Strafford

Presenting a live 110-minute teleconference with interactive Q&A

Non-Profit Endowments and ASC 958-205 (FAS 117-1): Compliance Challenges

Making Tough Decisions on Asset Classification and Disclosures

WEDNESDAY, JULY 13, 2011

1pm Eastern | 12pm Central | 11am Mountain | 10am Pacific

Today's faculty features:

Rhona Kwiram, Shareholder, **Clark Nuber**, Bellevue, Wash.

Neely Duncan, Senior Audit Manager, **Lane Gorman Trubitt PLLC**, Dallas

Brian Zygmunt, Senior Manager, **Crowe Horwath**, Chicago

For this program, attendees must listen to the audio over the telephone.

Please refer to the instructions emailed to the registrant for the dial-in information. Attendees can still view the presentation slides online. If you have any questions, please contact **Customer Service at1-800-926-7926 ext. 10**.

EXAMPLE

Valuation Policy for Long-Term Financial Assets

The valuation policy creates an objective, reasonable and consistent process for determining the value of the College's long-term financial assets held as public and private securities issued by individual entities; derivative securities; shares of mutual funds, trusts and other commingled vehicles; and units of limited partnerships. Many of these investments are difficult to value and multiple interpretations of value may exist. However, we consider the valuations provided by our fund managers and investment advisors to be reasonable and representative of fair value, absent specific information to the contrary.

We recognize that the valuations of most of our investment holdings have already undergone several stages of review and audit by the time we are informed of the valuation by the manager or advisor. Depending on the structure of the investment holding, these review stages may include investor advisory board (reviewing portfolio company valuations or audits), SAS 70 Reports for custodians, fund auditors (reviewing fund financial statements), and fund-of-fund auditors (again reviewing fund financial statements).

The College's investment consultants and accounting and investment staff members perform reviews of our investment holdings and manager-reported valuations. If necessary, we adjust the values of investment holdings on an ongoing basis. Any adjustments include documented reasons for any changes from the manager-reported values.

There are many steps and inputs to this ongoing review process. Some of the steps listed below may be unique to certain investment structures or vehicles:

1. Understand thoroughly the valuation-related components of every fund and account: valuation or pricing policy, status of ASC 820 compliance, name of auditor and other legal and administrative service providers.
2. Review monthly/quarterly investment manager reports.
3. Review fund audited financial statements or account reports, including K-1's, annually.
4. Maintain and document frequent communication with managers/advisors on investment status and performance and any issues affecting valuation.
5. If necessary, the manager's valuation is adjusted to conform to GAAP. For example, if a manager issues tax-based financial statements, the valuations will be adjusted to reflect fair value with full documentation. If a manager does not provide fair value documentation, an independent calculation of fair value is performed and supported with analysis and documentation

As part of our ASC 820 preparations, we have reviewed all fund and account valuation policies and procedures. Our conclusion from this review is that our managers have established standard valuation policies for marketable and non-marketable assets.

EXAMPLE Board of Trustees Investment Committee

Statement of Endowment Investment Policy

Revised for UPMIFA

The Statement of Endowment Investment Policy is intended to serve as an operating document to guide the investment activities of ________________. The Policy Statement:

- Describes the interpretation of the law(s) that underlies net asset classification of donor-restricted endowment funds
- Describes the policies for appropriation of endowment assets for expenditure,
- Determines the appropriate return objectives and risk level for the endowment,
- Establishes allocation ranges for asset classes and investment styles deemed suitable for the endowment to achieve the return objectives within the risk parameters,
- Determines prudent diversification of assets in the endowment portfolio,
- Defines responsibilities among the various groups accountable for guiding the investment process and supervising outside investment professionals, and
- Establishes a regular review process of the endowment investment activities.

1. Investment Philosophy

The endowment is a pool of assets that, as directed by restrictions of donors (permanent endowment) or decisions of the Board of Trustees (quasi endowment), is to be held in perpetuity for the benefit of the College and its ongoing programs. Consequently, the time horizon for endowment investing is extremely long. A key part of the College's long-term financial strategy is to develop and maintain a competitive advantage in its capital base, in particular the endowment. For a given level of risk, larger endowment growth provides additional resources that contribute to the College's fundamental mission.

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) was made law in Ohio (Section should be tailored to relevant state) effective June 1, 2009. Ohio's UPMIFA prescribes new guidelines for expenditure of donor-restricted endowment funds (in the absence of overriding, explicit donor stipulations). Earlier law focused on the prudent spending of the net appreciation of the fund. UPMIFA focuses on the entirety of a donor-restricted endowment fund, both the original gift and the net appreciation. The Uniform Prudent Management of Institutional Funds Act (UPMIFA) eliminates the historic dollar threshold below which a fund may not be reduced and clearly states it is the fiduciaries' main responsibility to ensure 'the duration and preservation of the endowment fund.

