



THE UNIVERSITY SYSTEM OF MARYLAND FOUNDATION, INC. SPENDING POLICY

The two key components of the policy are to preserve the purchasing power of the assets (“Intergenerational Equity”) and to provide a predictable and steady support for programs. These components are based on the expectation that returns over time should be equal to the spending rate plus a consideration of inflation as well as any expense levies.

In order to achieve the above, the Spending Policy Committee approves an annual spending rate in February for the coming fiscal year. December 31 values are used to calculate the spending rate. Once approved by the Executive Committee, the funds are considered appropriated for expenditure as of the first day of the fiscal year in which the funds will be spent.

The Spending Rate is a combination of the following two factors by weighting (a) 30% and (b) 70% to calculate a per unit rate. Once calculated, the rate should be no more than 5% or less than 4% of the moving average market value.

- a) Compute the average market value for the period ending December 31, 20XX using the previous twenty (20) quarters. Calculate 5% of this average market value. This is equivalent of using a moving average as each year the first four quarters drop off and the most recent four quarters are added.
- b) Calculate an adjusted spending rate using the prior year’s percentage increased by the Higher Education Price Index (HEPI) (Changed from Consumer Price Index (CPI) effective February 14, 2008).

Calculate an equivalent per unit amount. Compute the distributed amount by multiplying the calculated per unit amount by the number of units attributable to each fund.

Newly created individual endowment funds, in order to have annual Spendable Income, must be invested for at least one year prior to the calculation date and have a minimum value as recommended by the Spending Policy Committee and affirmed by the Executive Committee. The depreciation and/or appreciation in the market value will accrue to each individual endowment fund.

With the ~~recent~~ enactment of UPMIFA (Uniform Prudent Management Institutional Funds Act) in Maryland, the concept of historic dollar value has been eliminated. Spending from endowments is now subject to a rule of prudence, keeping the following guidelines in mind: (UPMIFA Guidelines)

- (1) the duration and preservation of the endowment fund
- (2) the purposes of the Institution and the endowment fund

- (3) the general economic conditions
- (4) the possible effect of inflation or deflation
- (5) the expected total return from income and the appreciation of investments
- (6) other resources of the Institution
- (7) the USMF investment policy

While spending from funds previously considered underwater (the fair market value is less than the historic dollar value) is not prohibited under UPMIFA as it was under previous law (UMIFA), the Foundation is nonetheless required to adopt a prudent spending policy, keeping the UPMIFA Guidelines in mind. To that end, there should be no funds appropriated for expenditure from underwater funds except where the institution makes a specific request and that request is supported by an acceptable justification **and documentation** using the UPMIFA Guidelines, an attempt has been made to secure the donor's consent to the expenditure, and the President of the institution benefitting from the fund requests the expenditure in writing. **Requests shall be submitted first to the Spending Policy Committee, which will make a recommendation to the Executive Committee. The Executive Committee shall, in making its determination, include all documentation submitted in support of the request as an attachment to the minutes. In no event will funds be appropriated for expenditure from an underwater fund where the donor has expressed a contrary intent in the gift agreement or other relevant documents.**

In general, the spending guidelines of UPMIFA and the Spending Rate determined by this Policy apply only in cases where the donor has not expressed a contrary intent in the gift agreement or other relevant documents.

Unrestricted assets of the Foundation will not be used to supplement spendable income from underwater funds.

TERMINOLOGY:

MARKET VALUE Current market price of the portfolio using the individual security prices when available, as indicated by the latest trade record or the values as provided by investment managers when those investments do not have readily determined current values. The value of the total fund includes receipts, disbursements, interest, dividends, realized gains or losses and unrealized gains or losses.

UNIT VALUE The standard of measurement for the endowment fund. The value of one unit was established in 1985 at \$10.00. Current unit value is calculated by dividing the total market value by the number of outstanding units. New funds and earnings deposited in each account purchase units at the current value. Therefore, each fund owns a specific # of units. All disbursements are based on unit value.

UNDERWATER FUND A Fund with the fair market value that is less than the sum of the initial gift amount plus any additional gifts the donor contributes.

The Spending Policy is reviewed annually to consider if appropriate adjustment is necessary.

Approved by the Executive Committee April 24, 2009