TOWSON UNIVERSITY FOUNDATION, INC.
Endowment Spending Policy – Appendix C

The Endowment Spending Policy was established to preserve purchasing power of the endowment assets, balanced with the real need to provide predictable and steady support for the various scholarships and programs.

UPMIFA (Uniform Prudent Management of Institutional Funds Act), was adopted in the State of Maryland on April 14, 2009 and incorporated into the Maryland Code under Estates and Trusts, Title 15, Subtitle 4 titled "Maryland Uniform Prudent Management of Institutional Funds Act" (MUPMIFA). MUPMIFA no longer limits spending from endowments to historical dollar values. MUPMIFA eliminates the historic dollar value concept completely and now subjects endowment spending decisions to a standard of prudence, considering the following seven (7) factors in making a determination to appropriate or accumulate donor-restricted endowment funds (See section 15-403 of the MUPMIFA).

1. The duration and preservation of the endowment fund
2. The purposes of the Institution and the endowment fund
3. 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 and
7. The TUF investment policy

The enactment of MUPMIFA also now provides a process whereby gift documents may be modified:

1. By a court, on application by TUF, if a restriction has become obsolete, inappropriate or impracticable, or if, because of circumstances not anticipated by the donor, a modification of a restriction will clearly further the purposes of the fund

2. By a court when a purpose becomes unlawful, impracticable, or impossible

The specific processes to be followed for modifications are outlined in the MUPMIFA, section 15-405.

The Spending Policy Committee is a standing committee of the Board whose primary purpose is to make sure this endowment spending policy is followed. Specifically, the duties include:

**Duties of the Spending Policy Committee**

All items listed below to be reviewed annually

1. Determine the Endowment Spending percentage.
2. Determine the Endowment Assessment fee percentage.
3. Determine Total Spending Percentage.
4. Monitor the spending of the University Support fee portion of the Assessment Fee.
5. Periodic review of the Memorandum of Understanding template.
The following timeline shall govern the process:

1. **Meeting Date** - The Spending Policy Committee shall meet annually in August to approve for the fiscal year beginning the following July 1, 20xx both a
   a. Endowment Spending percentage and the
   b. Administrative and University Support fee percentages

2. **Calculation Dates**
   a. June 30 market values (12 months prior to the next fiscal year) are to be used to calculate both the endowment spending percentage and the endowment spendable income dollars.
   b. March 31 market values (3 months prior to the next fiscal year) are to be used to calculate the Administrative and University Support fee dollars. The calculated amounts are incorporated into the Foundation’s annual operating budget revenues.

3. **Appropriation Dates**
   a. Endowment Spendable Income amounts will be considered appropriated for expenditure on October 1, for spending to begin the following July 1. Letters shall be delivered to Program Directors on or about October 1, communicating the dollar amounts available to them for their programs/scholarships, thereby giving 9 months for planning in advance of expenditure in the upcoming fiscal year.

   Once appropriated, Endowment Spendable Income amounts will be immediately transferred into a money market fund within the endowment investment portfolio (for liquidity purposes) where they will remain until expended. Unexpended amounts as of June 30, 20xx will be immediately returned to the general endowment investments. Carryovers of unexpended funds from one fiscal year to the next are not permitted.

   Unexpended amounts as of June 30, 20xx will be reviewed by the Foundation. Program Directors will be expected to provide a reasonable explanation as to why the dollars went unexpended – Important for stewardship purposes.

   b. Administrative fees will be considered appropriated for expenditure on July 1, to coincide with the inception of the new fiscal year. At that time, the fee amount will be immediately transferred from the endowment investment account to an operating investment account (for liquidity purposes).

   c. University Support fees will be considered appropriated for expenditure on a quarterly basis upon the review and approval of the Executive Committee. 25% of the total calculated fee amount will be appropriated on July 1, October 1, January 1 and April 1, assuming quarterly approval by the Executive Committee. The Executive Committee must determine before the start of each quarter the appropriateness of each quarter’s appropriation based on current budget and economic conditions. Upon the approval of the Executive Committee, the fee amount will be considered appropriated and immediately transferred from the endowment investment account to an operating investment account (for liquidity purposes).
Endowment Spendable Income Amounts will be calculated as follows, to be reviewed on an annual basis:

1. Determine the Endowment Spending percentage. At no time shall the Endowment Spending percentage + Total Fee percentage (Administrative and University Support) exceed 7% (in excess of 7% is deemed imprudent by MUPMIFA).
   a. 5% will be the target annual spendable income percentage.
   b. The Spending Policy Committee will discuss annually the prudence of continuing a 5% spending percentage, keeping in mind the seven (7) prudence guidelines for the appropriation of funds for expenditure.
   c. Endowment Spending percentage shall never exceed 5%.

