The St. Augustine Preparatory School Spending Policy

Covers: All board members and employees of St. Augustine Preparatory School involved with the investing and spending of funds.

Purpose

To establish a set of guidelines to govern the rationale for the spending policy of endowed funds. The goal of the spending policy is to preserve the principal of the endowed assets and provide a formula for determining annual spendable funds available for use.

Introduction

In 2009, New Jersey adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), replacing the 1975 Uniform Management of Institutional Funds Act (UMIFA). Both UPMIFA and UMIFA provide rules for how certain charitable institutions should make investment decisions for both their endowment and non-endowment assets. This Act provides guidance for how to preserve an endowed fund's principal, while still providing spendable annual income.

Therefore, it is vital for an institution to establish an investment policy and spending formula for endowed funds that allow it to act prudently to preserve the "historic dollar value" of an endowment, representing the fund's value at inception, while providing spendable resources. As stated by the National Association of Independent Schools, "… most institutions do not base their spending on annual income or appreciation. Instead, most institutions have a spending policy that permits them to spend a percentage of the trailing value of a fund over a set period of time."

According to the 2020 National Association of College and University Business Officers (NACUBO) NACUBO-TIAA Study of Endowments, the average annual Net Rate of Return on investments for U.S. College and Universities Endowments between 2016-2020 was 5.2% (high of 12.2% in 2017 and a low of -1.9% in 2016), with an annual average inflation at 2.6%.

St. Augustine Prep will take a reasonable and growth-focused stance and adopt a 3% spending policy.

Spending Formula

St. Augustine Preparatory School will use a spending formula that is based upon a percentage of the market value of the endowment. The annual spending rate for each applicable fund will be an amount up to three percent (3.0%) of the average market value of the endowment over the trailing twelve (12) quarters.

Distributions for funds in existence less than the applicable trailing quarters will be calculated based on the number of available quarters, with no less than four available quarters. The exact annual distribution amount will be recommended by the Finance Committee for full Board review.

In the event the annual spending rate calculation is higher than the accumulated investment income, it is recommended only the amount equal to the accumulated investment income will be distributed.

Benchmarks

The Chief Advancement Officer will periodically present to the Finance Committee publications from the National Association of Independent Schools, Council for the Advancement and Support of Education (CASE), the National Association of College and University Business Officers (NACUBO), and USA Today, among others, that study and report on benchmarks related to endowments and spending.

Spending Oversight

Spending allocations will be applied consistently with the underlying mission to provide support for institutional priorities under the direction of the school Board. The distribution or spending of the aggregate amount is guided by the individual endowment agreements first, and then the balance is determined by the Finance Office. Advancement employees will provide detailed reports on endowment values and proposed spending allocations.

The proposed spending of allocations shall be presented annually to the school Board.

Draft Prepared by: Nick Sena 3.9.21