



## ENDOWMENT POLICY

**Approving Authority:** Board of Directors

**Approval Date:** December 7, 2022

**Effective Date:** March 24, 2021

**Supersedes:** May 13, 2015

**Last Editorial Change:** N/A

**Mandated Review:** December 2023

### PURPOSE

- 1.0 The purpose of this policy is to outline how general and named endowments of the University Hospitals Kingston Foundation (UHKF) are established, administered, and managed.
- 2.0 An endowment fund is a fund established by UHKF from which annual disbursements are made out of income and capital gains to support ongoing operations or other specified purposes. Endowments may be created as agreed with a donor at the time of the donation or through a motion by the UHKF board of directors.

### DEFINITIONS

For the purpose of this policy:

- 3.0 **Donor Restricted Endowments** are funds received and invested for the purpose of financing a specific project/item or other commitment from annual earnings as outlined in the terms of reference agreed to by UHKF and the donor.
- 4.0 **Board Restricted Endowments** are funds earmarked by the Board of Directors, rather than restricted by a donor, that are invested to provide income for a long but unspecified period of time, and where the Foundation has the right to decide the use of the income and at any time can expend the principal or change the purpose of such funds.
- 5.0 **Capital Account** is made up of the total of all capital contributions made to an Endowment, including charitable donations, annual inflation adjustments and other amounts capitalized as directed.
- 6.0 **Spending Account** consists of the amount that is available to be spent in support of the purpose of the endowment fund. The account includes the annual spending allocation, cash contributions intended for expenditure and any unspent annual spending allocations from previous years.
- 7.0 **Stabilization Account** is a reserve for the surplus net investment return to assist in maintaining the stability of the annual spending allocations. The stabilization account will not exceed 15% of the value of the Endowment Capital Account.

- 8.0 **Annual spending Allocation** is the actual amount allocated to the Spending Account on an annual basis, as determined by the Spending Rate established by the Board of Directors and any specific direction from the donor.
- 9.0 **Inflation Adjustment Factor:** An addition to the capital account of an endowment calculated based on the annual rate of increase of the Consumer Price Index (CPI) for Ontario.
- 10.0 **Net Investment Return:** The total investment earnings of the endowment pool after deducting the direct costs incurred in managing the underlying investments including investment manager fees and custodial fees. Investment earnings include interest, dividends, and realized and unrealized capital gains less losses.
- 11.0 **Underwater Endowments:** An endowment in which the market value has decreased below the value of the original capital contributions. This situation may harm the sustainability of the endowment so the Annual Spending Allocation may be reduced or eliminated, at the discretion of the Board of Directors, until the endowment is no longer under water.

#### **JURISDICTION/SCOPE**

- 12.0 This policy applies to all endowments held by the University Hospitals Kingston Foundation.
- 13.0 This policy is subject to and consistent with the UHKF Investment Policy and Fundraising and Gift Acceptance Policy.

#### **POLICY**

##### Objectives

- 14.0 The Foundation intends to balance the following objectives with regard to endowment funds:
- 14.01 to protect the value of the fund against inflation over time so that the fund will continue to work to the benefit of the Foundation and its related hospitals for generations to come; and,
- 14.02 to have stability in the distribution of earnings to allow both the recipient and the Foundation to plan ahead knowing what funds will be made available each year.

##### Establishment of Endowment Funds

- 15.0 The establishment and purpose of each endowment fund will be identified through written endowment agreement as outlined in a gift agreement, separate terms of reference and/or will.
- 16.0 Endowment agreements will include, without being limited to, the following elements:
- 16.01 The purpose of the endowment;
- 16.02 The source of funds to create the endowment;
- 16.03 Provisions for donor recognition or anonymity;
- 16.04 A provision allowing the UHKF Board of Directors to vary the terms or the purpose of the endowment if, in the opinion of the UHKF, it becomes impossible, inadvisable or

impracticable for all or part of the endowment to be applied to its designated purpose(s), or if the purpose(s) cannot be achieved because of a future change in law, change in UHKF or related hospitals' practices, policies or priorities, or unforeseeable circumstances;

