

## SECTION 6. Finance and Investment

### 6.3 Endowment Policy

This Endowment Policy shall supersede all prior versions of the Endowment Policy of The University Foundation, California State University, Chico (The Foundation) and shall be effective upon the date approved by the Board of Governors in a duly noticed meeting with a quorum present as indicated in the minutes of the meeting at which it was approved.

#### 6.3.1 Purpose

The Foundation establishes and manages endowment funds. The objective is to ensure that each contribution fulfills the donor's intent while complying with accounting and legal requirements as well as the Foundation's policies as approved by the Board of Governors.

Endowment funds help to assure the long-range financial security of the Foundation and the University. Because it is critical to maintain the highest standards of stewardship over a long-time horizon, and in consideration of the generosity and commitment of donors, the Endowment Policy is revised from time to time. This helps to avoid unforeseen issues for long-term holdings and allows the Foundation and the University to fulfill its promise to the donor to manage funds wisely.

As financial markets change, it is important to review and realign policy. A minimum gift of \$25,000 is currently required to establish an endowment. The gift may be cash or a gift pledged over time totaling at least \$25,000, provided it is fully funded within a period that does not exceed five years.

Endowment funds are comprised of special asset classes held by the Foundation. The terms for these asset classes may vary based on whether the classes are described in the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") or in Generally Accepted Accounting Principles ("GAAP"). Both accounting requirements and legal rules govern endowment funds. Asset classes are described below in Section IV.

#### 6.3.2 Assets covered by the Endowment Policy

California adopted revised rules governing institutional funds in 2009, effective as of January 1, 2009 for existing and new funds, referred to generally as UPMIFA. Endowment funds are one type of institutional funds governed by this law. An endowment fund is one that, under terms of a gift instrument or agreement, is not wholly expendable on a current basis. This provides for permanent and term endowments as defined in section IV below.

Certain assets are specifically excluded from the definition of institutional funds, and therefore are not endowment funds: program-related assets (assets used in the charitable program), funds held by a third-party trustee (aside from another institution or another charity), and a fund where a beneficiary (not an institution) holds an interest, such as a charitable remainder trust while the income beneficiary is still receiving payments. Consequently, these three classes are not affected by this endowment policy.

All other types of funds described in Section IV are covered by this policy.

### **6.3.3 Alignment with UPMIFA, GAAP and CASE Guidelines**

This policy is intended to comply with and be administered under the UPMIFA rules as provided in the California Probate Code section 18501-18510. These provisions specifically provide for management and investing of the funds as well as appropriation (spending) or accumulation. They also provide mechanisms for modification of funds where necessary.

GAAP rules are followed consistently in order to comply with audit requirements for financial statements.

CASE (Council for Advancement and Support of Education) Reporting Standards and Management Guidelines (4th Edition, 2009) are also adhered to in the management of endowment funds.

### **6.3.4 Terminology and Definitions**

#### **a. Permanent Endowments**

Assets held as endowment funds vary by classification. Permanent endowments are “permanently restricted funds,” better known in common parlance as “true endowments”, which means the donor has set forth specific restrictions to last in perpetuity.

#### **b. Term or Temporary Endowments**

“Temporarily restricted fund” means the donor has restricted the funds in some temporal manner. Thus, an endowment fund may be designed to last for a set number of years, and then released to become an unrestricted fund. In other provisions, the donor may allow interest, gain and principal to be appropriated, or amortized, over time until the fund is fully expended. A third usage of temporary restriction is to restrict not only the fund to endowment, but also its distribution to a specific use or program.

#### **c. Quasi-Endowment**

Quasi-endowment, or the accounting term “funds functioning as endowment,” means that the institution imposed a restriction upon itself, calling a fund quasi-endowment. However, UPMIFA and GAAP rules specifically state that the term endowment fund

does not include assets an institution designates as endowment for its own use. Consequently, quasi-endowment funds are actually unrestricted funds the Foundation chooses to treat as an endowment.

### **6.3.5 Investment of Endowment Funds**

All types of endowment funds, including quasi-endowments, will be invested in accordance with the University Foundation's approved Investment Policy.

In accordance with standards required by UPMIFA, subject to the intent of the donor expressed in a gift instrument, and in compliance with the institution's duty of loyalty expressed in UPMIFA, the endowment funds will be managed and invested in good faith and with the care an ordinarily prudent person would exercise in similar circumstances.