The Board's interpretation of UPMIFA is as follows:
The amount of the endowment that is classified as permanently restricted is the amount that must be retained permanently in accordance with the explicit documented stipulations of the donor or, in the absence of such stipulations, the amount the Board of Trustees determines must be retained

permanently consistent with the relevant law. The portion of a donor-restricted endowment that is classified in permanently restricted net assets is the original gift value plus the value of subsequent gifts to the endowment and it is not reduced by losses on the investments, except to the extent required by the donor, or by appropriations from the endowment fund. The accumulated portion of a donor-restricted fund that is not permanently restricted is considered to be temporarily restricted until appropriated for expenditure. Appropriation is deemed to have occurred upon approval of expenditure. This approval occurs when the annual operating budget is approved and/or as expenditures exceeding the budget occur.
The College uses the following criteria to determine whether to appropriate or accumulate funds:
1. The duration and preservation of the fund
2. The purposes of the organization and the donor restricted fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The total return from income and appreciation of investments
6. Other resources of the College
7. The investment policies of the College

2. Risk Tolerance

The following statements reflect the Investment Committee's understanding of capital market risk as well as measures adopted to control undue portfolio volatility:

- The Committee recognizes that the primary fiduciary obligation regarding the endowment is the "duration and preservation of the endowment fund"
- The Committee's primary objective is to maximize the inflation-adjusted principal value of the endowment to meet current and future spending requirements.
- The Committee fully recognizes the likelihood of periodic market declines and is willing to accept the possibility of some short-term declines in market value in order to achieve potentially higher long-term investment returns.
- The Committee will consider investments appropriate for the endowment based on thorough research and consultation with the investment consultants and other outside professionals. Assets of the endowment are to be diversified to protect against large investment losses and to reduce the probability of excessive performance volatility.
- Diversification of assets is to be achieved by:
  - allocating monies to various asset classes and investment styles within asset classes, and
  - retaining investment management firm(s) with complementary investment philosophies, styles and approaches.
- Asset allocation will be structured after consultation with the investment consultants and other outside professionals to minimize downside volatility while maximizing return at an acceptable risk level.
- A reasonable time horizon for evaluating total endowment investment performance shall be long term (five to ten years). Time frames for evaluating the performance of investment

managers should approximate a market cycle (about three to five years). Significant changes in a manager's business organization should trigger immediate review.

3. Investment Objectives

In managing the endowment, the Investment Committee strives to meet the current financial needs of the College and to support current operations with the long term goal of developing and maintaining a strategic advantage compared to institutions with which the College competes for students and faculty. In particular, the continued growth of the endowment is the College's strongest competitive advantage to fund scholarships and financial aid essential to attract the most talented prospective students. Continued growth of the endowment is also an essential tool to achieve competitive salaries for attracting and retaining the most qualified faculty and staff.

It is understood by the Board that placing reasonable limits on the use of the investment returns for current financial needs of the College may limit expansion of some programs during the short run, but this approach to endowment management ensures that, in the long run, these same programs will benefit on an even a larger scale. This occurs because that portion of the return on investment that is reinvested annually, rather than being expended in the near term operating budget, also earns a return that can be used in future years to support the College budget. Over time, this 'return on return' will exceed the original amount that could have been used to support the College's operating budget, thereby maximizing the long-term financial strength and stability of the College.

Growth of the endowment comes primarily in two ways, from gifts made by supporters of the College and from the return on the endowment investment. The Investment Committee is keenly aware that among the key factors necessary for the College to attract prospective donors are demonstrated competent stewardship of endowment investments and the achievement of better-than-average returns on these endowments. The investment philosophy and objectives therefore require recognition of the broad, multi-purpose nature of these endowment funds.

In order to balance the competing short-term versus long-term needs of the College, the Investment Committee adopts the following underlying investment objectives, *listed in order of priority*:

a. To grow the economic value of the endowment over the long term, through return on investments, in real terms, adjusted for inflation.
b. To provide income to supplement the College's operating budget and to enable the College to maximize its competitive standing with its peer institutions.
c. To maintain the economic value of the endowment over the short-term period [3 to 5 years]. Without relying on new gifts, the endowment should generate enough interest, dividends, and capital gains to compensate for any decline in value when compared to inflation or other short-term economic conditions.

In summary, the investment objective is to generate, for each rolling 3-to-5 year period, an average annual total return sufficient to fund the sum of the level of inflation for academic institutions as defined by the Higher Education Price Index (HEPI), the annual payout to operations, and a premium for growth in principal. To achieve this goal, it is anticipated that the endowment's long-term average annual total return, including endowment gifts, must be approximately 8-to-10 percent, adjusted accordingly in high-inflationary periods.

4. Investment Performance Goals

The Investment Committee has adopted the following investment performance goals for the endowment:

a. The endowment shall generate an average annual total return sufficient to fund the sum of the level of inflation for academic institutions, the annual payout to operations, and a premium for growth in principal.

b. The endowment's ranking in the annual NACUBO Endowment Study Survey shall be in the top quintile for five-year and ten-year total returns.

