University of Louisville Foundation
Policy/Procedure

Subject: Endowment Spending Policy	Author: Jason Tomlinson / Michael Kramer
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Approved By: UofL Foundation BOD	Page 1 of 5

I. **General:** The annual spending policy that follows is meant to be an instructional guide for the prudent management of endowment earnings made available by the University of Louisville Foundation Inc., to the respective academic and support units of the University. The policy is viewed as a living document, which can change as needed by action of the Foundation's Board of Directors.

II. **Internally-managed endowment pool:**

a. Internally-managed endowment funds are part of a unitized investment pool, housed within the University of Louisville Foundation, Inc. This pool of funds functions much like a mutual fund where each endowment participates in the pool's investment performance as a percentage of the total pool based on the dollar amount invested.

b. The principal, or corpus (book value), of an endowment fund is defined as: the original donation + subsequent donations + reinvestments – liquidations and must be invested for a full calendar year before the endowment participates in the annual spending policy allocation.

c. An annual spending policy calculation, or allocation amount, is calculated individually for each endowment program.

d. The annual spending rate is determined by the Board of Directors of the University of Louisville Foundation, Inc. Currently the annual spending rate is 5.5% of the three-year moving average of the market values of the endowment as of the three previous calendar year-ends, recorded each December 31st. The spending rate (%) was authorized on April 18, 2014 and is re-evaluated on an annual basis.

e. Effective July 1, 2008, an additional annual rate of spending of 1.5% is calculated on the same three-year moving average of the market values of the combined endowment as of the three previous calendar year-ends, recorded each December 31st. The additional allocation of funds shall be used for overall fund-raising efforts of the Foundation and will be administered by the

University's Vice President for University Advancement. These funds will be budgeted annually as approved by the UofL Foundation Board of Directors.

f. The Foundation Board of Directors also approved an allocation of funds from the combined endowment in an amount of an additional .48% (48 basis points) of the three-year moving average of the combined endowment market value. The funds shall be allocated to the President of the Foundation to use for high strategic initiatives and program enrichment, including fund-raising activities.

III. "Underwater Endowments:"

a. Underwater endowments are defined as those individual endowments where the most recent December 31st market value (MV) is less than the book value.

b. For underwater endowments, special spending rate calculations apply.

c. In the event that an endowment's market value (MV) of the annual spending rate calculation year falls below its book value, as defined by Board of Directors resolution, and in the absence of any donor restrictions or directives to the contrary, the individual endowment program shall be deemed to be "underwater" and the following special spending rates shall apply:

   i. The Underwater percentage will be determined by dividing the individual endowment program's December 31st market value (MV) by its established book value.

   ii. No spending shall be authorized for any endowment with an underwater percentage equal to or less than 80%.

   iii. For endowments with an underwater percentage between 80% and 99%, the authorized spending amount will be pro-rated based on the following rate table:

Underwater Percentage	Pro-rated Percentage	Underwater Percentage	Pro-rated Percentage
99	95	89	45
98	90	88	40
97	85	87	35
96	80	86	30
95	75	85	25
94	70	84	20
93	65	83	15
92	60	82	10
91	55	81	5
90	50	80	0

IV. **Annual Spending Policy Re-investment**

a. The UofL Foundation Inc. expects that academic and support units managing endowment funds expend or encumber the funds in the fiscal year that they are allocated. That is, the managing units have delegated authority to use the funds for the approved fiscal year as approved in the UofL Foundation budget for use and purposes specifically identified in the gift agreement or bequest.

    i. Unexpended annual spending policy allocations will be re-invested into the principal of the individual endowment with carry over balances greater than $1,000. All re-investments will be subject to a 2% administrative fee. Re-investments will occur after the close of the fiscal year and carryover has been determined.

    ii. A rolling schedule will be used to re-invest past carryover balances. The Foundation staff will re-invest 20% of the funds that were carried forward until all past carryover has been re-invested. The 2% administrative fee will also apply to past carryover re-investments.

