Endowment Management Policy

The University's endowment exists to support the institutional mission and operations of the University over the long-term and to support University programs and activities such as financial aid and faculty chairs.

This policy establishes the requirements for the University's accounting and administration of endowment funds, including the spending policy. This policy describes the University's interpretation of relevant accounting standards and applicability to the organization.

Definitions

A. **Donor-restricted endowments** are funds established in accordance with donor restrictions to exist and maintain their value in perpetuity. Under the Uniform Prudent Management of Institutional Funds Act, the original value of the gift can be invaded, subject to certain rules, principally prudent spending. Donor-restricted endowments are subject to the University's gift acceptance, endowment investment and endowment management policies unless otherwise documented in a valid gift agreement. These funds are classified as net assets with donor restrictions.

B. **Quasi-endowments** (sometimes called "board designated funds functioning as endowment") are funds that are voluntarily created by the Board of Trustees from unrestricted funds that function like an endowment, but without any legal or donor restriction to hold the fund in perpetuity. Thus, the principal and any accumulated earnings may be used at the direction of the Board of Trustees. Board of Trustees approval is required to both establish funds as quasi-endowment and to remove such designation. Quasi-endowments follow the University's endowment spending policy. Quasi-endowments are classified as part of *net assets without donor restrictions*.

C. **Donor-restricted expendable gifts** represent gifts provided to the University for a specific purpose, typically but not necessarily, to be spent within a defined period of time. The cash is invested with the University's working capital in accordance with the cash management strategy. These funds are not allocated earnings or losses, because the intent is to expend the gifted funds in the near term in accordance with donor intent. Any exceptions must be approved by the Vice President for Finance & Treasurer, and it is expected that such approval will be granted only rarely. Donor-restricted spend-down gifts are not subject to the endowment spending policy and shall be subject to applicable operating or capital budget policy. Donor-restricted spend-down gifts are classified as part of *net assets with donor restrictions*.

D. Other invested University fund balances may be invested along with donor-restricted endowments and quasi-endowments in the investment pool until the funds are needed for operations or capital requirements of the University. These funds are not subject to the endowment spending policy. Instead, they are managed via the operating budget or capital budget approval process. From time to time, and upon approval by the Board of Trustees, the University may elect to make special distributions using these funds. These funds are classified as part of *net assets without donor restrictions*.

E. The **investment pool** is the collective investment of donor-restricted endowments, quasi-endowments and other University funds in accordance with investment guidelines established by the Board of Trustees. Funds included in the investment pool carry no donor constraint on how monies may be invested, unless otherwise imposed by the respective donor as to how such gift proceeds should be invested. Each fund balance invested in the investment pool receives its proportional share of the pool's earnings, similar to the mechanics of a unitized mutual fund.

F. A **separately invested endowment fund** is a fund that the donor requires be invested in a specific type of investment and/or is prohibited to be pooled with other funds. Intended to be a rare exception and generally discouraged due to added expense, a separately invested endowment fund may be established when a donor requires use of a particular investment manager or asset allocation. Since a separately invested endowment fund is more expensive to administer, its establishment requires approval from the Vice President for Finance & Treasurer.

G. **The Uniform Prudent Management of Institutional Funds Act** ("UPMIFA") provides guidelines for endowment investment management, spending rules and financial reporting. The Board of Trustees interprets UPMIFA as requiring the University to manage and invest donor-restricted endowment funds in good faith and with prudence. Consequently, the University classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Appreciation on the historical value of endowment funds is subject to appropriation for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA.

Unitized Pool

Contributions to an endowment that meet the thresholds, and any subsequent gifts to an endowment, will receive a number of units based on the market value of the investment pool in the year that the gift is made. Those units will be used to allocate earnings and losses to the fund. Earnings are distributed to funds in June of each year. Any gift received before November 30th will receive an allocated distribution the following June. Gifts received after November 30th will not receive distribution until the year following the next distribution. For example, an endowment fund created by a donation received on November 15, 2020 will receive earnings to spend in June, 2021 and each year thereafter. An endowed fund created by a donation received on December 30, 2020 will receive earnings to spend beginning in June, 2022 and each year thereafter.

Spending Policy and Calculation of Payout Distributions

To satisfy its long-term performance objectives, the University relies on a total return strategy in which investment returns are achieved through both current yield (interest and dividends) and capital appreciation (realized and unrealized).

This endowment spending policy determines the annual flow of funds from the endowment to mission support via the operating budget. It endeavors to adhere to the standard of prudence prescribed by UPMIFA; provide a predictable stream of operational funding to programs supported by endowments; and seek to maintain the purchasing power of endowment assets. Therefore, it is intended that the long-term average annual spending shall not exceed the expected long-term inflation-adjusted total return of the endowment assets.

Donor-restricted endowments are intended to be maintained in perpetuity, with capacity to spend derived from investment proceeds. Since a gift must be invested over time to produce spendable earnings, spending from newly established endowments will not occur immediately.

The University calculates its payout distributions once each year. Achievement of all restrictive stipulations to which a gift is subject (*e.g. minimum dollar threshold or donor-imposed requirement*) prior to the calculation date shall render the endowment eligible to participate in allocation of payout. If all such restrictive stipulations are first satisfied at any time following the annual calculation, the endowment will be eligible for payout in the next annual calculation.

Each year, the University appropriates for distribution a percentage of the average market value of the investment pool over the prior twelve (12) quarters, six (6) months in arrears.

For example, the FY21 distribution made June 1, 2020 is calculated using the average of the investment pool's market value as of November 30, 2019 and the eleven (11) prior quarters.

The distribution is allocated to each fund based on the proportion of units that fund has.

Payout distribution is allocated annually to each endowed fund on the 1st day of each fiscal year (June 1st). Once this allocation is made, the resulting payout is separated from the investment pool and no longer accumulates earnings or losses.

The University considers these endowment management practices to comprise a critical component of providing operational financial support for achievement of its mission. Where this policy is found to be willfully and knowingly violated by departmental fund managers, penalties may be assessed against the department's operating budget or unrestricted fund balances at the discretion of the Vice President for Finance.