In addition to the above performance goals, the endowment's total return (net of investment manager fees and other transaction costs) shall also be compared to a more traditional benchmark for reference and informational purposes. This benchmark shall be defined as the 60/20/15/5 Blended Benchmark, which includes the following components:

- 60% S&P 500 Stock Index;
- 20% Lehman Aggregate Bond Index;
- 15% MSCI EAFE Index; and
- 5% 90-Day U.S. Treasury Bill.

5. Investment Asset Allocation

The objective of the asset allocation policy is to help assure that the endowment is invested in well-diversified portfolios that will generate a rate of return necessary to meet the above-described investment objectives within an acceptable level of risk. In addition to this objective, it is understood that the time horizon of endowment investments, according to the definition of the word "endowment," is infinite.

The Investment Committee has chosen to avoid the assignment of individual managers to narrow traditional asset allocation bands in order to take full advantage of the experience and expertise of the broader investment community. Instead, each investment manager will be categorized on a two-dimensional risk-related basis: by its beta risk (relatively higher market risk) vs. alpha risk (relatively lower market risk) tendency and then by its traditional asset category. It is imperative that the risk-return characteristic of each manager be carefully evaluated so that it is properly categorized with respect to its beta/alpha risk tendency. The following beta/alpha asset allocation categories and related minimum/maximum asset allocation ranges have been identified for this purpose:

Asset Allocation Categories	Recommended Percentage Allocation		
	Minimum	Maximum	Target
1. Domestic Equity Alpha	20%	75%	40%
2. Domestic Equity Beta	20%	75%	10%
3. International Equity Alpha	0%	25%	10%
4. International Equity Beta	0%	25%	5%
5. Domestic Fixed Income Alpha	0%	50%	10%
6. Domestic Fixed Income Beta	0%	25%	5%
7. International Fixed Income Alpha	0%	25%	5%
8. International Fixed Income Beta	0%	25%	5%
9. Cash and Cash Equivalents With Maturities of 180 Days or Less	0%	10%	5%
10. Other (Real Estate, Private Equity, etc.)	0%	15%	10%

The Investment Committee shall review asset allocation percentages on at least an annual basis to determine if any rebalancing or adjustment to the current asset allocation targets or ranges may be prudent. The Investment Committee shall consider actual asset allocation versus target on a regular basis to determine if any rebalancing activity is required.

6. Spending Policy

The Finance Committee of the Board of Trustees is responsible for the establishment of a balanced endowment spending policy to: (a) ensure that over the medium-to-long term, sufficient investment return shall be retained in the endowment to preserve and grow its economic value as a first priority; and, (b) to provide funds for the annual operating budget in an amount which is not subject to large fluctuations from year to year to the extent possible given (a). The following payout policy, was implemented in fiscal 2005:

a. Phase I – Transition Phase

During the Transition Phase, the annual payout should be equal to approximately $10.8 million (limited to a maximum payout equal to 6% of the trailing twelve-quarter moving average endowment market value) until such time that the payout is equal to or less than 5% of the trailing twelve-quarter moving average endowment market value. Once this triggering event occurs, the Transition Phase shall be considered complete and the endowment payout shall immediately be based on the "Phase II – Corridor Payout Policy" described below.

b. Phase II – Corridor Payout Policy

Upon completion of the Transition Phase, the base endowment payout for the fiscal year shall be equal to the prior-year payout amount, increased by the prior-year rate of inflation plus 1%, subject to the following minimum and maximum amounts:

a. The minimum payout shall be 4% of the trailing twelve-quarter moving average endowment market value; and
b. The maximum payout shall be 6% of the trailing twelve-quarter moving average endowment market value.

In addition to the above-described Corridor Payout Policy minimum and maximum payout amounts, an adjustment is made to increase the base endowment payout for gifts and transfers added to the endowment during the current and the prior two fiscal years since such transactions represent permanent additions to the endowment but their values are not reflected in all twelve of the prior quarterly endowment market values referenced above.

Fees for investment managers, custodians, and transactions are to be charged to the endowment and will not reduce the amount provided to the operating budget as calculated by the spending policy.

7. Investment Management Guidelines

Based on the investment objectives described above, the Investment Committee adopts the following guidelines to be used in the management of the endowment.

a. The Investment Committee shall implement this investment strategy by researching, hiring, placing endowment funds with, and overseeing appropriate investment managers.

b. During the manager selection process, the Investment Committee should focus on the endowment's long-term investment horizon; consequently, minimizing risk over the short term should not be a key objective.

c. The Investment Committee will report regularly to the Board on the actions taken and the results achieved in implementing these investment policies.

d. Investment policies will be developed and implemented in compliance with ________________'s Board of Trustees Policy on Social Responsibility Regarding Ownership of Debt and Equity Instruments.

e. All gifts of securities to the endowment shall be immediately sold unless otherwise directed by the Investment Committee.

8. Selection of New Managers

To help assure that the endowment investment objectives are achieved, it is critical that the appropriate investment managers are carefully selected and regularly evaluated. It is also critical that the beta vs. alpha tendency, expertise, and style of such managers be consistent with the investment asset allocation guidelines. Investment Committee members are encouraged to investigate and recommend potential managers to the Committee chair for possible consideration.