    iii. The Foundation budget staff will oversee the monitoring process.

b. Further, units are authorized to expend or encumber funds in the fiscal year allocated in the annual budget, as approved by the Foundation Board of Directors. That is, units are not authorized to carry over unexpended funds from one fiscal year to another, without explicit approval from the Office of the President or its designee.

    i. For programmatic reasons, units may request an exception to this aspect of policy on a case-by-case basis. This will normally be done each year after June 30th but before the close-out of the fiscal year.

    ii. Exceptions shall be requested in writing (see attached template) outlining the specific plans for the use of funds, the timeframe in which the funds will be expended, reasons the funds were not expended in the authorized fiscal year and any programmatic justification for the carryover. A detailed budget including the amount of funds requested should also be included. If the funds for which the exception has been granted are not expended in the approved timeframe they will automatically be re-invested into principal.

    iii. Continuing obligations (C.A.R.'s) including salaries, wages, and fringe benefits may not be budgeted for more than eighty percent (80%) of the annual spending rate of the fund. Carryover cannot be used to fund Continuing Annual Requirement (C.A.R.) salary expenses.

V. **Endowment Funds Held Outside and Not Managed by the University of Louisville Foundation Inc.:**

a. The University of Louisville Trust:

i. The University of Louisville Trust is a separate unitized investment pool held at PNC Bank consisting of nine (9) individually-identified endowments, designated for separate and distinct investment strategies as stipulated by the donors.

ii. The nine endowments participate as part of the combined UofL Trust investment pool, unitizing them within that pool, and calculating their annual spending policy based on that unitization.

iii. The Trust has an annual spending policy, similar to the UofL Foundation Inc., of 5.5% of the three-year moving average of the total UofL Trust investment pool. The UofL Foundation calculates the spending policy allocation each year, applies any income distributed during the previous fiscal year, and transfers those amounts from PNC to fund the annual spending policy allocation.

b. In some rare cases, there are other separately-held endowments that are managed by outside financial institutions. In these instances, the UofL Foundation receives only the income earned each year, which is typically distributed on a quarterly basis. A spending policy allocation, or budget, is added to each program equal to the income received at the time it is received. Because of their special nature, there is no annual calculated spending policy allocation for these endowments.

VI. **Procedures:**

a. Market values are calculated on December 31st for each endowment program based on the number of shares each program has in the unitized investment pool. Next, the most recent year market values are added to the spending policy calculation (SPC) spreadsheet. The oldest year is removed from the SPC spreadsheet, leaving the three (3) most recent years to calculate the three-year moving average.

b. Only selected endowment programs qualify to receive annual spending policy allocations. The endowments that routinely do not qualify are:

i. Loan Funds,

ii. UofL Athletic Association endowments (with one exception),

iii. Annuities,

iv. Unitrusts,

v. Endowments invested for less than a full calendar year,

vi. Endowments with a market value less than the $10,000 minimal threshold from donations,

vii. Other specifically identified endowments that are explicitly excluded from the spending policy calculation.

c. The Foundation staff shall “flag” all non-participating endowments in the endowment database to exclude them from the annual spending policy calculation.

d. As a routine exception to policy, a two-year average is used for the spending policy calculation for those endowments with December 31st market values for only two years and one-year is used for those endowments with only one December 31st market value.

e. Currently all qualifying endowments, except the Charles H. Grawemeyer Awards (Program E1700), receive the standard 5.5% spending policy allocation. Due to special donor directives, program E1700 currently receives 6.0% annually.

f. Once calculated, reviewed by management, and approved the calculated spending policy allocations, along with other pertinent data elements, are conveyed to the University’s Office of Budget and Financial Planning in the form of a specially-formatted EXCEL spreadsheet. All fields are reviewed for accuracy and completeness so that the groupings of endowment programs are sent to the right college, school of division unit business manager (UBM) for subsequent line-item budgeting. These documents are routinely referred to as “budget worksheets.”