Gifts intended for endowment that are non-income producing in-kind or illiquid assets will be managed separately while illiquid. All illiquid assets designated to fund an endowment will be sold as soon as prudent and possible, and the net proceeds after the sale will then be included in the endowment investment pool subject to the Investment Policy. While illiquid or non-income producing, all assets will be valued annually to determine fair market value.

### **6.3.6 Spending Policy**

#### **a. Purpose of Rule**

The spending policy is part of the endowment policy and governs the distributions from all endowment funds. The intent of the spending policy is three-fold: to achieve consistency with regard to all three types of endowment funds addressed in Section IV, to balance the expenditures in order to preserve the funds' ability over time to support then current activities, and to enhance the value of the funds to extend their benefits to future generations.

#### **b. Components of Expenditure**

In accordance with UPMIFA, it is lawful to provide for distributions from principal, gain, whether realized or unrealized, and income (dividends, interest, rents, royalties). The Foundation may appropriate or accumulate so much of the funds as it determines prudent for the uses, benefits, purposes and duration of an endowment fund. To limit such authority to spend or accumulate, a donor must specifically state a limitation or restriction in the gift agreement. It is the intent of the spending policy to achieve consistency in the management of the numerous endowment funds and therefore the Foundation will not encourage variations from its spending policy on a per donor basis.

#### **c. Review of Dormant Accounts**

At least annually, and before annual distributions are made, endowment accounts will be reviewed for disbursement eligibility. Endowment accounts that are eligible for

disbursement but have had no disbursement activity in the prior year, even though they were eligible for disbursement in the prior year, will be identified, researched, and the resolution is documented. The methods for addressing endowment accounts that need modification or termination are contained in section 6.3.9 Modification or Termination of a Fund.

d. **Spending Rate**

The distributable amount for fully funded endowments each year are based on four percent (4%) of the average of the market values on June 30th for each of the three consecutive years, *fig. 1 (A)* preceding the year before, *fig. 1 (B)* the fiscal year in which the distribution is to be made *fig. 1 (C)*. For accounts with less than three years of preceding June 30 balances, calculation will be modified to average two years or to use a one-year balance as appropriate to that endowment account.

**Fig 1**

	(A)			(B)	(C)
	AVERAGE				Distribution
YEAR	1	2	3	4	5

In general, the four percent amount distributable in accordance with the set spending rate will be composed first from realized total return, and if insufficient, from principal, unless principal usage is specifically prohibited by a donor’s written direction.

Income and gain in excess of the distributable amount as defined in this spending policy shall be added back to the fund to be reinvested for growth and to preserve and enhance the value of the fund.

The reinvested amounts will be identified as spending reserves and to the extent that a current year’s investment total return is insufficient to meet the spending rate, the reserves may be drawn upon for distribution.

For quasi-endowments, the reserve will be added to principal of the fund and such enhanced principal will be expendable in accordance with the governing resolution of the quasi-endowment fund or the direction of the Board of Governors.

e. **Quarterly Allocation**

Financial results (total return on investment) of the endowment investment pool will be allocated on a quarterly basis to individual endowment accounts based on the value an individual endowment account bears to the value of the total endowment pool. (This is calculated using the individual endowment’s share of the endowment pool at the beginning of the quarter. For earnings allocation purposes, gifts received during

the quarter will be considered to be received at the beginning of the quarter.) This percentage shall be applied to total earnings and such portion of earnings shall then be allocated to the individual endowment account.

f. **Illiquid Assets Held as Endowment**

No distribution will be made from illiquid assets held in endowment until the assets are liquidated, are added to the endowment investment pool, and therefore become income producing. However, if illiquid assets are producing net income after administrative expenses, distributions may be made from the income of the asset.

Income earned on illiquid assets held as endowment may be distributed in accordance with a donor's expressed, written intent in the gift agreement, or by approval of the Board of Governors if no intent was expressed by the donor in the gift agreement.

g. **Pledged Amounts Where Endowment Fund is Not Yet Completed**

A donor may establish a named endowment fund by providing pledged gifts for up to five years totaling the threshold amount of \$25,000. However, for endowments that have not yet reached the threshold amount, no distributions will be made. See also, Section VIII on Administration of Funds.

