NORTHERN ARIZONA UNIVERSITY
FOUNDATION

Endowment Spending Policy

Introduction

An endowment is created by a donor from a gift containing a legal stipulation that the original gift may never be expended. These gifts are held and invested in perpetuity by the Northern Arizona University Foundation (the Foundation) for the purpose of generating a permanent expendable income stream from the return on the gift for the purpose the donor desires.

Endowment gifts to the Foundation are placed in a pooled fund for investment and oversight purposes. A pool of asset provides more options for investment, stronger diversification, superior returns and lower management fees. The market performance of the pool is allocated between all the accounts proportionately so they all share equitably in the gains or losses.

Decisions regarding the types of investments are made by the Investment Committee of the Foundation Board of Directors. Please consult the Investment Policy statement for details.

Endowment Buy-In and Unitization Example

The actual mechanics of endowment investment and management are very similar to that of a mutual fund. Endowment is accounted for using a unitized investment pool. Each individual endowment owns units in the pool, revalued at each month-end. Only at month-end periods, using the month-end value of a unit, may new endowments enter the pool. New endowments "buy into" and receive a certain number of units in the pool given the amount being invested and the value of a unit on the buy-in date. As the value of a unit in the pool grows, new endowments purchase fewer units in the pool.

For example, an entire endowment pool may have a market value at December 31, 2012 of $10,000,000, and have 100,000 units in the pool. The market value is therefore $100 per unit. Let's assume the Jones Endowment began with a $10,000 gift and bought into the pool five years prior when the unit value was only $50, obtaining 200 units in the pool at that time. Given the unit value at December 31, 2012, the market value of the Jones Endowment would be $20,000 at December 31, 2012. If the Smith Endowment gift of $10,000 were received during the month of December 2012, the Smith Endowment would buy units in the pool as of January 1, 2013 at the rate of $100 per unit. Therefore, the Smith Endowment would obtain 100 units in the pool. The same gift five years prior bought 200 units in the pool at the unit value at that time, versus the

100 units it can purchase now, due to the appreciation of the value of a unit in the pool.

Spending Policy

The two key components of the endowment spending policy are to preserve the purchasing power of the assets ("Intergenerational Equity") and to provide a predictable and steady support for programs (i.e. scholarships, awards, etc). Returns over time should be equal to the spending rate plus a consideration of inflation as well as any expenses.

The Investment Committee recognizes that decisions to spend or accumulate endowment funds must be made in good faith, with the care that an ordinary prudent person in a like position would exercise under similar circumstances, and take into consideration such factors as follows:

- Duration and preservation of the endowment fund;
- The purposes of the institution and the endowment fund;
- General economic conditions;
- The possible effect of inflation or deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the institution; and
- The investment policy

Based on the above considerations, the Investment Committee shall authorize the expenditure of a "prudent amounts" of endowment funds pursuant to the "Management of Charitable Funds Act' (ARS Sections 10-11801 through 10-11805).

In order to achieve the above, the Investment Committee reviews and approves the Endowment Spending policy annually. December 31 values are used to calculate the spending rate.

The Spending Rate is calculated by taking four (4) percent of a three year rolling average of the market value of the eligible endowments in the investment pool for the period ending December 31, 20XX.

Example of How to Compute Spending Rate for Period Ended December 31, 2014:

- A. Compute the average market value of the eligible endowments in the investment pool at December 31st for the previous three years by adding together:
    Endowment Portfolio's Market Value as of December 31, 2012
    Endowment Portfolio's Market Value as of December 31, 2013

Endowment Portfolio's Market Value as of December 31, 2014

B. Take total Endowment Portfolio's Market Value and divide by three (3) which gives the average market value of the endowment portfolio.

C. Multiply the average by four (4) percent to obtain the market value base. Multiply the reinvestment fee percent by the current year December 31st market value base and subtract this dollar amount from the market value base. This amount is allocated to each fund in the pool based on the number of shares it has as a percentage of the total shares. The resulting amount are the dollars available to be used for the endowment award beginning July 1, 2015 (academic year 2015/16)

D. To calculate the spending rate, multiply the average by four (4) percent and divide by the December 31, 2014 portfolio market value to get the Spending Rate. Once calculated, the rate should be no more than 4.5% or no less than 3% of the moving average market value.

Newly created endowment funds must be eligible for payout for at least one full fiscal year prior to the payout date. Appreciation and/or depreciation in the market value will accrue to each individual endowment fund.

Fund Achieves Endowment by	Academic Year Award Date
June 30, 2013	2014/2015
June 30, 2014	2015/2016
June 30, 2015	2016/2017

In a prolonged down market, the Investment Committee reserves the right to review this policy and make appropriate adjustments to the spending policy, if necessary.

A Reinvestment Fee will be charged based on current year December 31st market values. The fee charged is 1.5 percent, but may be revised at the Board's discretion.

Effective: February 4, 2013