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Section: Treasury **Policy No: 3.3**

Spending Policy

PURPOSE:

The purpose of this policy is to define the spending policy for the endowment funds of the College Heights Foundation. As such, this will serve as the baseline policy for most, but not necessarily all, of the Foundation's various endowment assets. The Foundation recognizes that as a perpetual entity, the framework of its spending decisions should be centered upon long term (5-10 year plus) market cycles. The objectives have been created in response to:

- the anticipated financial needs of the organization;
- the organization's investment policy and anticipated market returns;
- adequately plan for distributions for the current year and in future years to maximize the benefit to the Institution while also appropriately growing the endowment of the Foundation;
- provide current beneficiaries with a predictable and relatively stable stream of revenue;
- reduce the lagging effects of up or down markets in the spending formula; and
- ensure the prescribed policy over time will meet the current needs and long term needs of the institution while preserving the intergenerational purchasing power of the endowment.

This policy is to be communicated to any individual associated with the distribution of any of the funds managed by the Foundation. The spending rate should be no more than 6% or less than 3% of the trailing three-year moving average market value. The spending policy rate within that range will be reviewed by the Executive Committee on an annual basis.

POLICY:

ANNUAL SPENDING POLICY

The endowment of the College Heights Foundation will be managed in accordance with the provisions of the Kentucky Uniform Prudent Management of Institutional Funds Act (UPMIFA) as defined in KRS 273.600 to 273.645. UPMIFA requires the Foundation to ensure the duration and preservation of the endowment fund by appropriating a prudent amount for expenditures from endowment funds within the restrictions of any gift agreements. The primary goal of the spending policy is to achieve a proper balance between the present and future needs of the University and the Foundation.

The annual distribution target shall be 4% of the endowment fund's trailing three-year moving market value average.

In the initial year an endowed fund is established, the annual distribution goal shall be 4% of the beginning market value of the endowment. However, the annual distribution may not be made until the endowed fund has been established and invested for at least one calendar year without the prior approval of the President.

In subsequent years, the annual distribution may be made anytime during the fiscal year at the request of the fund administrator. Unless there is prior approval by the CFO, annual distributions shall not be carried over between fiscal years.

UNDERWATER ENDOWMENT SPENDING POLICY

The College Heights Foundation is committed to honor the wishes of the donor by providing annual support from the endowment while also preserving the principal investment of the fund so that it will last in perpetuity. The Foundation strives to provide prudent fiduciary management and administration of each individual endowment fund. However, the Foundation recognizes that sometimes due to conditions out of its control, the fair market value of an endowed fund can fall below the historic principal value of the contributions received deeming it an underwater endowment.

In accordance with the Kentucky Uniform Prudent Management of Institutional Funds Act (UPMIFA), the College Heights Foundation has considered the following factors in developing an underwater endowment spending policy:

- the duration and preservation of the endowment fund;
- the purpose of the individual endowment fund in support of the institution;
- general economic conditions;
- the possible effect of inflation or deflation;
- the expected total return from income and the appreciation of investments;
- other resources of the institution;
- the investment policy of the Foundation.

Based on the those considerations, if the fair market value of the endowed fund is less than the account's historic principal value as of fiscal year end, the income distribution for the following year may be adjusted in an effort to restore the fund balance back to the historic principal amount.

The College Heights Foundation will use a step down appropriation method to slow the allocation from the endowment until the principal has been restored for any permanently endowed fund with a fair market value (FMV) less than 96% of the donor's contributed value.

The following schedule will be used to determine the spending allocation:

- FMV between 90%-95.9% of historic principal value=75% distribution
- FMV between 85%-89.9% of historic principal value=50% distribution
- FMV between 80%-84.9% of historic principal value=25% distribution
- FMV less than 80% of historic principal value=No distribution

No distributions will be made from an endowed fund that is considered underwater by more than 20%. Further, once distributions have been suspended from an underwater endowment, then annual appropriations will not resume until the fair market value has been restored to the historic principal value. Donors have the option of contributing to an underwater endowed fund to restore the account to the contributed value in order to remove the account from underwater status so that regular spending distributions can be made.

The CFO and President have authority to approve exceptions to the policy based on the factors outlined above and in accordance with the principles of UPMIFA.