THE UNIVERSITY OF UTAH

Instructions for Projecting Endowment Income

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Having a good estimate of how much endowment income your department will receive in the coming fiscal year helps in many ways. It allows more accurate estimates of how much money is available to fund scholarships thus helping with determining the number and amount of awards to make. It also helps determine the budget for ongoing programs that are funded by endowment income. Lastly, knowing the amount of support available for professorships and chairs is an important factor in developing good budgets.

There are two different ways to perform the estimate that we'll explain further in this document. Calculations are the same for quasi, true, and term endowments invested in the unitized pool. These methods are not appropriate for funds separately invested or for Social Choice Pool endowments.

Method 1: Estimate based on most recent quarter's distribution

To do this calculation, you need the following information:

1. The percentage increase in the 12-quarter average unit market value for the endowment pool – for the 2008-2009 fiscal year, the increase will be **7.3%**
2. The amount of distribution received in an expendable activity for the most recent quarter end. This information is available from your management reports.
3. To calculate the estimated income available in the next fiscal year, inflate the distribution in #2 by the percentage in #1 times 4. For example, if you received $856.71 in the last quarter, you would receive an estimated $3,677.00 in the 2008-2009 fiscal year for that endowment (1.073*$856.71*4=$3,677.00).

The percentage increase is determined by the Manager of Endowment and Investment Accounting annually once December 31st unit market values are calculated. We will communicate this percentage annually via FBS News. The percentage, once calculated, is fixed for the next fiscal year.

This method assumes that the number of units "owned" by a particular endowment does not change. Changes in number of units, either up or down, will result in a change in the overall distribution.

Method 2: Estimate based on number of units

To do this calculation, you need the following information:

1. The ending pool unit market value from the most recent quarter end. For the quarter ended December 31, 2007, that value was **$225.09** per unit. This value is calculated by the Manager of Endowment and Investment Accounting quarterly and will be communicated via FBS News.

2. The quarter ended market value for the endowment. You can find this information in CIS in the Financial Information Library. You can also easily download this information into Excel to facilitate projection of multiple endowments.
3. The 12-quarter average unit market value for the fiscal year. For 2008-2009, this figure is **$206.96** and is fixed for the coming fiscal year. This figure will be calculated annually after the December 31st quarter ends.
4. The spending guidelines. Currently, the spending policy is 4% of the 12-quarter average unit market value on an annual basis. This amount is distributed quarterly based on the number of units an endowment holds. The guidelines tend to remain stable from year to year. Any changes will be communicated.
5. To calculate the income available, you first determine the number of units an endowment has. Take the most recent quarter ending *market* value and divide by the pool unit market value in #1. For example, an endowment with $100,000 in market value would have 444.26 units ($100,000/$225.09). Unless there are new gifts or additions or withdrawals (in the case of quasi or term endowments), the number of units will remain the same. Market value does not have an effect on the number of units.
6. Second, take the number of units times the 12-quarter average pool unit market value times the spending policy to get the annualized amount of income distributed to the spending activity. Continuing our example, the annualized distribution would be $3,677.76 (444.26*$206.96*0.04).

As you can see, the two methods result in the same answer in this example. If, however, an endowments units change, then method 2 provides more precision during a fiscal year.

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