

Houston Community College Foundation Endowment Fund Policy

NOTE: Annual Decision points for the Financial and Investment Committee are in blue and are noted to remain in the policy.

Highlight sections reference other HCCF Policies

1. Endowment Funds Policy

A donor creates an Endowment fund with a gift containing a legal stipulation that the original gift (principal) shall never be expended unless otherwise provided in the endowment agreement with the donor. These gifts are held and invested in perpetuity by Houston Community College Foundation (HCCF) for the purpose of generating a permanent expendable income stream from the return on the invested principal. There are three different types of HCCF endowments:

- a. Unrestricted – the donor designates the funds available for spending to be spent where needed most in alignment with HCCF’s mission. The HCCF Board determines where the funds are to be spent on an annual basis.
- b. Restricted – the donor designates the funds available for spending to be spent with restrictions. Restrictions must support Houston Community College’s (HCC) Mission and Strategic Priorities. The HCCF encourages donors to make restrictions as broad as possible since HCCF honors donor’s intent, which means funds will only be awarded if the HCC Student or program or faculty meet the criteria listed in the donor agreement.
- c. Quasi – where **HCC or HCCF establishes a fund to function as an endowment in that the principal is to be retained and invested**. However, the entire principal and income may be spent at any time at the discretion of the Finance and Investment Committee.

2. Endowment Funds Spending Policy

The Finance and Investment Committee recognizes that decisions to spend or accumulate endowment funds must be made in good faith, with the care that an ordinary prudent person in a like position would exercise under similar circumstances, and take into consideration such factors as follows:

1. Duration and preservation of the endowment fund
2. The mission of HCC and HCCF and the purpose of the endowment fund
3. General economic conditions
4. The possible effect of inflation or deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of HCC and HCCF

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7. The investment policy.

Source: [Uniform Prudent Management of Institutional Funds Act](#).

3. Endowment Spending Policy

Based on the above considerations, the Finance and Investment Committee shall authorize the annual expenditure of “prudent amounts” of the endowment and inform the HCCF Board. The Finance and Investment Committee can also decide to **accumulate** funds rather than authorize annual expenditure of funds. If the endowment ending fiscal year balance is less than the endowment principal, the Finance and Investment Committee can authorize funds accumulation rather than funds spending on a total or individual fund basis – underwater condition.

Finance and Investment Committee Decision Point – annually authorize spending or not.

Endowment principal is defined, in accordance with the [Uniform Prudent Management of Institutional Funds Act](#). It states, “the aggregate of fair value in dollars of an endowment at the time it became an endowment, each subsequent donation to the fund endowment principal at the time it is made, and each accumulation made pursuant to a direction in the applicable gift instrument at the time the accumulation is added to the fund endowment principal”. The HCCF will maintain on its books the endowment principal amount separate from earnings reserve or accumulated earnings.

Investment Earnings. Endowment funds are invested per HCCF’s **Investment Policy Statement**. The individual endowment funds are pooled for investment purposes. The individual endowment funds shall be reconciled book to bank at least annually based on fiscal year end investment balances (bank). The annual investment earnings (both realized income, gains and losses and unrealized gains and losses net of investment fees) are allocated to each individual fund based on its proportional amount of the total endowment funds at least at fiscal year-end.

Endowment reserved earnings are the amount of **investment earnings** to be maintained to protect **endowment principal**. The **endowment earnings reserve rate** is the percentage of **endowment principal** used to calculate the endowment earnings reserve. The endowment earnings reserve rate is considered annually and may range from 0% to 5% of the **endowment principal**. The Finance and Investment Committee approves the endowment earnings reserve rate and informs the HCCF Board. **Finance and Investment Committee Decision Point – annually authorizes the endowment earnings reserve rate.**

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Endowment earnings are defined as the accumulation of **investment earnings** less **endowment reserved earnings**.

The fiscal year-end endowment balance is beginning balance (September 1) plus annual contributions plus **investment earnings** (both realized income, gains, and losses and unrealized gains and losses net of investment fees) minus disbursements and is reported on the annual audited financial statements.

