	92,250	0	0	92,250
Museums	725,799	474,372	200,000	0	674,372
VIMS	16,679	10,115	7,000	0	17,115
Library Support	447,874	327,548	100,000	0	427,548
Other	115,132	43,008	28,000	0	71,008
SUBTOTAL	<u>\$1,419,504</u>	<u>\$947,293</u>	<u>\$335,000</u>	<u>\$49,162</u>	<u>\$1,331,455</u>
STUDENT SERVICES:					
Activities and Services	748,345	3,317	275,000	459,297	737,614
Athletics	63,052	32,812	0	29,992	62,804
SUBTOTAL	<u>\$811,397</u>	<u>\$36,129</u>	<u>\$275,000</u>	<u>\$489,289</u>	<u>\$800,418</u>

**WILLIAM & MARY
FY 2020 BOARD OF VISITORS PRIVATE FUNDS BUDGET
EXPENDITURE DETAIL**

	REVISED BUDGET FY 2018-19	RESTRICTED ENDOWMENT BUDGET FY 2019-20	RESTRICTED GIFT BUDGET FY 2019-20	UNRESTRICTED BUDGET FY 2019-20	TOTAL BUDGET FY 2019-20
BUDGETED EXPENDITURES					
INSTITUTIONAL SUPPORT:					
Admin Salary Supplements & Taxes	\$729,500	\$0	\$0	\$758,000	\$758,000
Board of Visitors	31,000	0	0	30,000	30,000
Office Funds & Contingencies	19,000	0	0	19,000	19,000
Administrative Costs	278,000	0	240,000	128,000	368,000
Advancement	5,300,000	0	0	5,300,000	5,300,000
Other Institutional Support	499,004	26,159	1,000	379,820	406,979
SUBTOTAL	<u>\$6,856,504</u>	<u>\$26,159</u>	<u>\$241,000</u>	<u>\$6,614,820</u>	<u>\$6,881,979</u>
FACILITIES AND OPERATIONS	<u>\$1,502,902</u>	<u>\$63,730</u>	<u>\$200,000</u>	<u>\$1,935,000</u>	<u>\$2,198,730</u>
STUDENT AID:					
Awards and Prizes	8,903	6,116	4,500	0	10,616
Fellowships	168,708	71,105	65,000	60,000	196,105
Scholarships	3,872,439	1,550,495	1,105,000	1,561,949	4,217,444
Activity Support	0	0	0	50,000	50,000
Athletic Grants	50,000	0	0	50,000	50,000
SUBTOTAL	<u>\$4,100,050</u>	<u>\$1,627,716</u>	<u>\$1,174,500</u>	<u>\$1,721,949</u>	<u>\$4,524,165</u>
TOTAL BUDGETED EXPENDITURES	<u>\$16,886,496</u>	<u>\$3,334,613</u>	<u>\$3,433,500</u>	<u>\$11,091,260</u>	<u>\$17,859,373</u>
PROJECTED YEAR-END BALANCES	<u>\$10,243,610</u>	<u>\$297,162</u>	<u>\$8,933,876</u>	<u>(\$2,171,030)</u>	<u>\$7,060,008</u>



WILLIAM & MARY
OFFICE OF INVESTMENT ADMINISTRATION

5300 Discovery Park Blvd., 3rd Floor
Williamsburg, VA 23188-2695
Phone: 757/221-2746; Fax 757/221-2752 Email: wdcopa@wm.edu

March 29, 2019

To: The Investments Sub-Committee of the Financial Affairs Committee of the Board of Visitors

From: William D. Copan, Jr., Assistant Vice President for Investment Administration

Subject: UPMIFA Considerations in Spending from Endowment in the Proposed FY 2020 Budget

This memo is intended to inform you of certain provisions articulated in the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as amended by the Commonwealth of Virginia's General Assembly in 2012.

Per UPMIFA guidelines cited in the **Code of Virginia Title 64.2-1102 (2012), Appropriation for expenditure or accumulation of endowment fund; rules of construction**, Board fiduciaries need to recognize the following considerations specifically with respect to adoption of the annual BOV Private Funds operating budget:

"A. Subject to the intent of a donor expressed in the gift instrument, an institution may appropriate for expenditure or accumulate so much of an endowment fund as the institution determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. Unless stated otherwise in the gift instrument, the assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the institution. In making a determination to appropriate or accumulate, the institution shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and shall consider, if relevant, the following 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; and
7. The investment policy of the institution.

- B. To limit the authority to appropriate for expenditure or accumulate under subsection A, a gift instrument shall specifically state the limitation.
- C. Terms in a gift instrument designating a gift as an endowment, or a direction or authorization in the gift instrument to use only "income," "interest," "dividends," or "rents, issues, or

profits,” or “to preserve the principal intact,” or words of similar import:

1. Create an endowment fund of permanent duration unless other language in the gift instrument limits the duration or purposes of the fund; and
2. Do not otherwise limit the authority to appropriate for expenditure or accumulate under subsection A.”

