

Uniform Prudent Management of Institutional Funds Act

On July 2, 2009, the Uniform Prudent Management of Institutional Funds Act (UPMIFA) was signed into law in Massachusetts. The new law replaces the previous law, the Uniform Management of Institutional funds Act (UMIFA), and shall apply to institutional funds existing on or established after June 30, 2009. As applied to institutional funds existing on June 30, 2009, the new law shall govern only decisions made or actions taken on or after that date. Unlike UMIFA, UPMIFA expressly addresses the needs of charities by providing for diversification of assets, pooling of assets, total return investment, and whole portfolio management. Under the new UPMIFA, the rules governing expenditures from endowment funds have been modified to give a governing board more flexibility in making expenditure decisions, so that the boards can cope with fluctuations in the value of the endowment.

An important change in the new act is the elimination of the "historic dollar value" rule. The 1972 UMIFA defined historic dollar value to mean the value of all contributions to the fund; institutions were not allowed to spend asset appreciation below its historic dollar value. The new UPMIFA substitutes the use of historic dollar value with a more flexible spending standard for the use of charities in making decisions about whether to make expenditures from its endowment fund. UPMIFA also eliminates the presumption of imprudence for spending in excess of 7% of the average fair market value of an institution's endowment fund. However, a not-for-profit organization is not permitted to follow the UPMIFA rules in the event that the donor has provided specific instructions on how the funds may be spent.

tonneson+co

Certified Public Accountants & Consultants

401 Edgewater Place, Suite 300, Wakefield, MA 01880-6208 t. 781.245.9999 f. 781.245.8731 www.tonneson.com