When selecting endowment managers, the Committee will evaluate the following criteria in addition to the manager's most recent performance statistics:

- Capabilities of the portfolio manager to manage investments;
- Clear and consistent investment philosophy;
- Credibility with the members of the Investment Committee;
- Stability in the management of the firm;
- Clear decision-making process; and
- Potential to engender confidence in future performance.

9. Delegation of Responsibilities

________________ Board of Trustees (Trustees) has a direct oversight role regarding all decisions that impact the endowment. The Trustees have delegated supervisory responsibility for the endowment to the Investment Committee. Specific responsibilities of the various groups within ________________ and outside professionals retained by the College or Committee for the endowment are outlined below.

a. Responsibilities of the Trustees

The Board ensures that its fiduciary responsibility for the invested assets of ________________ is fulfilled through appropriate investment structure, internal and external management, and portfolio performance consistent with all policies. Based on the advice and recommendations of the Investment Committee, the Board shall:

- Select, appoint and remove members of the Committee.
- Approve investment policies and objectives that reflect the long-term investment-risk orientation of the endowment.

b. Responsibilities of the Committee

Investment Committee members are fiduciaries. The term *fiduciary* applies to those who have legal responsibility for managing endowment assets. As a fiduciary, one is not held accountable for less than desirable outcomes but instead for procedural prudence, or the process by which decisions are made in respect to endowment assets.

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) clearly states it is the fiduciaries' main responsibility to ensure 'the preservation of the endowment fund'. The

Committee is responsible for the development, recommendation, implementation and maintenance of all policies. The Committee shall:

- Develop and/or propose policy recommendations to the Trustees with regard to the management of the endowment.
    - Recommend long-term and short-term investment policies and objectives for the endowment. This includes studying and selecting asset classes, determining asset allocation ranges and manager structure, and setting performance objectives for the endowment and for each manager with the assistance of investment consultants and other outside professionals.
- Determine that the endowment assets are prudently and effectively managed with the assistance of management, investment consultants and other outside professionals.
- Monitor and evaluate the performance of all service providers, particularly the custodian bank, investment consultants and the investment managers, by regular review of reports provided to the Committee and by meetings with outside professionals.
    - Retain or dismiss outside professionals such as custodians, investment managers and investment consultants.
    - Receive and review reports from management staff, investment consultants, investment managers, and other outside experts regarding the status of the endowment.
    - Periodically meet with investment managers, the investment consultants, and other outside professionals.
- Meet regularly to evaluate whether this policy, the investment activities, the risk management controls and processes continue to be consistent with meeting the goals and objectives set for the endowment.

c. Responsibilities of the Management

Management shall be responsible for the day-to-day administration and implementation of the policies established by the Committee for investment of the endowment. The management staff shall also be the primary liaison between all outside professionals. Specifically, the management staff shall:

- Oversee the day-to-day operational investment activities of the endowment subject to policies established by the Board of Trustees and Investment Committee.
- Contract with the service providers: investment consultants, investment managers, banks, and/or trust companies.
- Ensure that the service providers adhere to the terms and conditions of their contracts and that performance monitoring systems are sufficient to provide the Committee with timely, accurate and useful information.

- Assisted by the investment consultants, meet with the investment managers periodically, preferably annually, to evaluate their depth of staff, organization security, compliance with investment guidelines, performance, outlook, and all other matters deemed to be consistent with due diligence with respect to prudent management of invested assets.
- Work with the investment consultants to execute the investment strategies and to monitor and evaluate asset allocation and rebalance the endowment' assets, as directed by the Committee and in accordance with approved asset allocation policies, among asset classes, investment styles and investment managers.
- Review investment fees and expenses to ensure only reasonable and necessary expenses are assessed.
- Receive, review and distribute reports from outside professionals regarding the status of the endowment.
- Work with investment managers, investment consultants, and other outside professionals to monitor and evaluate the achievement of the overall portfolio objectives of the endowment.
- Monitor execution of investment strategy by the investment consultants and follow up on significant issues.
- Comply with official accounting and auditing guidelines regarding due diligence and ongoing monitoring of investments, especially alternative investments, to ensure that the fair value provided by the investment managers are substantiated and accurately reflect the fair value of the College's investment.
- Issue periodic status reports to the Board and the Committee.

<u>d. Responsibilities of the Investment Managers</u>

The investment managers have full discretion to manage the assets of the endowment in accordance with the investment objectives and guidelines expressed by this Statement of Investment Policy. For investment managers retained under a mutual fund or commingled fund agreement, it is expected that the fund operate under the specific guidelines outlined in its prospectus or offering memorandum. Investment managers shall:

- Acknowledge in writing the acceptance of responsibility to act as a fiduciary and to exercise reasonable care.
- Communicate promptly with management staff and the investment consultants regarding all significant matters such as:
    - ➢ major changes in the firm's investment outlook and strategy,
    - ➢ shifts in portfolio construction,
    - ➢ downgrades of fixed income assets by any of the rating agencies,
    - ➢ changes in the firm's ownership, organizational structure or professional staffing (additions and departures),
    - ➢ changes in fee schedules, and
    - ➢ other changes of a substantive nature.