2. Compute the average market value per unit for the past twenty (20) quarters ended June 30, 20XX, based on the custodial bank’s unit fund reports (currently M&T Bank).

3. Multiply the Endowment Spending percentage from step 1 by the average market value per unit from step 2.

4. Multiply the result of step 3 by the number of units owned by each fund, as of June 30, 20XX. This will result in the spending dollars available for each individual endowment fund for the following fiscal year beginning July 1.

Endowment Funds Eligible for a Spendable Income Allocation

All above water funds are eligible for a spendable income allocation, except that

   Newly created endowment funds must be invested for at least 6 months prior to the Calculation Date (June 30) in order to be eligible for Spendable Income.

While spending from individual endowment funds considered underwater is no longer prohibited under MUPMIFA, the Foundation is still obligated to adopt a prudent spending policy.

With that in mind, and before spending from an underwater endowment is authorized and appropriated, the Foundation requires that the Towson University representative (i.e. Program Director) make a specific request in writing of the Foundation, to include a justifiable explanation as to why such spending should be permitted. The request must also indicate that an attempt was made to secure the donor’s consent (with the assistance of a Development Officer) to underwater spending.

If a donor does not consent to spending from an underwater endowment, spending will not be approved.

In cases where the original donor is deceased or otherwise incapacitated and unable to make such decisions, the Executive Committee will be responsible for making the decision to allow (or not) spending from underwater endowments, based on the specific request presented by the program director.

Unrestricted assets of the Foundation will not be permitted for use to supplement spendable income from underwater endowments.
**ENDOWMENT ASSESSMENT FEE** – Administrative Fees + University Support Fees = Endowment Assessment Fee. The Total Fees charged shall NOT exceed 2%.

Total Fees will be applied to individual endowment funds according to the following sliding scale. The dollar amounts represent corpus (original gift dollars), not market values. If the Total Fee for a given year ends up less than 2%, then the ratio of the below scale will be appropriately adjusted.

<table>
<thead>
<tr>
<th>Dollar Amount Range</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>$10K - $2.49mm</td>
<td>2.00%</td>
</tr>
<tr>
<td>$2.50mm - $4.99mm</td>
<td>1.50%</td>
</tr>
<tr>
<td>$5.00mm - $9.99mm</td>
<td>1.25%</td>
</tr>
<tr>
<td>$10.00mm - $19.99mm</td>
<td>1.00%</td>
</tr>
<tr>
<td>$20.00mm and up</td>
<td>.75%</td>
</tr>
</tbody>
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The above scale was approved February 18, 2005. Per Executive Committee Mandate, the scale MUST be reviewed 10 years from the approval date, i.e. February 18, 2015, for consideration of changes that might be necessary, given the budget and market conditions current at that time.

**ADMINISTRATIVE FEES** - The Foundation charges each individual endowment fund an Administrative Fee. Administrative Fees will be charged BEFORE any other fees and before spendable income is calculated. The fee percentage to be charged will be determined annually at the Meeting Date of the Spending Policy Committee. These fees are used to offset unrestricted operating budget expenses related to the management of the endowment. Administrative Fees will be charged annually to all funds, regardless of whether they are underwater or not.

The Administrative Fee amount will be calculated as follows:

1. Determine the Administrative Fee percentage.
2. Compute the average market value per unit for the past twenty (20) quarters ended June 30, 20XX, based on the custodial bank's unit fund reports (currently M&T Bank).
3. Multiply the Administrative Fee percentage (as determined annually by the Spending Policy Committee) by the average market value per unit from step 2.
4. Multiply the result of step 3 by the number of units owned by each fund, as of June 30, 20XX. This will result in the Administrative Fee to be charged to each individual endowment fund for the following fiscal year beginning July 1.

The Spendable Income Committee reserves the right to limit the amount of Administrative Fees to a specific dollar amount for Operating Budget purposes, despite the amount that might result from the above calculation.