Endowment annual authorized spending rate is defined as the percentage of the endowment fund which can be distributed annually. This spending rate may range from a minimum of 0% to a maximum of 5%. The spending rate is inclusive of an annual HCCF operational spending rate not to exceed 1%. The HCCF is committed to awarding the highest possible authorized spending rate within this range each year. **Finance and Investment Committee Decision Point – annually authorizes the spending rate.**

Endowment spending rate is authorized annually by the Finance and Investment Committee no later than June 1 before the end of the fiscal year. Endowment authorized annual spending is available at the start of the next fiscal year (September 1).

Endowment authorized annual spending amount is calculated by taking the average of the trailing three years fiscal year end individual fund balances times the annual spending rate. The annual authorized spending amount is calculated for each individual fund. Annual endowment authorized spending may not reduce an individual endowment fund balance below the endowment principal. In making distributions, HCCF is authorized to use both net income and net capital appreciation (both realized income, gains and losses, and unrealized gains and losses net of investment fees) above the endowment principal less the required endowment earnings reserves as long as the individual endowment fund balance is not reduced below the endowment principal.

In determining annual authorized spending, if a pledge has been made for a specific endowment fund, the calculation is based on cash received in endowment principal in a given fiscal year. Funds are not advanced for scholarships or programs based on pledges.

When an individual endowment fund does not have sufficient earnings to support a distribution based on the determined annual spending rate, the Finance and Investment Committee may elect to:

1. make no distribution that year for that fund;
2. make a reduced distribution based on the amount available from authorized

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- spending for that fund;
3. make a distribution from the earnings reserved for that fund if available;
 4. contact the fund's donor and request a special annual gift to replace or make up for the difference between any reduced distribution amount and the typical annual amount.

For endowments with distribution purposes other than scholarships, only HCC leaders identified in the endowment agreement or identified on the associated HCCF Fund of Excellence agreement are the authorized requestors and approvers for distributions from annual authorized spending amounts. The Finance & Investment Committee shall have discretion over whether annual distributions are made. If the Finance & Investment Committee determines that a distribution is not needed in a current fiscal year, the Finance & Investment Committee may waive the distribution for the year for the non-scholarship endowment fund.

Any unawarded scholarship funds from annual authorized spending remain in the endowment fund in accumulated earnings. For endowments which provide funding for programmatic awards, the designated recipient program can choose either to allow unused annual authorized spending to remain in the endowed funds' accumulated earnings to offset potential future impact from market volatility or be retained in their fund of excellence for carry over for a maximum of one year.

Newly created endowment funds must be invested for at least one year prior to the annual authorized endowment spending calculation date fiscal year end (i.e., August 31, 20XX) before distributions can be made from that individual endowment fund. *For example, a new endowment fund is created for \$50,000 on April 1, 2021. The first possible calculation date is August 31, 2022, for possible available authorized spending starting July 1, 2023.* The newly created endowment fund needs to be invested for one complete fiscal year prior for possible available authorized annual spending.

Newly created endowment funds must meet the minimum principal level per the [HCCF Gift Acceptance Policy](#). The minimum principal level must be met prior to being eligible for disbursements to be made from the endowment authorized annual spending. The endowment fund will be included in investment earnings allocations, will accrue investment earnings, and spending is available for disbursement in the year following the attainment of minimum principal balance. *Note: The minimum endowment principal balance as of 9/1/2017 is \$25,000. Endowment funds established prior to 9/1/2017 may have a minimum principal balance less than \$25,000.*

The endowment fund agreement must be signed by all parties to be eligible for disbursements to be

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made from the endowment authorized spending.

Any spending exceptions to this policy shall only be made upon the written approval of the Finance and Investment Committee.

The HCCF President or designee shall annually provide to the Finance and Investment Committee an analysis of endowment spending available, by fund, based on proposed Endowment authorized spending rate inclusive of annual HCCF operational spending rate and annual endowment earnings reserve rate for the upcoming fiscal year. This shall occur before May 31 of the fiscal year.