



## Practice for Distribution of Endowment Proceeds 12/31/08

### I. PURPOSE

The University of Utah (University) Practice for Distribution of Endowment Proceeds governs the amounts distributed from endowments to respective expendable funds. The Vice President for Administrative Services, upon consultation with the Spending Committee, may adjust the amounts set forth in this announcement from time to time.

### II. DEFINITIONS

- True Endowment (also known as permanent endowment funds): resources with respect to which a donor has stipulated, as a condition of the gift, that the gift is to be maintained inviolate and in perpetuity. A true endowment is to be invested for the purpose of producing present and future income that may, also by donor stipulation, be expended or reinvested with the original gift. The principal or corpus of the true endowment must be maintained intact. Income that may be expended according to the donor's stipulation may be unrestricted or restricted as to the purpose for which it is expended, the time it may be expended, or both. Income that may not be expended but rather added to the principal or corpus in accordance with the donor's stipulation assumes, or takes on, the same restrictions as the original gift.
- Term Endowment: similar to true (permanent) endowments, except that, upon the passage of a stated period (or time) or the occurrence of a particular event, all or part of the donation may be expended. True and term endowments are collectively referred to as 'donor-restricted' transactions.
- Quasi Endowment (also known as funds-functioning-as-endowments): are used to report resources that the governing board, rather than the donor, has determined are to be retained and managed like an endowment. Principal and income of these funds may be utilized at the discretion of the governing board. Resources that the governing board sets aside to function as an endowment may be unrestricted or restricted as to the purpose or time of expenditure by an agent outside the institution.
- Endowment Pool: a commingled, unitized fund maintained by the Institution for investment purposes in which specific Endowment Activities purchase units. The Pool is managed on a total return basis – meaning both income and a portion of the market appreciation<sup>1</sup> may be distributed from participating endowments on a periodic basis.
- Historical Cost: Also known as principal, corpus, and book value. It is defined as the value of the original gift plus subsequent gifts and distributions reinvested. In the case of quasi endowments, historical cost is reduced by withdrawals.
- Market Value: The fair value of an endowment at a particular point in time. Market value is calculated quarterly on a per unit basis and is based on the total market value of the pool's underlying investments.

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<sup>1</sup> State of Utah adopted the Uniform Prudent Management of Institutional Funds Act, 51-8 Annotated as of May 28, 2009

- Applicable Market Value: determined at the beginning of each fiscal year by averaging the Endowment Pool's quarter ending unit market value over the previous 12 fiscal quarters ended December 31 of the previous calendar year.
- Endowment Activity: A specific Activity within the Endowment Fund in the general ledger.
- Expendable Activity: A specific Activity relating to a specific University endowment Activity that contains funds available for expenditure in accordance with the donor-designated purpose.
- Spending Committee - A committee comprised of the two senior vice presidents (or their delegates), the Chief Investment Officer and Vice President for Administrative Services; and a representative sample of college deans. The Committee will meet from time-to-time as deemed necessary by the Vice President for Administrative Services or either of the two senior vice presidents.

### III. Practice for Distribution of Endowment Proceeds

A. Earnings available for spending is calculated quarterly and transferred to Expendable Activities. The calculation is as follows:

1. At the end of the quarter, 4% (on an annualized basis) of the Applicable Market Value multiplied by an endowment's number of units is distributed to the respective Expendable Activity to be spent according to the donor's restrictions (which are documented in the gift agreement)<sup>2</sup>. The spending rate may be adjusted from time-to-time in order to maximize program support while maintaining long term purchasing power.
2. Exceptions to this Practice may be approved by the Vice President for Administrative Services; or, if so determined by the Vice President for Administrative Services, additional approvals may be required.

Approved:

  
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Arnold B. Combe, Vice President for Administrative Services

<sup>2</sup> In certain situations, the donor has dictated that all or a portion of the distribution be reinvested into the endowment's corpus for a period of time or until a certain amount has been achieved.