- Adhere to the investment criteria and guidelines prescribed by the Investment Policy. Any specific concerns about the appropriateness of an investment should be clarified in writing, in advance of purchase.
- Comply with all laws, legislation and regulations that involve the endowment as it pertains to the manager's duties, functions and responsibilities as a fiduciary.
- For separate accounts, signify in writing its agreement to comply with all of the guidelines contained herein or as amended.
- Vote the proxies on the securities in accordance with the Mission and Social Responsibility sections of this policy. Report annually to the management staff and investment consultants on proxy voting activities and issues.
- Effect securities trading on a best execution basis. Placement of orders should be based upon financial viability of the brokerage firm and the assurance of prompt and efficient execution.
- Meet periodically with the Committee, management staff, and investment consultants to report on the management of assets.
- Issue monthly and/or quarterly reports to the management staff, and investment consultants with regards to portfolio management and performance.
- Fully disclose all fees and expenses to the management staff and the Committee on an annual basis.

e. Responsibilities of the Custodian Bank

The custodian is responsible for the safekeeping of endowment assets. The custodian bank shall:

- Acknowledge in writing the acceptance of responsibility to serve as custodian and act in a fiduciary capacity to the endowment.
- Provide safekeeping of securities entrusted to it; collect dividends and interest on these securities; make disbursements and receive cash flows as directed.
- Arrange for timely settlement of all transactions made for the endowment.
- Provide complete and accurate accounting records including each transaction, income flow and cash flow by asset class, investment manager and total endowment.
- Issue monthly reports of holdings and transactions priced in accordance with industry standards to the management staff, and investment consultants.
- Meet periodically with the management staff and investment consultants to report on the administration of the endowment.
- Communicate promptly to management staff regarding all significant matters such as but not limited to:
    - ➢ changes to the custodian's ownership or organizational structure, financial stability, solvency, legislative or regulatory oversight, and/or relevant pending litigation proceedings related to custodial matters,
    - ➢ changes to fee schedules, and
    - ➢ other changes of a substantive nature.

- Securities owned by the endowment, but held in custody by another party, such as a bank custodian, will not be lent to any other party for any purposes, unless such securities lending is pursuant to a separate, written agreement which the Committee has approved.
- Fully disclose all fees and expenses to the management staff and the Committee on an annual basis.

f. Responsibilities of the Investment Consultants

The principal role of the investment consultants is to provide independent, unbiased information and advice to the College. The investment consultants shall:

- Acknowledge in writing acceptance of fiduciary responsibility to act in a fiduciary capacity with respect to the College and the assets of the endowment.
- Review, on a quarterly basis, investment policies and objectives, and recommend appropriate changes.
- Monitor and communicate long-term capital market trends and recommend broad-based asset-mix policies to be considered by the Committee and to be implemented by the investment managers, if approved.
- Provide general advice concerning the allocation of cash flows as well as periodic asset allocation rebalancing.
- Research and recommend, in collaboration with management staff, investment management firms which are appropriate to implement the endowment' investment policies and objectives.
- Work with management staff to ensure prudent payment of only reasonable and necessary investment fees and expenses.
- Monitor and assess service providers (investment managers and custodian) and report promptly on changes within the organizations.
- Measure, evaluate and report the endowment' and investment managers' performance results on a quarterly basis.
- Review guideline compliance and adherence to investment style and discipline.
- Meet periodically with the Board of Trustees, the Investment Committee and management staff to report on the management of the endowment.
- Meet with the investment managers, accompanied by management periodically, to evaluate their depth of staff, organization security, compliance with investment guidelines, performance, outlook, and all other matters deemed to be consistent with due diligence with respect to prudent management of invested assets.
- Provide support to the Board of Trustees, the Committee and the management staff.
- Fully disclose all fees and expenses to the management staff and the Committee on an annual basis.

10. Conflict of Interest

The Investment Committee is governed by the Conflict of Interest policy of the Board of Trustees. Furthermore, the Board recognizes that the long-term success of the endowment depends upon an open and objective investment strategy. Given the personal and professional successes of many Board members and alumni, there are times when it is in the College's interest to invest funds with managers or in investments in which a Board member or alumnus has a direct or indirect interest. It is understood that all investment decisions are made on an 'arms length' basis, using the same criteria as are used for all managers or investments without regard for any relationship to any Board member or alumnus.

The Board does not, in principle, object to such special situations, subject to the following requirements:

a. There is prior full disclosure of the relationship;
b. There is full disclosure of any changes which might have an influence on those relationships; and
c. Board members with a conflict of interest will excuse themselves from discussions or votes related to those firms, managers, or investments.

