UNC Foundation – Endowment Policy

Subject:	Endowment minimum, earnings allocations, Foundation fees, distributions, and unspent distributions
Effective date:	7/1/2017
Approval date:	5/12/2017 by Board of Directors
Revision date:	11/30/2018 by Board of Directors
Submitted by:	Eileen Erickson, Director of Accounting

PURPOSE

To document the policy for process, rates and amounts related to endowment minimum, endowment earnings allocations, foundation management fee, distributions, and unspent distribution amounts for endowments held by the UNC Foundation.

PROCESS AND SUPPORT

Cash and convertible asset donations into an endowment corpus are applied to the applicable endowment fund when they are received by the Foundation.

Endowment minimums at the date of this policy are:

Endowment	$25,000
Quasi-endowment	$25,000

Once amounts totaling the minimum endowment threshold have been received by the Foundation, investment earnings are applied. Investment earnings as used in this policy include both income (dividends and interest) and appreciation (realized and unrealized capital gains/losses) net of money manager fees, foreign tax withholdings, and unrelated business income taxes. Earnings allocations begin in the quarter following the quarter that the minimum level is reached. In that and each subsequent quarter, earnings are allocated based on the balance in each endowment's corpus as of the beginning of that quarter (a gift agreement must be fully executed no later than the end of the allocation quarter to receive earnings allocations). Example:

> *If the minimum threshold requirement was met between 1/1/XX and 3/31/XX, and a gift agreement is fully executed by 6/30/XX, the endowment will receive its first earnings allocations for the quarter which begins 4/1/XX, based on the balance of the fund as of 3/31/XX.*

Newly established endowments will be allocated earnings for one complete fiscal year before the first distribution is made. This is to enable the endowment to accumulate investment earnings prior to the distribution taking place, to reduce the potential of contributing to an underwater scenario.

The Foundation makes payments for the benefit of University of Northern Colorado students or programs from the endowed funds according to a distribution rate (also known as a payout rate). This

is in compliance with the Colorado Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). The Foundation's Board of Directors establishes the distribution rate and reaffirms it annually. The distribution rate is the same for all endowments unless an endowment is considered to be "underwater" or is otherwise established by the Foundation's Board of Directors. An endowment is considered underwater if the fair market value (measured each fiscal year-end) drops more than 1% below the sum of all gifts to the endowment corpus. The distribution rate is multiplied by the three-year moving average of the fiscal year-end market value of each fund. For newly established endowments, if the fiscal year ends prior to the minimum threshold being met, the endowment is considered to have a zero fair market value for purposes of calculating the three-year moving average. Example of the effect:

> *The first year of distribution for a newly created endowment will be 1/3 of the distribution rate, the second year is 2/3 of the distribution rate, and the third year will be the full distribution rate.*

This enables the endowment to accumulate earnings allocations prior to experiencing the full load of a distribution.

In compliance with UPMIFA, the Foundation makes prudent investment and distribution decisions to attempt to ensure the perpetuity of its endowments. Any distribution rate in excess of the Foundation's policy jeopardizes that perpetuity. Therefore, only in the case of quasi-endowments may the distribution rate be increased above this policy.

Quasi-endowments (sometimes called term endowments) are those purpose-restricted gifts that are intended to be maintained in perpetuity or to be spent over a specified time period, usually several years; however, under specific circumstances defined by the donor, the principal may be invaded fully to meet the defined purpose. Quasi-endowments require a minimum term of 5 years and are allocated investment earnings after reaching the minimum. The quasi-endowment agreement stipulates either what the distribution rate is, or if the distribution rate can be modified at the discretion of the Foundation's Board of Directors, or if the quasi-endowment's legal representative may modify the distribution rate. The majority of the Foundation's quasi-endowment agreements stipulate that the distribution rate may be modified at the discretion of the Foundation's Board of Directors.

Distribution rates at the approval date of this policy are:

Endowments	4.00%
Underwater endowments	1.00%
Quasi-endowments	4.00% *(unless otherwise provided)*

The Foundation applies an annual management fee to all endowment, quasi-endowment, and charitable gift annuity funds. The Foundation's Board of Directors establishes the fee and reaffirms it annually. Fees will not be applied to funds that have not yet reached the minimum endowment level. On an exception basis, with approval of the Foundation's Board of Directors, a gift agreement may provide for a specified fee other than the fee established by the Foundation Board of Directors.

Foundation management fee rates at the approval date of this policy are:

Endowments valued equal to or greater than $1 million	1.25%
Endowments valued less than $1 million	1.75%
Quasi-endowments and charitable gift annuities	1.75%
Underwater endowments	1.00%

When applying the $1 million threshold for fee calculations, the greater of original gift value (sum of all gifts to the corpus) or fair market value will be used each quarter.

Earnings allocations that exceed the sum of distributions and management fees during a fiscal year are allocated to principal, thereby increasing the value of the endowment. If the earnings are less than the amount needed for distribution and management fees, the value of the endowment is reduced.

At the end of each fiscal year, the University may not have fully spent the amount distributed for use. This portion of the policy governs funds with an endowment agreement which states it is Foundation discretion to either keep this amount available for use ("keep in spendable") or return it to the corpus. In cases where the balance of the spendable fund is above $50,000, the Foundation will discuss with the University their specific spending plans to utilize this donor money and then make a determination whether to maintain the funds in spendable or return to corpus. Unspent amounts at 6/30 which were distributed to spendable that same fiscal year may be returned to permanently restricted, and unspent amounts at 6/30 which were distributed in a prior fiscal year remain temporarily restricted. In the latter situation, the unspent amounts may remain spendable by the University, or become part of the corpus to accumulate earnings, however both of these are presented in the audited financials as temporarily restricted.

RESPONSIBILITY and AUTHORITY

It is within the authority of the Foundation's Board of Directors (Board) to change this policy at any time, except for the endowment minimums which are established in collaboration with the University. It is the responsibility of the Board to evaluate and reaffirm or change the distribution and foundation management fee rates at least annually. As this policy is changed, an update to the endowment gift agreement templates should be considered as well.