Endowment Spending Policy

Purpose:

The purpose of the endowment spending policy is to establish spending guidelines and parameters that will honor the donor's intent, and provide long-term sustainability of the Rocky Mountain College endowment. The College's investment and spending policies for endowment assets attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the fair value of the endowment assets. Endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds.

The Finance and Investment Committee of the Board of Trustees (Committee) will pool college endowment funds and quasi-endowment funds for the purposes of investing, except where otherwise stipulated by a donor.

Definitions:

Endowment - An endowment is a permanent investment fund. While income from the fund may be spent, the principal of the fund must remain intact. Donors may restrict the purposes for which endowment income can be spent.

Quasi-Endowment - A quasi-endowment, also known as "funds functioning as endowment" or "designated endowment," is an invested fund that is treated as an endowment for investment purposes, but is not legally restricted as such. The principal of a quasi-endowment fund may be liquidated.

Total Annual Return – The return on an investment, including income from dividends and interest, as well as capital appreciation or depreciation over one year.

Original Gift Amount – The original value of all gifts received into an endowment.

Objective:

The Board holds the ultimate responsibility for the power over the Endowment Funds, the safekeeping of the Funds, distributions from the Funds, and the content of this Statement. The Board may delegate these responsibilities to the Committee. The philosophy of the College as it pertains to its Endowment Funds is first to provide for safety of principal by investing in a diversified portfolio to match the desired risk tolerance of the Institution, and second, to achieve a return on investment which preserves the original value of additions to the Endowment Funds, fulfills the donor's intent, and provides reasonable income from investments to meet the College's annual operational and scholarship needs.

Prudent management of the Funds under this philosophy mandates that the principal comprising the Funds is preserved and increased as necessary to keep pace with the erosion in purchasing power that is caused by inflation over time. See the College's supplemental Endowment Fund Investment Policy within the Business Office section of the College's website.

Spending Allocation:

At all times the Endowment should be considered a long-term asset of the College. Subject to the intent of the donor as it is expressed in the gift instrument and governing state law, the College may allocate for spending so much of an endowment fund as it deems prudent for the uses, benefits, purposes, and duration for which the endowment fund is established.

The Committee will make a recommendation to the Board of Trustees (Board) regarding the percentage of the total investment value that can be used. In determining the percentage, the Committee will look to the following:

- The Uniform Prudent Management of Institutional Funds Act (UPMIFA), as it was adopted under Montana State law in 2007 and stands today, states that spending in excess of 7% of the corpus amount of an endowment, based on the twelve (12) quarter average market value of said endowment, is rebuttably imprudent.
- Absent any unusual circumstances the percentage would be 5%.
- The percentage should not exceed the twelve (12) quarter average return on the investments.

The Board will annually establish the percentage, taking into consideration the recommendation of the Committee, this policy, and the overall facts and circumstances related to and surrounding the College.

In the months succeeding the end of every fiscal year, the Committee will determine the amount to be allocated for distribution for the following academic year. Upon such determination, funds sufficient to cover those distributions will be set aside within a reasonable amount of time in such a manner as to assure availability of the funds.

Donor Restricted Endowment Funds:

Donor restricted funds are designated by donors in order to restrict the use of the funds to a particular purpose or project. The College has no discretion in the application or management of such funds.

In order to monitor ongoing adherence to donor-imposed restrictions, the Committee is to annually review a report of disbursements to ensure the spending aligns with the donor's wishes. This policy recognizes that there may be cases where a restricted use becomes obsolete or over fulfilled, or becomes inconsistent with the College's needs or mission. When these circumstances are present, the Board will first determine whether the donor is surviving or deceased. In cases where the donor is surviving, the donor will be contacted directly to ascertain how they wish to have the intent of their endowment repurposed. If the donor is deceased, the College will attempt to obtain the next level of authoritative guidance before proceeding. This guidance, if applicable, could include but is not limited to, the donor's surviving spouse, trustee, or advice and approval from the Montana Attorney General.

In the event such guidance is unobtainable, the Board may take action to amend the award criteria to align with a current College need that aligns as close as possible with the donor's original intent. The Board may also combine like-purpose endowment funds that fall below a $25,000 corpus level.

Underwater Endowments:

Underwater endowments are defined in the FASB Master Glossary as "A donor-restricted endowment fund for which the fair value of the fund at the reporting date is less than either the original gift amount or the amount required to be maintained by the donor or by law that extends donor restrictions." Under the current guidance (ASU 2016-14), amounts by which endowment funds are underwater will be reflected within net assets with donor restrictions.

UPMIFA addresses the treatment of such endowments. The following procedures will be followed by the Committee in relation to underwater endowments. An annual review of underwater accounts will be performed each fiscal year-end by the Committee. A report of individual participant true endowment accounts with market values less than the original gift amount will be produced.

Procedures:

Separate procedures, outlined below, relate to accounting procedures for underwater endowments depending on the type of endowment. Prolonged or unusual investment market declines make it prudent to reduce spending distributions from endowments that are underwater.

Quasi Endowment Practices: The practices outlined here will apply only to Committee or otherwise internally designated endowments (Quasi endowments) and not to donor-designated endowments (True endowments):

In the event that the market value of an endowment fund falls significantly below the original gift amount (significantly is defined as less than 80% of the original gift amount) the Board reserves the right to make no distribution of that fund for the period in an effort to help the market value of the fund recover.

A. Unspent income distributions residing in earnings accounts, if any, will continue to be available for spending purposes during periods in which no distribution is made.

B. Designated department heads or chairs will be informed promptly in the event that a cash distributions from an endowment will be suspended to help the market value of the fund recover.

True Endowment Practices: The practices outlined here will apply only to donor-designated endowments (True endowments) and not to Board or otherwise internally designated endowments (Quasi endowments).

A. In the event that the market value of a donor-restricted endowment is at or below the account's historic gift value as of any June 30, the endowment will not distribute cash for spending purposes for the next fiscal year beginning July 1; instead, distributions will be reinvested into the fund. Funds will be reinvested regardless of the amount by which market value is below historic gift value. These practices are designed to ensure the principal of the fund is intact as desired by the donor.

B. During a period in which income distributions are stopped on an endowment fund, unspent income residing in the earnings account, if any, will continue to be available for spending purposes and will be disregarded in comparing an endowment's market value to its historic gift value.

C. During a period in which income distributions are stopped on an endowment fund in which no unspent income resides in the earnings account for spending purposes, at the discretion of the Board, the use of a general fund account, when available, may be utilized to make expenditures to support the purposes intended to be funded by the endowment.

D. Interested parties (Deans, Report Recipients, Business Managers, etc.) will be made aware of these intended practices and will be informed if and when cash distributions from an endowment are to be suspended.

Annual Policy Review

The Committee will review this policy annually and recommend changes to asset allocation and spending methodology as deemed appropriate.

Adopted this the 27th day of September, 2019, By the Board of Trustees of Rocky Mountain College.