### **6.3.7 Assessment of Fees**

a. **Fees Assessed**

All endowment accounts in the endowment pool are subject to fees assessed quarterly at the end of the quarter at the rate of 1.75% annually (0.4375% per quarter) of the market value of the endowment account. The assessed fee shall be a priority distribution and shall be distributed to the general fund of the University Foundation. All donors to endowment funds shall be notified in writing of this fee assessment.

b. **Illiquid Assets**

Illiquid assets that are not yet part of the endowment investment pool are not subject to this fee assessment. Disposition costs for illiquid assets will be charged as direct costs to the endowment account, as agreed upon in the endowment gift agreement.

c. **Pledged Funds**

Funds pledged to create an endowment over time that have not yet reached fulfillment and launched as an endowment will be assessed this fee on pledge payments to date. Actual payments on pledged endowments participate in the investment pool and receive quarterly allocated distributions of earnings. At the time of the pledge fulfillment the endowment will be reviewed to verify that fees applied to pledge payments have not exceeded investment earnings on pledge payments. Should fees exceed earnings the endowment will be credited back previously charged endowment fees.

### 6.3.8 Administration of Funds

#### a. New Accounts

New endowments have a \$25,000 minimum funding requirement. Endowments created prior to the adoption of this revised policy will be “grandfathered” and not subject to the new threshold requirement.

#### b. Endowments Pledged Over Time

All pledged endowment accounts being funded over time shall not be operated as an endowment until they reach \$25,000- in book value. This requirement shall be expressly included in the gift agreement. The establishment of the endowment account is contingent upon meeting the \$25,000 funding minimum. An account that has not reached minimum funding by the end of the pledged period (or by the maturity of the deferred gift or bequest) shall not be established as an endowment and shall be reviewed by the Board of Governors or its delegate. If the donor is able to complete the funding within a time approved by the Board of Governors or its delegate, the fund may still be able to be established as an endowment.

Such review may conclude, however, that an alternate use for the distribution from the fund may be made with the written consent of the donor, where available. If the donor is unavailable, no longer competent or is deceased, the Board of Governors or its delegate may redirect the usage of the incomplete fund. Attempts to notify the donor or his/her representative shall be made prior to redirection.

#### c. Group-Funded Endowments

Group-funded endowments have more than one donor and may have an open-ended target value. When the funding reaches the \$25,000 minimum book value, the endowment is active and becomes eligible for distributions in accordance with policy unless otherwise specified. Book value is defined as the sum of cash gifts received and does not include pledges.

### 6.3.9 Modification or Termination of a Fund

- a. In general, the Foundation may seek to modify a restricted gift if the restriction has become unlawful, impracticable, impossible to achieve, or wasteful. Such modification or release of restriction shall be done in a manner consistent with the provisions of UPMIFA. If the donor is alive, the Foundation will seek written consent of the donor to modify or release the restriction on the fund. With the donor’s written consent, the Foundation may modify or release a restriction without court approval.

If the donor is not available to provide written consent, a restriction may be modified upon petition to court.

b. Endowments With No Further Purpose; Unusable Funds

Where the stated purpose or use of the fund, or the investment or management of the fund, as provided in the gift instrument, is no longer achievable due to it being unlawful, impracticable, impossible to achieve, or wasteful, the Foundation may petition the court, with notice to the Attorney General, to modify the purpose in a manner consistent with the stated purpose, or modify the investment to further the purpose of the fund.

c. Endowments with Insufficient Funds

Where the Foundation determines that a restriction in a gift instrument on investment, management or purpose is unlawful, impracticable, impossible to achieve, or wasteful, and 1) the fund is valued at less than \$100,000, 2) is more than 20 years old, and 3) the Foundation can use the funds in a manner as near as possible to the stated purpose or restriction, the Foundation may give written notice to the donor, if alive, at his/her last known address, and to the Attorney General that it intends to modify or release the restriction. After a 60-day notice to the Attorney General, the Foundation then may release or modify the restriction. This modification shall be done pursuant to the provisions of Probate Code section 18506(d) without court approval.

d. Endowments Where Gift Agreement Allows for Modification

In some events, a donor may include an “escape clause” or a “cy pres” clause in the gift instrument, allowing the Board of Governors or its delegate to modify a stated purpose to determine another purpose as similar as possible that is usable by the Foundation or University. In these cases, the Foundation will not seek court approval as the gift agreement controls the modification.

### **6.3.10 Restatement of Endowment Policy**

This Endowment Policy is subject to the supervision of the Board of Governors and may be revised at any time.

***Original Board Approval and Effective Date: June 25, 2020***

***Date of Last Review: June 21, 2024***