11. Evaluation and Review Process

The Committee will evaluate investment performance on a quarterly basis. It will review the following:

- The asset allocation set for the endowment relative to the Endowment Investment Policy Statement and the capital market outlook.
- The extent to which each investment manager has consistently managed its portfolio in accordance with that manager's stated investment philosophy and style.
- The extent to which each investment manager has adhered to the guidelines and policies contained in the Statement of Investment Policy and Objectives.
- The performance of the endowment and each investment manager to determine whether the goals and objectives of the endowment are being met.

Each investment manager's cumulative performance rank shall be at or above the 75th percentile when compared to a universe of the other professionally managed portfolios with similar objectives. Managers who fail to meet this requirement will be placed on a watch list and closely reviewed for possible dismissal. If no such performance universe is readily available, the manager's performance will be evaluated against performance returns of known peer managers.

Management and the investment consultants will meet with each manager on a periodic basis. To further evaluate the performance of the endowment managers, the Investment Committee chair **may** assign to each Committee member responsibility for building and maintaining relationships with one or more individual managers. In addition to building a sense of rapport and providing a means of reminding the manager that their performance is being closely monitored, the other primary objective of establishing such relationships is to facilitate the exchange of information, thereby enabling Committee members to more easily ascertain whether managers continue to: (a) utilize the investment strategies for which they were hired; and (b) have stability among key management team personnel. The Investment Committee may also hire an outside firm to research and evaluate endowment managers

The Committee will review the Endowment Investment Policy Statement at least annually to determine that it continues to be appropriate in view of changes within the endowment and the capital markets. Special investment situations may necessitate an amendment to the Endowment Investment Policy Statement as deemed appropriate by the Committee.

The Committee will establish regular review schedules for all service providers and will review, in detail, the services provided by the investment consultants at least every seven years.

This Endowment Investment Policy Statement is adopted on __________________ by

_________________ Investment Committee and _________________ Board of Trustees.

Signed:____

Chair, Investment Committee

Signed:____

Chair, Board of Trustees

DRAFT

Organization Logo

[If Donor(s) want this Agreement/their gift(s) treated with anonymity, type ANONYMOUS DONOR/GIFT here.]

[Insert name or title that specifically identifies this account]
Investor Gift Agreement

This Investor Gift Agreement ("Agreement") is made and effective as of ___________________ between [insert name(s) of donor(s)], hereinafter referred to [include the following word if more than one donor is listed: collectively] as "Donor," and the {Organization}, a nonprofit corporation that is exempt from taxation under section 501(c) (3) of the Internal Revenue Code and is located in {Organization city, state}, hereinafter referred to as "{Organization abbreviation}."

A. Acknowledgment and Name of Gift

The {Organization abbreviation} acknowledges that the Donor [**choose 1, 2, or 3** (omit numbers in final version): 1) has made and may make additional contributions; OR 2) has made and has agreed to make additional contributions; OR 3) has agreed to make contributions] to the {Organization abbreviation} for the purpose described in this Agreement. The {Organization abbreviation} agrees to hold, administer, and distribute the contributions as provided in this Agreement. These contributions and the net investment return therefrom, hereinafter referred to collectively as the "Fund," are designated on the books and records of the {Organization abbreviation} as the following:

[Insert name of fund - Use the same name that was used in the title of this agreement]

which will be administered by the [insert name of University Beneficiary], hereinafter referred to as the "{University} Beneficiary." An account number has been assigned to this Fund in the {Organization abbreviation} financial system.

B. Gift Purpose and Criteria

The amount available for spending from the Fund shall be used on an annual basis to provide [insert purpose of gift].

In managing the Fund, the {Organization abbreviation} will pay to the {University} Beneficiary the board-approved endowment distribution ("Fund Payout") from the Fund with the understanding that the {University} Beneficiary will use the Fund Payout in accordance with the following criteria:

[Insert the criteria and/or restrictions that will assist in the administration of the Fund and/or its payout. Be clear & realize this is a long-term agreement; the {University} Beneficiary is responsible for working with the Foundation to follow the Donor's intent. Help the Donor recognize flexibility in the Agreement could help ensure that the Donor's intent is honored.]

C. Spirit and Intent of Donor

[This section helps clarify why the Donor made the gift. As background to completing this section, consider the answers to the following questions:

- "Why is the Donor making this gift to {University}?"
- "What should future generations know about the Donor and this gift?" For example, the Donor's background and relation to {University} or the {University} Beneficiary.]

D. Establishment of the Fund

The Fund has been established with [fully describe the type and amount of funding provided and/or pledged by the Donor]. All gifts contributed to the Fund are included in the Fund's Gift Value ("Gift Value").

> [Note: The gift agreement should reflect the current state of the fund, acknowledging gifts already made for the purpose set forth in this agreement as well as any gifts to be made. A pledge schedule should be included if applicable. All other gifts from the Donor to the Fund should be fully described, including securities, real estate, personal property, planned gifts, etc.]

[Insert the following two paragraphs for endowed gifts involving pledges only if the minimum threshold amount has not been reached.]

