

A photograph of four students sitting on a brick walkway outdoors. A male student in a pink shirt is using a laptop. Three female students are looking at the laptop. In the background, a tall, white, Gothic-style tower (the Campanile) stands among green trees under a cloudy sky.

# NORTH CAROLINA STATE UNIVERSITY

## *Basics of Endowment Spending Budgets*

# Guidelines For Spending Budgets

- Spending policy is set by the board.
- A sustainable spending rule is total net investment return minus inflation.
- Spending budgets are computed as 4% of the average market value for the 20 previous quarters, as of June 30th.
- Rolling, multi-year quarters help smooth out market “ups and downs” that could have a negative effect on spending budgets.

# Guidelines For Spending Budgets

- The spending policy includes an overall review of the total pooled spending level for each entity to insure that it falls within a 3% lower and 5% upper boundary.
- The overall analysis at the endowment pool level insures added stability of spending amounts from year to year during periods of high market volatility.
- The goal is to ensure that the endowment maintains its purchasing power over time to support future generations.

# What Is A Spending Reserve?

- Spending reserves are investment earnings, unused spending budgets that have been reinvested, and unrealized appreciation.
- Spending reserves are the customary funding source for endowment spending budgets.
- For donor agreements prohibiting invasion of corpus, there can be NO spending if there are NO spending reserves.

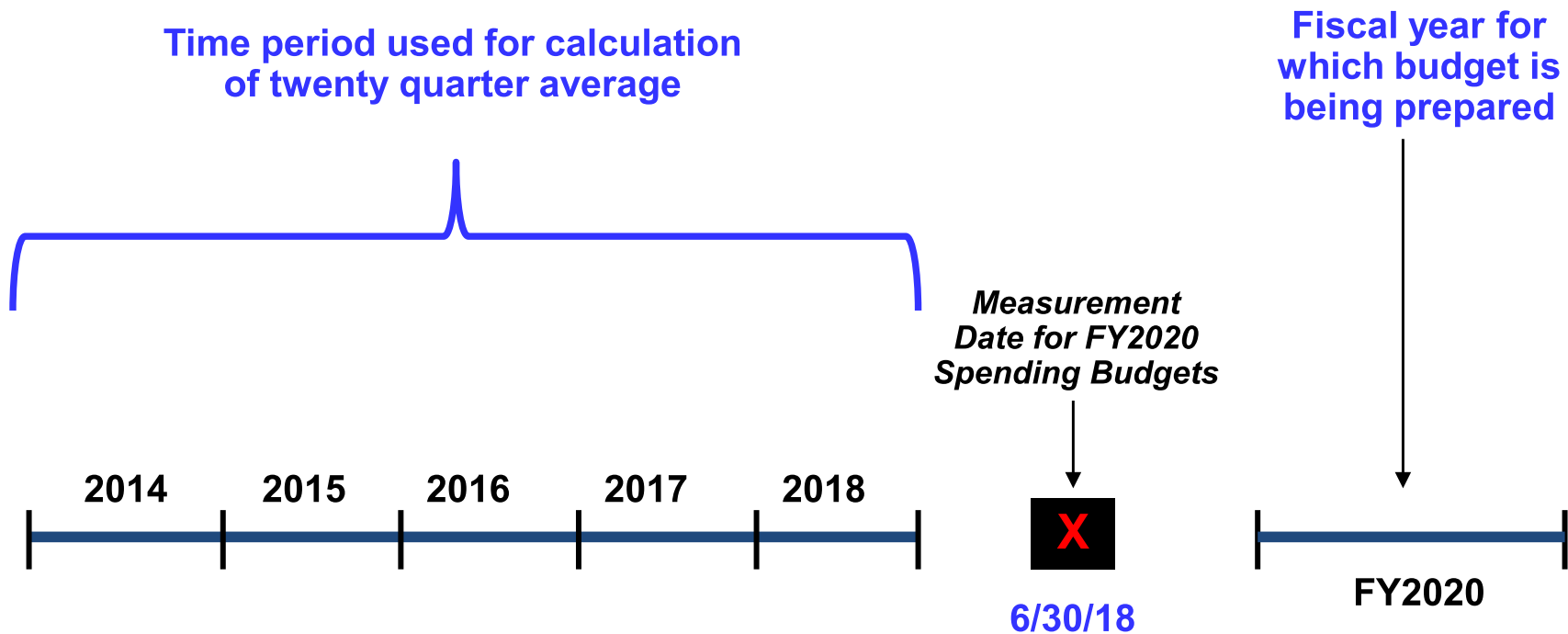
# What is UPMIFA?

- NCGS Chapter 36E, Uniform Prudent Management of Institutional Funds Act , UPMIFA, governs the investment and management of endowments and other institutional funds
- UPMIFA permits the prudent spending of corpus, subject to consideration of certain factors
- NC State has adopted a prudence standard allowing expenditure of corpus up to 15% **IF** not prohibited by the endowment agreement.

# What is an Underwater Endowment?

- Endowments with eroded corpus are referred to as “underwater” endowments.
- Erosion occurs when the market value of an endowment falls below its original gift value due to market declines or expenditure of corpus when allowed by endowment agreement
- “Negative spending reserves” is another term used to describe principal erosion.

# Endowment Spending Budgets Time Table



*To spend in FY2020, endowments must have adequate spending reserves at June 30, 2018 OR an MOU that follows board-approved spending policy and a market value greater than 85% of corpus.*

***NOTE:** Endowments with MOU's prohibiting spending of corpus established in the June 30, 2018 quarter will not be able to fund a spending budget until **FY2021**.*

# How Can We Work Together to Grow Our Endowments?



- Increasing contributions
- Continuing an investment policy focused on long-term growth and performance
- Adhering to a prudent spending policy



# NORTH CAROLINA STATE UNIVERSITY

## *Basics of Endowment Spending Budgets*

