Idaho State University Foundation

Policy V E Endowments and Endowment Spending

ENDOWMENTS AND SPENDING POLICIES

1. Endowments

An endowment is established with a gift from the private sector, which comprises the corpus or principal of the endowment. The corpus is invested, and the income or the capital gain is used to fund a project or need. The corpus remains intact in perpetuity, thereby continuing to generate funds to be used by the institution. Endowments are divided into the following three categories:

a. Permanent endowments

Permanent endowments are sometimes referred to as "true" or "pure" endowments and are assets designated by the donor to be held in perpetuity. The corpus of these endowments may never be spent. Earnings and capital gains must be expended in accordance with the terms and conditions established by the donor. However, it must be recognized that the corpus may decline during unfavorable market conditions.

b. Term endowments

Term endowments are established when the donor specifies that the endowment shall terminate following a particular date or event and that the corpus of the endowment may be expended in accordance with the terms and conditions specified by the donor. Until the passage of the specific date or event, term endowments operate in a manner similar to permanent endowments with expenditures made in accordance with the conditions established by the donor.

c. Quasi-endowments

The University Administration may set aside certain institutional funds and provide to the Foundation to be maintained as endowments and will specify the use of the assets and spendable income, and set other terms and conditions relating to the fund. The University Administration may change the terms and conditions of the endowment or terminate the endowment.

2. Gifts to Establish Endowments

a. A written donative instrument should be provided for each new endowment fund established. This instrument would provide:
i. A statement providing that additions to the endowment from any other person or entity, unless prohibited, are made subject to the provisions of the donative instrument, and

ii. A statement that if, in the opinion of the Board of Directors of the Foundation, future circumstances change so that the purposes for which the endowment is established become illegal, impractical or no longer able to be carried out to meet the needs of Idaho State University or its Foundation, the Foundation Board may designate an alternative use for the endowment payout to further the objectives and purposes of Idaho State University, giving consideration to the donor's special interest as evidence by the original purpose of the endowment.

iii. In cases where an endowment is established pursuant to a solicitation letter or document sent to the donor or donors that may be used as the instrument to evidence the donor intent and purposes.

b. The Idaho State Board of Education and Idaho State University reserves the right to establish the amount required for a permanent endowment for the naming of a college, department or other unit or academic position (i.e. chairs, professorships, lectureships, and fellowships). Accordingly, in no case will the Foundation accept an endowment for the naming of a college, department or other unit or academic position to be established without prior approval of the President of the University or his designee.

c. All endowments are subject to a Board established annual management fee which is currently 1 ½ percent. This fee is to be reviewed annually as part of the budget process.

3. **Fiduciary Responsibility**

The Board of Directors of the Idaho State University Foundation has a fiduciary responsibility to comply with the restrictions imposed by the donors of endowment funds. The Directors also have a legal responsibility to ensure that the management of endowment funds is in compliance with all laws and regulations.

The primary and constant standard for making investment decisions for endowment is the "Prudent Person Rule" which states that the investment manager may trade and retain investments…"that standard of judgment and care that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment”.

4. **Donor direction of Investment Policy**

Without specific approval of the Foundation Board, no endowment shall be accepted in which the donor directs the investment transactions or holdings or may approve investment policy or strategy. The endowment fund shall be under the sole control of the
Board of Directors of the Foundation acting through its Investment Committee pursuant to its Investment Policies. Furthermore, it is the specific and strong preference of the Foundation’s Board of Directors that all endowment gifts are eligible for commingling for investment purposes with other endowment funds. This commingling permits enhancement of long-term investment programs, affords appropriate risk control through diversification, and provides for optimization of asset mix through time.

5. **Relative Fair Value of Endowments**

The value of each commingled endowment fund shall be calculated based upon its relative market value to the total market value of the endowment. Income under the policy statement's spending policy should be calculated on its relative portion of the applicable investment portfolio.

6. **Spending Policy for Endowments**

The Idaho State University Foundation Board of Directors recognizes the need for spendable income by the beneficiaries of the endowment funds under their custodianship. The following spending policy reflects an objective to distribute as much total return as is consistent with overall investment objectives, defined in its investment policies, while protecting the real value of the endowment principal.

The following definitions are used:

- An endowment should be excluded from the target distribution until the endowment has been established for one year.

- The target distribution of spendable income for each endowment fund will be between 3 to 6 percent of the average market value of the individual endowment for the preceding 12 quarters. The target annual distribution rate shall be 4.5 percent of the average unit market value. Should the Foundation’s spending formula suggest a different spending percent, the Foundation and the University will engage in discussions to determine the distribution percentage. Distribution shall be made monthly by removing the amount from the endowment to the restricted expendable classification, as soon as practicable, after the last calendar day of each month. This distribution amount shall be recalculated each year based on a 12 quarter rolling average.

Date of Board Approval: September 24, 2010

Person responsible for the periodic review of policy and submitting proposed revisions to the Board for approval: Board Executive Vice-President

Date of Last Review June 2010