In the absence of any donor specifications contained in a gift instrument, UPMIFA gives authority to the governing board to spend from the endowment as long as the aforementioned considerations are taken into account. With respect to the BOV’s compliance with criteria cited in subsection A, the following clarifications apply:

1. **No prohibitions against spending.** Staff have researched that from a total of 180 endowment funds there were 12 endowments with a market value at December 31, 2018 beneath their respective historical gift values, i.e. “underwater”, by a total amount of \$387,626. This compares to the prior year when only 1 endowment fund had a market value beneath its historical gift value by a difference of \$1,888. The total dollar amount of funds currently “underwater” equate to 0.49% of the BOV endowment’s 12/31/18 market value of \$78,554,638. These 12 endowments are not subject to donor-imposed prohibitions against spending when the fund is “underwater.” Endowment funds that are subject to revenue sources outside that of distributions from the investment pool will be budgeted according to trend estimates (e.g. pattern of dividend yield).
2. **Duration and preservation of the endowment fund.** The BOV has contracted with the Optimal Service Group of Wells Fargo Advisors as its investment consultant and accordingly that engagement includes design and execution of a long-term investment approach for the BOV endowment pool that provides for broadly diversified asset allocation, best insuring the preservation of the endowment. Contributions to endowment are invested in perpetuity with a goal of providing current support to the College as well as maintaining intergenerational spending power of gift assets.
3. **Purposes of the institution and the endowment fund.** The College was chartered in 1693 as an institution of higher education. Since that time, the College has been the recipient of private contributions that are used to further the mission and initiatives of the College. Contributions to endowment are administered by the College staff in keeping with governance policies and oversight of the Board of Visitors as well as following any donor imposed restrictions with respect to use of payout from the invested endowment.
4. **General economic conditions.** Representatives from Wells Fargo Advisors are invited to attend regularly scheduled meetings of the Board in order to provide informational updates on the invested endowment portfolio. Part of their discussion time focuses on general economic conditions, domestic and global, that affect held investments.
5. **The possible effect of inflation and deflation.** Representatives from Wells Fargo Advisors, in regularly scheduled meetings with the BOV, typically address the various causal relationships that affect investment performance, including that of the possible effect of inflation and deflation on held investments in the manager portfolios.
6. **The expected total return from income and the appreciation of investments.** The BOV’s average annualized compounded returns versus the portfolio’s policy benchmark and the net difference in added value are displayed below:

	One Year	Three Years	Five Years	Ten Years
	Thru 12/31/18	Thru 12/31/18	Thru 12/31/18	Thru 12/31/18
BOV	-6.1%	5.1%	3.2%	8.3%

Policy Benchmark	-5.3%	4.8%	4.5%	8.5%
Added Value	-0.8%	0.3%	-1.3%	-0.2%

These total return statistics are net of fees and include both income and appreciation. As a policy objective, the BOV seeks to achieve maximum long-term total returns within prudent levels of risk. Risk is reduced within the portfolio by employing broadly diversified asset classes, strategies, and multiple professional investment managers. Asset allocation within the BOV portfolio is derived following intensive due diligence by the Wells Fargo consultants and review by the BOV Investments Sub-Committee, whereby additions or deletions of managers or strategies are made thoughtfully considering the risk and performance impact on the portfolio in both the short and long term. Actual performance relative to the established policy benchmark can vary widely year to year and through business cycles, however, over longer time periods positive absolute returns should be sufficiently high to support a prudent spending rate. The 2020 BOV budget has a recommended spending rate of 4.75%.

7. **Other resources of the institution.** The College’s comprehensive operating budget includes revenue from both the Commonwealth and private sources. Besides state appropriations, private support can come from tuition and fees, grants and contracts, endowment payout, distributions from external funds held in trust by others, income from specifically held securities, expendable gift contributions, interest income from working capital, and other miscellaneous revenue sources. Funds with donor restrictions as to use are budgeted accordingly and unrestricted funds are allocated for discretionary use following review and endorsement by the President of the College, incorporating her priorities and most pressing needs.
8. **The Investment Policy of the institution.** The BOV passed a revised Investment and Spending Policy for Endowment at its Nov.15-17, 2017 meeting. Contained in the policy are specific guidelines that apply to corporate governance, investment objectives, delegation of management and investment functions, portfolio composition and asset allocation, social responsibility, manager guidelines, and spending provisions.

With respect to criteria cited in subsection B (above) of the UPMIFA guidelines, the BOV remains compliant with any donor restrictions that cap or limit the spending authority of the Board.

With respect to criteria cited in subsection C (above) of the UPMIFA guidelines, donor restrictions are documented in gift agreements, trust documents, bequest agreements (wills and estates), and other donor correspondence. Any restrictions or limitations with respect to use or spending are articulated in these types of documents.

Management Recommendation

In view of the fiduciary responsibilities required by UPMIFA as cited in the Code of Virginia for a governing board to appropriate spending from an endowment pool, this memorandum serves to inform you of those various considerations that need to be taken into account before a board takes action on spending.

Accordingly, following review by internal management we see no impediments to the spending recommendations outlined in the BOV Private Funds Budget for FY 2020, considering current economic conditions and the performance of the BOV portfolio over the past year and annualized over longer term time periods. Furthermore, management does not believe that spending from

Board of Visitors

April 24-26, 2019

Page 12 of 12

underwater funds will materially impact the corpus of those funds in the long term such that they will not be able to recover to their historical valuation at time of gift during a sustained cycle of capital market recovery.

The Association of Governing Boards has counseled member institutions to make a management recommendation a point of record. Accordingly, this memorandum should be referenced in the Board's budget review process and later included with the minutes from the April meeting.

Please let me know if I can be of further assistance with respect to this governance issue.

C: Samuel E. Jones