

ENDOWMENT SPENDING POLICY

The University Foundation, California State University, Chico

This policy describes the manner in which endowment earnings will be allocated for spending.

Purpose

Underlying the spending policy is the need to maintain the purchasing power of the endowment income, thereby protecting the real value of endowment principal.

Spending Objectives and Definitions

It is the Board's objective to establish a payout rate from endowment accounts that provides a stable, predictable level of spending for the endowed purposes, and that provides for a rate of growth in the endowment that meets or exceeds the rate of inflation.

To the extent that the current year return is insufficient to meet the specified payout, the prior years' income may be drawn upon, but only to the extent that endowment principal is not invaded. However, quasi-endowments may spend principal in accordance with the terms of the particular Board endowment agreement. In these cases, spending of principal will be permitted when it is documented in the Foundation's files that the Board of Governors has discretion over the funds and has specifically approved the expenditure of principal.

In the absence of instructions to the contrary in a particular endowment agreement, principal shall be defined to include both the original gift and any subsequent donation, in accordance with the Uniform Management of Institutional Funds Act (California Probate Code, Section 18501), with the exception that any other accumulation or appreciation will be expendable.

Spending Procedures

Per Board approved policy (6/98), all endowment accounts (true endowments, quasi-endowments, term endowments and flexible endowments) are first subject to an annual administrative fee of 1.75% of the market value of the endowed account. An assessment is calculated at the end of each quarter, based on the average of the ending account balances for the prior three months, and deposited in the General Fund of The University Foundation.

The amount available for payout each fiscal year will be based on 4% of the average of the market values on June 30th for each of the three years immediately preceding the fiscal year in which the payout is to be made. (For example, the average of the market values at 6/30/04, 6/30/05, and 6/30/06 would determine the payout amount that would be awarded in the spring of 2006-2007 for distribution in fiscal year 2007-2008.) For new accounts, only years with funds on deposit will be included in the average.

Any income from dividends, interest and capital appreciation, and both realized and unrealized, in excess of the administrative fee and approved spending appropriation will be reinvested for growth and to preserve the purchasing power of the distributions against inflation.

- In true endowments, term endowments, and flexible endowments, the reinvested income will be identified as a Spending Reserve. To the extent that the current year's total return is insufficient to meet the announced payout, the reinvested prior years' income held in the Spending Reserve may be drawn upon.
- In quasi-endowments, the reinvested income will be placed in fund balance and, along with principal, will be expendable in accordance with the provisions of the particular Board's endowment agreement.

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