

A photograph of four students sitting on a brick walkway outdoors. A male student in a pink shirt is using a laptop. They are surrounded by green trees, and the tall, white Bell Tower is visible in the background. The scene is bright and sunny.

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 annual increase in spending is limited to the consumer price index (CPI) + 1%, unless there were additions to the endowment during the latest fiscal year.
- This cap on the spending budget prevents overspending during extended “up” periods in the market.
- 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.

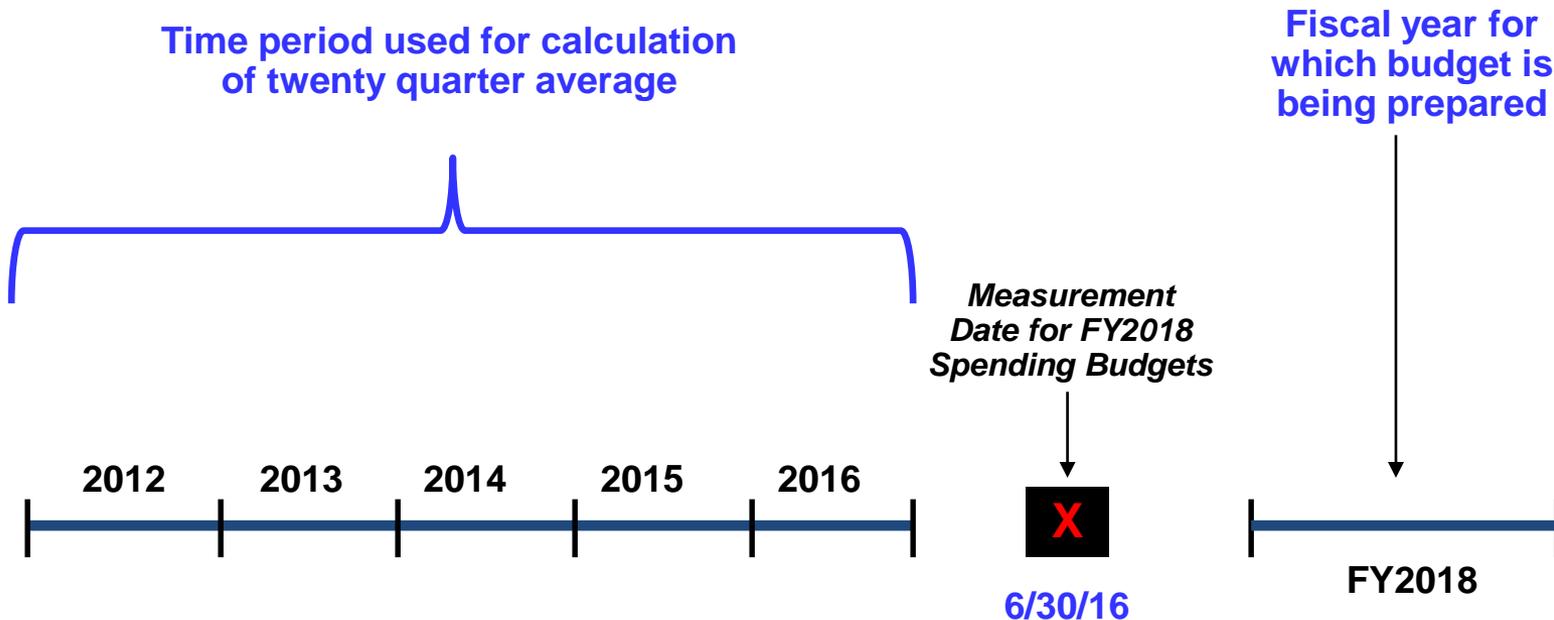
What is UPMIFA?

- 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 FY2018, endowments must have adequate spending reserves at June 30, 2016 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, 2016 quarter will not be able to fund a spending budget until **FY2019**.*

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

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