

USMF FOUNDATION
SERVING THE UNIVERSITY SYSTEM OF MARYLAND

March 23, 2010

MEMORANDUM

TO: Account Administrators
FROM: Joyce Romanoff Marx
Vice President and CFO

FY11 Endowment Spendable Income

Enclosed is the FY11 (07/01/10 - 06/30/11) Spendable Income information for the fund(s) you administer. (Please see note below) Also shown on the report is the December 31, 2009 market value of each fund which is used to compute the amount. The figures do not reflect any prior year carryover. The Spending Policy Committee approved automatic carryovers into FY11. However, if at the end of two years which would be June 2011, no funds have been expended the carryover may be removed unless USMF receives communication from the administrator requesting that. We will be sending information about the process for this in March 2011.

The endowment portfolio returned an estimated 12% for the 2009 calendar year, which resulted in very little change in the spendable income available for FY11. Many funds are still considered to be "at risk" or "underwater"¹ No spendable income was awarded to "underwater" funds. "At risk" funds received spendable income.

The current law allows expenditure from funds where the market value is less than the historic dollar value unless specifically provided for by the donor. Legislation passed in April 2009, UPMIFA (Uniform Prudent Management Institutional Funds Act), allows spending from "underwater" funds if certain criteria are considered and documented.

If there is a fund that had spendable income in FY10 and shows no spendable income for FY11 or has shown no spendable income for both years and you need spendable income, please contact me or send an e-mail to your Vice President explaining why it is important for this fund to have spendable income. USMF has created a document for requesting spendable income from "underwater" funds. That document is attached. Please follow the instructions on the form. Once that documentation is received, the USMF Spending Policy Committee will review and decide to allow or not allow spending. If the "underwater" fund is allocated spendable income, the amount will be based on the above noted percentage and the December 31 market value.

The methodology used to compute Spendable Income for FY11 is the same as FY10 which means that USMF uses HEPI, the Higher Education Price Index as the inflation adjustment factor. The FY11 rate was adopted after considerable discussion and substantial input from the institutional representatives, as well as comparisons with peer institutions. The FY11 rate is 5% versus 4.73% for FY10. USMF's spending rate can be no lower than 4% or greater than 5% so FY11's rate is the maximum currently allowed. .

¹ "At risk" funds" = those funds where the difference between the market value and historic cost is not sufficient to cover the full amount of the computed Spendable Income.

"Underwater" funds = those funds where the historic cost is greater than the market value.

As a reminder the key components of the policy are:

◆ Methodology used to compute Spendable Income:

Step I: **Use 5% of a 20 quarter moving average and the prior year's Spendable Income (adjusted by HEPI);**

Step II: **Blend the two numbers, weighting the former 30% and the latter 70%.**

(Spendable Income computed using this methodology is 5.03% of the 12/31/09 Market Value of each Fund as compared to 4.73% for the prior year)

◆ Previously approved policies:

- 1) **Continue the waiting period for newly created endowments, which stipulates that those endowments are not eligible for spending until invested for one year prior to the computation date.**
- 2) **Continue to band the potential annual spending rate so that in any year it will not be less than 4% or greater than 5% of the Fund's market value.**
- 3) **Be reminded that funds that have not reached endowment level (\$10,000) are not eligible to receive Spendable Income.**

NOTES:

- ⇒ If a PDIP is associated with a fund, the Spendable Income for that secondary account is shown separately, which is a change from previous years. Therefore to obtain the actual amount available you must add the two numbers together.
- ⇒ Check your records to confirm the USM Foundation has an Account Agreement on file for each fund listed (not required for PDIP) and that the "responsible party" and authorized signers on the account are current. This will help prevent delays in your receiving of correspondence and/or the monthly statements for the account as well as in the processing of any requests for disbursements from the fund.
- ⇒ The Spending Policy can be found in the USM Foundation Policy and Procedures Manual on our website www.usmf.org

If you have any questions regarding this information please contact me at 301-445-2712 or by e-mail at jmarx@usmd.edu.

JRM/drj

Enc:

Cc: Vice Presidents (same as above + Spendable-Income info for their institution)
Deans (same as above + Spendable-Income info for their school)