University of Wisconsin-La Crosse Alumni & Friends Foundation
Endowment Policy

1.0 Purpose

The University of Wisconsin-La Crosse Alumni & Friends Foundation (Foundation) establishes and manages endowment funds. The objective is to ensure that donor funds are managed with compliance and donor intent is fulfilled. The endowment funds help to assure the long-range financial security of the Foundation and the University of Wisconsin-La Crosse (University).

All Foundation policies are approved by the Foundation Board of Directors. The endowment policy is reviewed annually.

2.0 Establishing an Endowment

2.1 A minimum capital contribution of $25,000 is required to establish an endowment. A donor may establish a named endowment fund by providing outright or pledged gifts totaling $25,000 or more, provided that the pledge does not exceed five years.

2.2 Endowment Terms and Classes

2.2.1 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 the endowment funds.

2.2.2 Assets covered by the endowment policy 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 to be governed by this law.

2.2.3 An endowment fund is one that, under terms of a gift instrument or agreement, is not wholly expendable on a current basis.

2.2.4 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 will not be affected by this endowment policy.

2.2.5 Alignment with UPMIFA, GAAP and CASE Guidelines.

2.2.5.1 This policy is intended to comply with and be administered under the UPMIFA rules as provided in the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), which provides standards and procedures for charities managing institutional funds. 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.

2.2.5.2 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 are also adhered to in the management of endowment funds.

2.3 Terminology and Definitions

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

2.3.2 Quasi-Endowment. Quasi-endowments, or the accounting term "funds functioning as endowment", are established by the Foundation from either donor or Foundation funds that will be retained and invested rather than expended. Since quasi endowments are established by the Foundation rather than an external source, the principal may be expended for the purposes stipulated by the donor. Approval from the Foundation's Board of Directors is required to establish this type of endowment.

2.3.2.1 Once established, a quasi-endowment must maintain a minimum book balance of $25,000. If the book balance falls below the minimum amount, the account will revert to an expendable account.

3.0 Investment of Endowment Funds

3.1 All endowments, including quasi-endowments, will be invested in accordance with the university foundation's approved investment policy statement.

3.2 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.

3.3 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 following the sale will then be included in the endowment investment pool subject to the investment policy statement. While illiquid or non-income producing, all assets will be valued annually to determine fair market value.

4.0 Distribution Policy

4.0 Purpose of Rule: The distribution policy is part of the endowment policy and governs the distributions from all endowment funds. The purpose of the distribution policy is to:

- achieve endowment consistency;
- balance expenditures in order to preserve the funds' ability over time to support the current activities;
- enhance the value of the funds to extend their benefits to future generations.

4.1 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 necessary for the uses, benefits, purposes and duration of an endowment fund. It is the intent of the distribution policy to achieve consistency in the management of the numerous endowment funds and therefore the Foundation will not permit variations from its distribution policy on a per donor basis.

4.2 Distribution Rate: Spending authority for endowed accounts not underwater will be the product of a distribution rate determined by the Foundation Board at the recommendation of the Finance and Investment Committee (Committee) – currently 4%. Should market performance result in an unsustainable change in available spending, the Committee will address altering the distribution rate accordingly. Exceptions to these appropriation guidelines may be granted by the Committee.

4.3 The amount available for distribution for the ensuing fiscal year is based on the rolling 3 (three)-year average of the market values on December 31st. For endowments that are less than three years old, the trailing annual average market value for the number of years the endowment has been invested will be used.

4.4 The distributable sum, in accordance with the set distribution rate, will be composed first from realized total return, and if insufficient, income and gain in excess of the distributable amount as defined in this distribution 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 distribution reserves and to the extent that a current year's investment total return is insufficient to meet the distribution rate, the reserves may be drawn upon for distribution.

4.4.1 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 Foundation Board.

4.5 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 based on the endowment account's ending balance from the preceding quarter. This percentage shall be applied to total earnings and such portion of earnings shall then be allocated to the individual endowment account.

4.6 Pledged endowment funds: A donor may establish a named endowment fund by providing pledged gifts for up to five years totaling the threshold minimum amount of $25,000.

- All newly created endowments must be invested for one full calendar year prior to participating in the Foundation's distribution policy calculation. This investment time begins on January 1 following the date of the gift.

4.7 Underwater Endowment Distribution Rate: An underwater endowment is defined as an endowment fund which has negative accumulated earnings at the time of distribution. Spending authority for endowed accounts not underwater will be the product of a distribution rate determined by the Foundation Board at the recommendation of the Finance & Investment Committee – currently 4% of the rolling three-year average. Should market performance result in an unsustainable change in available spending due to negative accumulated earnings, the Finance & Investment Committee adheres to the spending rates listed below.

- For endowments underwater by less than 10%, the distribution shall be 2%
- For endowments underwater by 10% or more, no distribution shall be made.

5.0 Assessment of Fees

5.0 All endowment accounts in the endowment pool are subject to fees assessed quarterly based on an annual rate no greater than 2.25%. This is calculated based on the endowment account's ending balance from the preceding quarter. The assessed fee shall be a priority distribution and shall be distributed to the general fund of the Foundation. All donors to endowment funds shall be notified in writing of this fee assessment.

5.1 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.

6.0 Administration of Funds

6.0 New Accounts: All new endowment accounts will require the $25,000 threshold amount. Endowments created prior to the adoption of this revised policy will be “grandfathered” and not subject to the new threshold requirement.

6.1 Endowments pledged over time; All pledged endowment accounts being funded over time shall not be operated as an endowment until fully funded, which shall be expressly provided in the gift agreement. The establishment of the endowment account is contingent upon the completion of the funding of the pledge.

6.1.1 An account that has not reached full funding by the end of the pledged period (or by the maturity of the deferred gift or bequest) shall not be launched as an endowment and shall first be reviewed in conjunction with the donor and Foundation leadership prior to consultation and recommendation to the Finance & Investment committee.

6.1.2 If the donor is able to complete the funding within a time approved by the Foundation Board, the fund may still be able to be launched as an endowment. Such review may conclude, however, that a pass-through fund fulfilling the written intent of the donor or an alternate use for the distribution from the fund may be made with the written consent of the donor, where available.

6.1.3 If the donor is unavailable, no longer competent or is deceased, the Foundation Board 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.

6.2 Modification or Termination of a Fund

6.2.1 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 through a Memorandum of Understanding. 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.

6.2.2 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 Board of Directors may modify the purpose in a manner consistent with the stated purpose, or modify the investment to further the purpose of the fund.