

MUHLENBERG

COLLEGE

Overview of the Endowment Spending Policy

As costs associated with educational institutions rise, one of the most important objectives at Muhlenberg is to ensure lasting financial support for the College through endowed funds. These funds are permanent assets which are judiciously invested by the Finance and Investment Committee of the Board of Trustees.

Muhlenberg College follows a strict spending policy determined by the Finance and Investment Committee of the Board of Trustees. This spending policy states that the College can spend **up to** 5% of a five-year rolling average of the market value of the pooled endowment investments. This methodology is not applied to each individual fund within the endowment – instead the College employs a method of unitization to determine an individual fund's **share** of the allowable spending amount of the pooled endowment.

Individual funds “buy” units when either a gift is received or earnings are reinvested. The “price” of a unit is determined by the market value of an endowment unit at the end of the prior month. Each individual fund's share of the endowment's allowable spending is calculated based upon the ratio of that given fund's “units” to the total number of units in the overall endowment. This ratio is then multiplied by the 5% allowable spending amount, less investment expenses, to determine the fund's share.

It is important to note that an individual fund's ratio and share may change as the total number of units in the endowment changes. This can occur when “Fund A” remains static while gifts or reinvested income are applied to “Fund B,” thus “buying” more units for “Fund B” and raising the total number of units in the endowment.

Example:

- An initial gift of \$25,000 was received in December of 2005 to establish the “Smith Fund”.
- This \$25,000 “bought” units at the unit market value for 11/30/05.
- The market value of a unit at 11/30/05 was \$40, so the gift bought 625 units. ($\$25,000 \div \$40 = 625$)
- The allowable spending amount for the overall endowment under Muhlenberg's policy (as described above) was calculated to be \$5,000,000.
- The ratio of the Smith Fund's units to the overall endowment was calculated to be .000175.
- Therefore, the Smith Fund's share of the allowable spending amount was \$875 ($\$5,000,000 \times .000175 = \875).
- The \$875 is then distributed according to the purposes specified by the Donor in the associated endowment agreement.

Units also are important because they help to determine what portion of income, gains or losses from the pooled endowment investments can be attributed to an individual endowment fund. Investment income and realized gains or losses are distributed to particular endowment funds based upon the same ratio of a given fund's units to the total number of units in the endowment.