The Donor understands that the Fund will not provide any Fund Payout until the Gift Value reaches the minimum amount of [insert amount] required by the {Organization abbreviation} for an endowment of this type.

If the [insert amount] minimum Gift Value for the endowment is not reached within five years of the date of this Agreement, the {Organization abbreviation}, in consultation with the {University} Beneficiary and/or the Donor, may transfer the Fund to another endowment account administered by the {University} Beneficiary or to another {Organization abbreviation} account designated by either the Donor or the {University} Beneficiary.

E. Unspent Amount Available for Spending

If in a given year, no use, or only partial use is made of the Fund Payout, the unused amount shall

[choose 1, 2 or 3 (omit numbers in final version)**]**

1. …remain available for spending in future years.
2. …be returned to the Fund as reinvested earnings.

3. …be added to the next fiscal year's use or returned to the Fund as reinvested earnings, at the discretion of the [University] Beneficiary.

The {University} Beneficiary has the administrative responsibility to

[choose 1, 2, or 3]

1. retain the unused portion in the spending account.
2. return the unused portion to the Fund as reinvested earnings.
3. return the unused portion to the Fund as reinvested earnings or retain the unused portion in the spending account.

F. Alternate Application of the Fund

In the event that it is no longer practical for the Fund to be used as specified herein, the {Organization abbreviation} will consult with the {University} Beneficiary and the Donor, when feasible, and will determine how to redirect the Fund in a manner that honors the Donor's original intent. If any such redirection of the Fund occurs, the original funding source for the new application shall continue to be clearly recognized.

G. Financial Administration of the Fund

The Gift Value of the Fund shall be held in perpetuity, subject to the terms and conditions in this Agreement. The Gift Value and the net investment return therefrom, which includes interest, dividends and unrealized and realized gains and losses, shall be held or disposed of in accordance with the terms and conditions set forth herein.

1. **Investments**
   All contributions to the Fund shall be invested by the {Organization abbreviation} in accordance with the {Organization abbreviation}'s bylaws and investment policy, which may be amended from time to time. The investment return, net of investment manager fees, earned on behalf of the Fund shall be credited to the Fund.

   The Fund may be commingled, for investment purposes, with other investment assets of the {Organization abbreviation} and shall at all times be separately accounted for on the {Organization abbreviation}'s books and records.

   The amount available for Fund Payout is defined by the investment policy and is approved in accordance with the {Organization abbreviation}'s bylaws.

The Donor acknowledges that investment markets fluctuate. In the event that the Fund market value falls below the Gift Value, the Fund Payout will be **[choose A or B** (omit letters in final version)**]**

A. continued at the rate approved by the {Organization abbreviation}'s Board of Directors. This may cause some of the Gift Value to be used for the Fund Payout.
B. terminated until such time as the Fund market value exceeds the Gift Value. This may result in a reduced Fund Payout to the {University} Beneficiary unless the Donor makes additional gifts to support the Fund Payout.

2. **Foundation Support Fee ("Fee")**
The {Organization abbreviation} will charge a Fee to the Fund to provide for the full and appropriate fiduciary oversight of the Fund, e.g. legal, financial, administrative, reporting, etc. This fee also supports advocacy and development activities solely for the benefit of {University}. The Fee policy is approved in accordance with the {Organization abbreviation}'s bylaws. The currently authorized support amount of two percent (2%) is calculated at the time the gifts are received and, annually, an additional two percent (2%) of the market value of the Fund.

3. **Reports**
The Donor will receive an annual report on the Fund's activity.

The Donor also wishes to designate the following to receive annual reports.
[Insert name(s) of any other recipients, including the address where the Donor wishes each report to be sent. Delete this and the two preceding sentences if no additional report recipients are requested.]

H. Donor Confidentiality

The Donor authorizes the {Organization abbreviation} and/or the {University} Beneficiary to publicize this gift as the {Organization abbreviation} and/or the {University} Beneficiary deem appropriate.

Subject to the other terms of this Agreement, the Foundation intends to keep Donor records confidential to the maximum extent permitted by law.

I. Amendment of Agreement

This Agreement is the final and entire agreement between the parties with respect to this gift; there are no other promises, representations, or understandings of any kind between the parties with respect to this gift.

[choose 1 or 2 (omit numbers & application **bolded** sentence in final version)**]**

1. **Use the following two paragraphs if the Donor is an individual (Delete this sentence):**

It is understood that, except as otherwise provided by applicable law, this Agreement may be amended only by mutual written consent of the Donor and the {Organization abbreviation}, in consultation with the {University} Beneficiary.

This Agreement shall be binding upon and inure to the benefit of the parties hereto, their heirs, executors, administrators, legal representatives, successors, and assigns.

2. **Use the following if the Donor is a corporation (Delete this sentence):**

This Agreement may be amended only by mutual written consent of the Donor and the {Organization abbreviation}, in consultation with the {University} Beneficiary.

This Agreement shall be binding upon and inure to the benefit of the parties hereto, their successors and assigns.

