

## **Spending Policy**

### **Lowell Observatory Foundation**

Originally adopted, February 2016

Amended, July 2017

The Lowell Observatory Foundation (the “Foundation”) recognizes the establishment and consistent application of a Spending Policy, in conjunction with its Statement of Investment Policy, is essential to the long-term success of the Foundation, the support of the Lowell Observatory, and the performance of the Foundation’s funds, including its various endowment funds. In furtherance of these objectives, the Foundation has adopted this Spending Policy, which shall apply to all Endowment Funds held by the Foundation subject to the intent of the donors expressed in the applicable Gift Instrument. It shall also apply to any unrestricted Board designated funds which are intended by the Board to function as an endowment fund until possibly changed by future Board action.

#### **I. Purpose**

This Spending Policy is intended to establish reasonable and prudent standards and guidelines for expenditures from Endowment Funds on an annual basis to support the Foundation’s missions and purposes.

#### **II. Definitions**

“Endowment Fund” means any Foundation fund or part thereof that, under the terms of the Gift Instrument is not wholly expendable by the Foundation on a current basis.

“Gift Instrument” means a record or records, including an institutional solicitation, under which property is granted to, transferred to or held by the Foundation as an Endowment Fund.

“Temporarily Restricted or Term Endowment Fund” means an Endowment Fund established for a limited period of time or until a certain event has occurred. When the term ends (or the specified event has occurred), the remaining corpus may be spent in accordance with the terms of the Gift Instrument.

#### **III. Management of Charitable Funds Act**

Arizona’s Management of Charitable Funds Act (the “Act”) governs expenditures from the Foundation’s Endowment Funds. The Foundation shall comply with the Act, as it may be amended from time to time, in all decisions relating to the expenditure of Endowment Funds. The Act permits the Foundation to appropriate for expenditure or accumulate so much of any Endowment Fund as the Foundation determines is prudent for the uses, benefits, purposes, and duration for which the applicable Endowment Fund was established, subject to the intent of donors expressed in the applicable Gift Instrument.

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The Foundation is required when making a determination to appropriate or accumulate funds to act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and to consider, if relevant, the following factors:

1. The duration and preservation of the Endowment Fund.
2. The purposes of the Foundation and the Endowment Fund.
3. General economic conditions.
4. The possible effect of inflation or deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The Foundation's Statement of Investment Policy

The Foundation shall maintain contemporaneous records documenting its consideration of each of the above factors.

#### **IV. Use of Funds**

The Board of Trustees of the Foundation shall be responsible for all decisions to appropriate for expenditure funds from an Endowment Fund.

All decisions regarding expenditures of Endowment Funds that are restricted as to purpose pursuant to a Gift Instrument must comply with such purpose restrictions in the Gift Instrument. If the Gift Instrument does not restrict expenditures to a particular purpose, expenditures may be used for any purpose of the Foundation.

The Foundation's authority to appropriate for expenditure or accumulate funds under the foregoing paragraphs will not be limited by a donor unless the donor specifically states such limitation in the Gift Instrument.

The terms of a Gift Instrument that:

- Designates a gift as an "endowment;" or
- Contains direction or authorization to use only income, interest, dividends or rents, issues or profits; or
- Directs the Foundation to preserve the principal intact; or
- Contains words with similar import to any of the foregoing,

do the following:

1. Create an Endowment Fund of permanent duration unless other language in the Gift Instrument limits the duration or purpose of the fund.
2. Do not otherwise limit the authority to appropriate for expenditure or accumulate funds pursuant to this policy.

## **V. Calculation Method for Expenditures**

Calculation of the amount of any expenditure from the Foundation's Endowment Funds shall be made in accordance with this paragraph. The amount of funds allocated for expenditure for the purposes for which an Endowment was established will equal four percent (4%) of the value of such individual Endowment Fund (the "Spending Allocation"). The value of each fund will be calculated annually by averaging the market value of each fund at the end of each of the twelve previous calendar quarters (the "Valuation Period"). If a fund has been in existence for less than twelve calendar quarters, the valuation shall be based on the number of quarters it has been in existence. The resulting amount determined will then be available for distribution to the Observatory for the subsequent calendar year. Based on no less than an annual review by the Foundation's Board of Trustees, the Spending Allocation may be increased or decreased at the discretion of the Board and based on their consideration of the factors previously described in this document. The Board of Trustees must explicitly approve any changes in the Spending Allocation. Such decision shall also be communicated to the Sole Trustee, Director and Advisory Board of the Lowell Observatory.

Expenditures at the Spending Allocation rate may be made regardless of whether an Endowment Fund has sufficient current period and/or accumulated net investment returns to support such allocation; provided that the Foundation has determined that such expenditures are prudent for the uses, benefits, purposes and duration for which the Endowment Fund was established.

## **VI. Large Gift Exception**

In the event the Foundation receives a lump sum contribution to an Endowment Fund that exceeds \$500,000 (a "Large Gift"), the Foundation may elect to include the amount of such Large Gift within the Valuation Period for purposes of establishing the authorized expenditures amount as follows: One hundred percent (100%) of the Large Gift would be included in the market values of the three (3) quarters of the Valuation Period immediately preceding the quarter during which the Large Gift was received, sixty seven percent (67%) of the value of the Large Gift would be included in the market values for the four (4) quarters of the Valuation Period preceding the three quarters adjusted as just described, and any and all remaining quarters being utilized in the Valuation Period other than the seven (7) quarters adjusted pursuant to this paragraph would be adjusted by including thirty three percent (33%) of the Large Gift to those remaining quarters of the Valuation Period. It is anticipated that for budgeting purposes, the Valuation Period described above will end at the close of the third quarter of each calendar year. Therefore, if a Large Gift is received after the end of the third quarter but prior to the end of the

calendar year, the Foundation may also elect to allocate a partial year Spending Allocation amount for that Large Gift to be distributed to the Observatory for use in the subsequent calendar year. Any such adjustment would be made consistent with the Spending Allocation being currently applied.

## **VII. Temporarily Restricted or Term Endowments**

In the event the Foundation establishes, or a Gift Instrument creates, a Temporarily Restricted or Term Endowment Fund, the Foundation shall comply with the spending allocation rules established by the terms of such Temporarily Restricted or Term Endowment Fund and applicable Gift Instrument in lieu of the Spending Allocation set forth above, or if no spending allocation rules are so established, shall comply with the Spending Allocation set forth above until the term or period of such Temporarily Restricted or Term Endowment Fund expires.