- 16.05 A provision allowing the donor and the UHKF to amend any executed agreement by mutual consent;
- 16.06 Reference to appropriate UHKF policies including Gift Acceptance, Investment, Donor Recognition and this Endowment Policy.
- 17.0 A minimum of \$25,000 is required to establish a named endowment fund.
- 18.0 Where an endowment is established by bequest and without a supporting endowment agreement, and where the estate has not stipulated a restriction for the use of the donated funds, the UHKF Board of Directors will determine the best use and designation of the endowment fund in accordance with the charitable purposes of the UHKF.
- 19.0 The assets of each individual Endowment will be combined into an Endowment Pool for the purpose of investments unless otherwise specified. Unless otherwise set out in the Endowment Agreement, Capital Accounts will be kept intact and only the net investment return, or a portion of it, will be used annually as outlined in this policy.

#### Investment Objectives

- 20.0 The investment objectives of endowment funds are to preserve the endowment capital and to protect the capital against inflation over the long term while ensuring that minimum spending distributions as outlined in this policy can be met.
- 21.0 The Investment Committee of the Board of Directors, with the support of the Chief Finance and Administration Officer, will develop investment manager guidelines for the endowed funds mandate. An investment plan will be developed in conjunction with the investment managers. These guidelines, plans and returns will be reported annually to the Board of Directors.

#### Allocation of Net Investment Returns

- 22.0 The Net Investment Returns will be available for annual distribution on the 1<sup>st</sup> of April as follows:
  - 22.01 Spending distributions equal to 3.5% of the inflation adjusted principal at cost as at December 31 of the prior year will be allocated to the designated purpose of the endowment and transferred to the Spending Account.
  - 22.02 Unless otherwise specified by the donor, on an individual fund basis, if the level of award that results from the application of the above percentage would result in the fund going "underwater", the distribution of that fund will be re-evaluated. This re-evaluation may result in some funds with no distribution for any given year.
  - 22.03 A maximum of 0.35% per annum of the inflation adjusted principal at cost as at December 31 of the prior year may be spent, at the discretion of the Board of Directors, on expenses including audit, consulting and performance measurement fees and on fundraising and administration services.

- 22.04 To protect the value of annual distributions against inflation, each fiscal year a portion of net investment returns will be transferred to each endowment fund's Capital Account. This process is referred to as capitalization of investment earnings. The amount to be capitalized each year is determined by multiplying the change in the Ontario Consumer Price Index (CPI) for the year against each endowment's inflation adjusted funds principal as at December 31 of the previous year. This capitalization of investment earnings will occur for each fund regardless of the total fund's value.
- 22.05 Net Investment returns remaining after the allocations above have been completed, will be transferred to the Stabilization Account. The Stabilization Account will be used to support the annual spending allocation when the endowment is considered to be underwater. The Stabilization Account will not be allowed to grow to exceed 15% of the value of the Endowment Capital Account.
- 22.06 Undistributed investment earnings may additionally be approved for capitalization:
- 22.06.1 where donors have requested that the endowment build to a reasonable pre-determined level before distributions are commenced,
  - 22.06.2 where the Spending Account was not drawn down in the previous year, and/or
  - 22.06.3 where there are other reasonable circumstances.
- 22.07 The Board of Directors will, on an annual basis, review the above and may make changes to the distributions above. When making its annual determination of the percentage to be used to determine the annual spending distribution, the board will consider:
- 22.07.1 The duration and preservation of the endowment funds;
  - 22.07.2 The purpose of the Foundation and endowment funds;
  - 22.07.3 General economic conditions;
  - 22.07.4 The possible effect of inflation or deflation;
  - 22.07.5 The expected total return from income and the appreciation of investments;
  - 22.07.6 Whether the Stabilization Account is sufficient to support the spending allocation;
  - 22.07.7 Other resources available to the Foundation; and
  - 22.07.8 The Foundation's Investment Policy.

**REVIEW**

23.0 This policy will be reviewed on an annual basis by the UHKF Board of Directors.

**RELATED DOCUMENTS**

Fundraising & Gift Acceptance Policy

Investment Policy

Operating and Capital Funds Investment Policy

Granting Policy

Finance Policy

Accounting Policy