J. Correspondence Contacts

Any correspondence should be sent to the following applicable contacts:

Donor
[Name preferred in donor recognition]
[Street address]
[City, state, zip code]
[(Area code) phone number]
[E-mail address]

{University} Beneficiary
[Title, not name]
[College]
[Address PO Box]
[City, state, zip code]
[(Area code) phone number]

{Organization abbreviation}
Sr. Vice President & Chief Financial Officer
{Organization}
{Organization street address}
{Organization city, state, zipcode}
{Organization phone number}

[The remainder of this page was intentionally left blank.]

K. Governing Law

This Agreement shall be governed by and interpreted in accordance with the laws of the State of Arizona.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed the day and year herein above written. This Agreement is signed in two (2) originals, one of which will be maintained by the Donor and the other by the [Organization abbreviation]; a copy will be provided to the {University} Beneficiary.

[Insert name of Donor]	date	[Insert name of Donor (if a second is applicable)]	date
{Name of Organization President} President & CEO {Organization}	date	{Name of Organization CFO} Sr. Vice President & CFO {Organization}	date

Any inquiry about this Agreement by anyone other than the Donor must be directed to the {Organization abbreviation} President or the Sr. Vice President & CFO.

For {Organization abbreviation} use only:

Endowment Account Number:
{University}Item Type (if applicable):
Endowment Spending Account Number:

EXAMPLE

Subject: **Disclosure of Board's Definition of Permanently Restricted Funds, in Accordance with FSP FAS 117-1**

Executive Summary

According to FASB Staff Position (FSP) FAS 117-1, *a non-profit organization shall disclose information to enable users of financial statements to understand policies related to its endowment funds*, and the annual financial statements shall include a description of the governing board's interpretation of the law that underlies the organization's net asset classification of donor-restricted endowment funds.

The recommended view under the guidance provided by the Financial Accounting Standards Board (FASB) for the new Uniform Act (UPMIFA) is to continue to define permanently restricted net assets as the historic-dollar-value of donor-restricted gifts to endowment. Historic-dollar-value is defined as the fair value of the original gift and subsequent gifts as of the gift dates, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor instrument. Under this definition, the remaining portion of the fund, i.e. reinvested returns on invested endowment funds, are booked on the financial records as temporarily restricted net assets. According to the FASB, this view *provides the most faithful representation of the organization's fiduciary duty for its donor-restricted endowment funds, and is both workable and appropriate.*

If this recommendation is adopted by the [board], our financial reporting methodology will remain the same as it has been in previous years. Since there is also a preference for the governing board's interpretation of the relevant law to be consistent from year-to-year going forward, it is our intention to make this a permanent decision, to be reviewed in the event of future changes in the law, relevant court activity and additional guidance from FASB.

Background

The [state] has enacted a version of UPMIFA, the Uniform Prudent Management of Institutional Funds Act, a model act approved by the Uniform Law Commission that serves as a guideline for states to use in enacting legislation. This replaces a previous law, UMIFA, the Uniform Management of Institutional Funds Act. Under UMIFA, spending below the historic-dollar-value of an endowment was not permitted; the accounting definition of permanently restricted funds was the historic-dollar-value of a donor-restricted gift to endowment. Under UPMIFA, the historic-dollar-value threshold is eliminated, and the governing board has discretion to determine appropriate expenditures of a donor-restricted endowment fund in accordance with a robust set of guidelines about what constitutes prudent spending. Although UPMIFA offers short-term spending flexibility, the explicit consideration of the preservation of funds among factors for prudent spending suggests that a donor-restricted endowment fund is still perpetual in nature.

As is the case in the current financial environment, there is no guarantee that the permanently restricted amount of an endowment will remain intact at all times. Under UPMIFA, the Board is permitted to determine and continue a prudent payout amount, even if the market value of the fund is below historic-dollar-value. There is an expectation that, over time, the permanently restricted amount will remain intact. This perspective is aligned with the accounting standards definition that permanently restricted funds are those that must be held in perpetuity even though the historic-dollar-value may be dipped into on a temporary basis.

Proposed Resolution

Whereas, FAS 117-1 requires the annual financial statements for non-profit organizations issued for years ending after December 15, 2008, to include a description of the governing board's interpretation of the law underlying the organization's net asset classification of donor-restricted endowment funds;

Whereas, UPMIFA was adopted by the [state] and became effective [date];

Whereas, the language of a specific endowment agreement is the primary determinant of the application of spending policy to a donor-restricted endowment;

Whereas, the standard endowment agreement between donors and the foundation agrees to follow the board approved spending policy, and the policy permits temporary use of historic-dollar-value and takes a long-term view towards protecting the principal;

Whereas, historic-dollar-value is defined as the fair value of the original gift and subsequent gifts as of the gift date, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor instrument,

Whereas, this resolution is consistent with the recommended guidance provided by the FASB for FAS 117-1 and has been reviewed by legal counsel;

Resolved, that the [organization] has interpreted the [state law] as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the [organization] classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets, is classified as temporarily restricted net assets.