**UNIVERSITY SUPPORT FEES** - The Spendable Income Committee will make an annual determination as to whether or not this fee will be charged. Additionally, on a quarterly basis, the Executive Committee must approve the actual charging of this fee. 25% of the total calculated fee amount will be appropriated on July 1, October 1, January 1 and April 1 if approved by the Executive Committee. The Executive Committee must determine before the start of each quarter the appropriateness of each quarter's appropriation based on current budget and economic conditions.

The fee percentage (if any) to be charged will be determined annually at the Meeting Date of the Spending Policy Committee.
To the extent this fee is charged, the TU President, TU Vice Presidents and the TU Dean’s who serve as program directors will be informed that the dollars allocated to them for spending from these fees are available for their use to cover costs associated with meeting and discussing fund raising initiatives with Towson University alumni, corporate contacts and others. Uses outside these guidelines must be pre-approved before the cost is incurred. Otherwise, the request could be denied.

University Support Fees will NEVER be charged to an individual endowment fund that is deemed to be underwater as of the March 31 Calculation Date.

For purposes of relating “Endowment Assessment Fees” back to MOU’s in place prior to the adoption of this version of the Endowment Spending Policy, it is understood that “Administrative” fees as referenced in the old MOU’s included both “Administrative” and “University Support” fees as described in this document. This version of the spending policy simply describes the “Assessment Fee” in greater detail. Going forward, the revised MOU shall specifically reference both fees by name under the umbrella of “Total Fees to be Assessed”.

**Reporting Requirement for Use of University Support Fee Dollars** - The TU President, TU Vice Presidents and the TU Dean’s who serve as program directors **WILL BE REQUIRED** to file a report with the Executive Committee, detailing what they accomplished with the funds they were allocated. This report will be due by March 31 each year. Failure to file a report may result in forfeiture of the following year’s allocation.

**The University Support Fee amount will be calculated as follows:**

1. Determine the University Support Fee percentage.

2. Compute the average market value per unit for the past twenty (20) quarters ended June 30, 20XX, based on the custodial bank’s unit fund reports (currently M&T Bank).

3. Multiply the Administrative Fee percentage (as determined annually by the Spending Policy Committee) by the average market value per unit from step 2.

4. Multiply the result of step 3 by the number of units owned by each fund, as of June 30, 20xx. This will result in the Administrative Fee to be charged to each individual endowment fund for the following fiscal year beginning July 1.

The Spendable Income Committee reserves the right to limit the amount of University Support Fees to a specific dollar amount for Operating Budget purposes, despite the amount that might result from the above calculation.

**Board Interpretation of MUPMIFA – Audited Financial Statement Net Asset Classifications**

The Board of Directors of Towson University Foundation, Inc. (the Foundation) has interpreted MUPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor Memorandum of Understanding at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by MUPMIFA.
TERMINOLOGY:

MEMORANDUM OF UNDERSTANDING – Document that properly outlines and clarifies the donor’s and the Foundation’s intentions in providing and accepting a gift. It also clarifies the duties and expectations of both parties.

MARKET VALUE – Current market price as reported on the custodial bank statement. This is to include cash receipts, cash disbursements, interest, dividends, realized and unrealized gains and/or losses.

UNIT VALUE – The initial value of one unit was established to be $10.00. Over time, the value of one unit changes with the market. Current unit value is calculated by dividing the total market value by the number of outstanding units. New funds and earnings deposited purchase units at the current value. Each endowment fund owns a specific number of units (similar to a mutual fund).

UNDERWATER – A fund with a fair market value on the Calculation Date that is less than the sum of the initial gift amount plus all subsequent gifts.

ABOVE WATER – A fund with a fair market value on the Calculation Date that is greater than the sum of the initial gift amount plus all subsequent gifts.

Adopted January 29, 2002 (per email approvals from Executive Committee members)
Approved at May 9, 2002 Executive Committee Meeting
Revised during February 18, 2005 Executive Committee Conference Call
Revised July 2005 (Utilizing June 30 vs. December 31 as the valuation date for calculating spendable income.
Revised at 6/8/06 Executive Committee Meeting (changed “not permitted to exceed” % from 6.5% to 5.0%)
Revision approved at Annual Board Meeting 10/21/09