Accepted September 15, 2015

MILLERSVILLE UNIVERSITY FOUNDATION
ENDOWMENT SPENDING POLICY

DEFINITIONS

Endowment Funds are funds given with a donor-imposed restriction that the monies are not to be expended but are to be invested for the purpose of producing income. Unless otherwise stated by the donor, the principle of the funds is to be maintained in perpetuity. The donor may or may not place restrictions on the purpose for which the income may be expended.

Total Return is the sum of current income or yield (interest and dividends) and realized and unrealized capital gains (or losses), less investment management costs.

Real Total Return is total return adjusted for inflation as measured by the Consumer Price Index.

Spendable Amount is that portion of total return allocated for spending and withdrawn from the investment pool.

Spending Rule is the guideline an institution uses to determine annual distributions from its endowment (e.g., spend all income, spend 5% of three-year moving average market value, increase spending by 4% each year).

Spending Rate is the dollar amount of spending for a fiscal year as a percentage of the beginning market value of assets.

Unit Value is the market value of each unit of an investment pool on specified date.

Unitized Market Value is a procedure for accurately allocating income and investment gains and losses, both realized and unrealized, between component funds of an investment pool.

Net income is dividends and interest received on pooled investments less the management fee and broker and fund fees.

PURPOSE

The objectives of the Millersville University Foundation's spending policy are to:

1. Maintain the purchasing power of endowment funds with respect to inflation by spending no more than the real total return earned by the endowment funds over the long term, and achieving growth of principle approximating the rate of inflation. The practical effect of spending more than the real (inflation-adjusted) return on endowment investments is that current students and programs are subsidized at the expense of future generations.

2. Decouple investment decisions from immediate income needs, thus increasing investment flexibility and improving investment performance by allowing investment managers to invest for maximum total return.

3. Provide spendable income at levels which are reasonably stable from year to year.

<u>SPENDING POLICY</u>

1. The spending amount shall be calculated as a set percentage of a three-year moving average of the market value of endowment assets. Such a policy will allow for greater predictability of the spendable amount for budgeting purposes and for gradual steady growth in spending. In addition, this policy will minimize the probability of erosion of the principle value of investable assets in real terms.

2. The spending percentage noted above will be reviewed annually by the Spending and Investment Committees of the Foundation Board and adjusted if market conditions or investment performance warrant.

3. When the market value of a fund is below 85% of the historic book value as of March 31, only net income may be spent. When the market value of a fund is 85% or higher of the historic book value as of March 31, the percentage set by the board may be spent.

4. Endowments that reach threshold between July 1 and December 31 will be eligible to award during the next fiscal year based upon a prorated award amount for the months the award is at threshold.

5. Total return in excess of the actual spending distribution shall be reinvested and shall be considered principle for all future distribution computations.

6. All income earned on endowment investments will be credited to the investment pool rather than to individual accounts. The unitized market value approach will be used in accounting for pooled investment funds.

7. Spending amounts which are allocated annually to individual spending accounts are generally intended to be spent within the immediately following fiscal year. Amounts not spent within the fiscal year can be carried over within the individual spending account subject for non-scholarship endowments only, in consultation with the Development Office, with approval by the Spending Committee of the Foundation Board for a stated purpose.

8. In certain cases the allocation to a spending account will not be sufficient to cover a fixed award amount specified by the donor. In such cases the annual spending amount will accumulate in the spending account until the fixed award amount is reached.

9. For accounts where, according to donor requests, endowment returns are not to be spent but rather added to principle until a given principle value is reached, spending allocations will be transferred back to the principle account and considered as principle for future distribution computations.

10. In no case will balances in spending accounts accrue interest unless approved by the Board.

11. Withdrawals from Quasi-Endowments will require a 60 day written notice of intent accompanied by the approval of the divisional Vice President, the Vice President for Advancement and the President of the Millersville University Foundation.

History of the Policy:

September 13, 1994
Revised May 15, 2007
Revised February 10, 2009
Revised February 24, 2010
Revised May 14, 2013