



Spending Policy and Procedures for Endowed Funds

Introduction

This document is intended to provide a description of the policies and procedures set forth by CFA with regard to fund distributions by Endowed Funds (generally) for the purposes of grant making.

Endowed Funds

Endowed Funds with CFA may be established as named Funds with a recommended minimum gift commitment of \$10,000. These named Funds may be donor-advised, corporate donor-advised, designated agency, field of interest, scholarship, or unrestricted.

Endowed Funds are generally invested according to the recommendation of the donor.

Financial assets are commingled. Earnings and changes in principal are prorated.

Presently, CFA aggregates the financial assets of most endowed Funds and other investment assets for investment purposes and prorates both the earnings and the changes in the principal amongst all of the pooled investments. This is done to minimize fees.

Market fluctuation - Prorata changes in each fund

The investment assets of an endowed Fund will fluctuate in value since they consist primarily of equities and fixed income securities. Each endowed Fund shares prorata in the increase or reduction in value of the portfolio as a whole.

Total Return Approach

CFA utilizes a Total Return Policy for the long-term investment management of its endowed Funds. With a Total Return Policy, both the current ordinary income (including interests and dividends) and the capital appreciation (both realized and unrealized) are combined to measure the investment performance for the year.

UPMIFA (Uniform Prudent Management of Institutional Funds Act of 1972) limits distribution amounts in unfavorable markets unless instructed otherwise by donor(s)

The Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) governs endowment spending and has been adopted by the State of Louisiana effective July 1, 2010. While UPMIFA does not place limitations on what can be distributed when markets are favorable, it does limit what can be distributed if the current fund value is near or below the Historical Dollar Value (defined below).

Historical Dollar Value

CFA defines Historical Dollar Value as the aggregate of:

- *Original contribution* - an endowed fund at the time it became an endowed fund;
- *Subsequent contribution(s)* - each subsequent donation to the fund; plus

The donor(s) may elect in writing to add to Historical Dollar Value the following:

- *Accumulation contribution(s)* - each accumulation made pursuant to a written direction in the applicable gift instrument at the time the accumulation is added to the fund (i.e. directing all or a portion of distributable income back to the principal), and/ or
- *Earnings* - from the endowed fund's investments including interest, dividends, gains or losses on sale of investments and unrealized gains or losses, and/ or
- *Unspent money from the spend rate* – as determined annually by the CFA's Board of Directors, but not spent by the donor.

Distributions of net appreciation may not reduce the Endowed Fund below the Historical Dollar Value

According to UPMIFA, the ordinary income of an endowed Fund (less fees) may be distributed annually (unless the fund document, prudence or CFA's Board limits distributions); historically, the Board sets an annual spend rate; however, the amount that may be distributed from the principal of any endowed Fund cannot cause the fair value of the endowed Fund to decrease below its historic dollar value, unless directed in writing by the donor(s).

Treatment of non-financial assets

The general policy of CFA, in the absence of special circumstances, is to liquidate non-financial assets as soon as practically possible. However, an endowed Fund established with assets other than cash, cash equivalents, and readily marketable securities (e.g. real / immovable property, tangible personal property, etc.) is allowed to make distributions from the endowed Fund to the extent that the fair value of the endowed Fund exceeds the historic dollar value of the Fund and there are assets available to be distributed in kind or can be liquidated.

Adherence to provisions of UPMIFA

In utilizing the appreciation in value of an endowed Fund for distributions, CFA follows the provisions of the Louisiana Uniform Prudent Management of Institutional Funds Act of 2010 (the "Act"); in the event that there is any conflict between the explanation above and the provisions of the Act, the provisions of the Act overrule. A copy of the Act is available at the office of CFA.

Reporting to Donor

Quarterly financial reports, reflecting ordinary income and principal changes, for each Fund are sent to the Fund advisors to keep them apprised of the status of their fund(s).

CFA Fee

Each Fund is assessed an administration fee based on the average value of the endowed Fund each month, to cover the cost of overall operations of CFA. A detailed description of the fee is outlined in

CFA's Administrative Fee Schedule. Performance of each fund will be reported net of investment and custodial fees. For Funds established during a quarter, these fees are prorated. .

Three alternatives for distributable amounts (delay distribution, immediate distribution or add to principal)

For Endowed Funds making annual distributions, funds must be on deposit for four (4) full quarters before disbursements are made. Ordinary income and corpus changes are calculated quarterly.

Distributable amounts for which cash is available for distribution may be:

- to the principal of the Endowed accumulated for later distribution; or
- distributed currently; or
- added to the Fund as accumulated income, available for distribution, in total or in part.

Amounts added to principal thereafter are included in the Historic Dollar Value of the Endowed Fund and may be paid out only as set forth above.

Distribution rate stated annually by board

At its last meeting of each year, the Board of Directors of CFA establishes the distribution (spending) rate of Endowed Fund for the following year. If an Endowed Fund is near or below its Historical Dollar Value, the payout may be below the stated distribution rate. CFA anticipates that Endowed Funds will make distributions ranging from 2% to 5% annually, net of fees. This distribution range considers inflation factors. In extreme market conditions, the CFA Board may opt to suspend distributions to maintain fund value.

The distribution amount is stated as a percentage of the 12-quarter rolling average of each Endowed Fund's value measured as of the end of the September quarter. A newly established fund (with fewer than 12 quarters) uses the quarterly rolling average from its inception. When using a Total Return spending methodology, the smoothing effect of using a 12-quarter rolling average of market values offers a more predictable grant stream.

Distributions made of income & appreciation

Endowed Funds are permanently endowed so that distributions are made only of:

- the income (interest and dividends) less CFA's administrative fees; and
- the net appreciation (realized and unrealized) in the fair value of the assets of the Endowed Fund in excess of its Historical Dollar Value.

These two components are taken into account in determining the amount available for distributions from an Endowed Fund.

Distribution examples in various markets

		Good Market	Fair Market	Poor Market
1	Historical Dollar Value	\$100,000	\$100,000	\$100,000
2	Current Year Income	\$3,000	\$3,000	\$3,000
3	Net Appreciation or (Depreciation)	\$17,000	\$1,000	(\$5,000)
4	12 Quarter Rolling Average	\$120,000	\$104,000	\$98,000
5	5% Distribution Goal ¹ (#4 x 5%)	\$6,000	\$5,200	\$4,900
6	1% CFA Fee ¹ (#4 x 1%)	\$1,200	\$1,040	\$980
7	Income Distribution (#2 - #6)	\$1,800	\$1,960	\$2,020
8	Distribution of Appreciation above HDV (#5 - #7) ²	\$4,200	\$1,000	\$0
9	Net Allowable Distribution using UPMIFA (#7+ #8)	\$6,000	\$2,960	\$0
10	Remaining Fund Value (#4 - #6 - #9)	\$112,800	\$100,000	\$98,000

1. The percentages used are for illustrative purposes and may not reflect the current actual percentages. The actual percentages are elsewhere in this document and in the current fee schedule document.
2. The distribution of net appreciation (principal) can be any amount that would not bring the remaining fund value below its Historical Dollar Value.
3. The example assumes the donor(s) have elected to not allow Historical Dollar Value fall below the initial \$100,000 donation.