



# ENDOWMENTS, INFLATION AND INVESTMENT RECAPITALIZATION

This document is the parent policy for any College procedures. Questions regarding this policy are to be directed to the identified Policy Owner.

<b>Category:</b>	F. Finance
<b>Policy Number:</b>	F08
<b>Approval Date:</b>	November 16, 2023
<b>Effective Date:</b>	November 16, 2023
<b>Policy Owner:</b>	Vice President, Development

<b>Objective:</b>	<p>Olds College of Agriculture &amp; Technology (the "College") receives endowment donations which provide annual investment revenues to fund student awards, program development, program delivery, professional development, capital purchases and general college operations. Endowment donations are external donations that are provided to the College where the donor restricts the terms of the donation, noting what it can be spent on, how much of it can be spent and what span of time the endowment should cover.</p> <p>It is the responsibility of the Department of Development in conjunction with Business Services to administer the endowments in accordance with donor and legislative requirements.</p>
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<b>Policy:</b>	<p><b>Policy Objectives</b></p> <ol style="list-style-type: none"> <li>1. The College is committed to using the funds derived from endowments to advance specified educational purposes such as student awards &amp; bursaries, research support, and other initiatives.</li> <li>2. The assets from each endowment will be combined for purposes of investing and the interest earned and/or realized and unrealized gains and losses will be allocated on an annual basis.</li> <li>3. The capital portion of the endowment will be left intact and only the investment return, or a portion of it, will be utilized annually.</li> <li>4. The investment return earned on the principal will be used to support the purpose of the endowment.</li> <li>5. Annually, if investment returns are adequate to permit, a provision will be added to the endowment principal to preserve economic value.</li> </ol> <p><b>Preservation of the Capital Account</b></p> <ol style="list-style-type: none"> <li>1. The economic value of a donated principal of all endowments is to be maintained in perpetuity (unless otherwise designated by the donor) to generate income for annual use for such purposes as agreed to between the donor and the College.</li> <li>2. Each year, using the investment income of the endowment principle, the endowment principle will be increased by a management-determined</li> </ol>
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percentage that estimates the long-term inflation rate.

3. Every 5 years, the Chief Financial Officer (CFO) will compare the Economic Rate Adjustment (ERA) percentage calculated against actual inflation results and may recommend adjusting rate upwards or downwards if provisions have not been matching actual inflation results. Actual inflation results used for comparison will be based on the rate of increase of the Statistics Canada Core Consumer Price Index (CPI) for Alberta.
4. Any changes in the percentage used to economically adjust endowments will be shared and approved by the Executive Leadership Team and recorded in minutes.
5. Any unrealized remeasurement gains/losses on investments will be made against the principal balance of the donation. In situations where the capital account falls below the amount of the original donation and accumulated adjustments, the balance of the spending account will be transferred to the capital account and spending from the account will cease until the account is reinstated to its original balance.

#### **Endowment Spending**

1. Unless otherwise stated, spending will commence once the endowment has been held for one year. Any unspent amounts in the endowment spending account will be carried forward to the following year.
2. If the annual spending allocation has not been dispersed in 3 consecutive years, or a significant balance accumulates in the spendable deferred portion, the College will make every effort to contact the donor to assess the best use of funds. In cases where contact cannot be established, with approval from the Executive Leadership Team, both the principal and spending allocation will be transferred to an endowment fund which best represents the original intent of the endowment, unless outlined in the donor agreement.
3. To maximize the benefit of the endowment, all endowments will be reviewed on an annual basis. In cases where the original intent of the endowment can no longer be fulfilled due to changes in college strategy, cancelled programs, etc., the College will make every effort to consult with the endowment contact. If no contact can be made, with approval from the Executive Leadership Team, both the principal and spending allocation will be transferred to an endowment fund which best represents the original intent of the endowment.

#### **Allocation of Net Investment Returns**

1. Income earned in excess of ERA will be allocated to the spending account on an annual basis.
2. In cases where the ERA percentage is higher than the return on investment on the endowment in a particular year, the balance for the ERA adjustment will be derived from the spending account.
3. In situations where the spending account is at or close to zero and ERA exceeds the return on investment, the ERA allocation to the capital account will be paused. Spending will resume once the account reaches a positive balance.
4. The recapitalization for all new endowments will be computed at ERA as mentioned above.
5. Recapitalization criteria for endowment agreements established prior to implementation of this policy will remain intact.
6. A donation minimum will be required in order to qualify as an endowment. The minimum will be determined by the college based on feasibility.

<b>Definitions:</b>	<p><b>Economic Rate Adjustment (ERA):</b> A College estimated long-term inflation factor, expressed as an annual percentage, used to preserve economic purchasing power of an Endowment.</p> <p><b>Endowments:</b> Funds received by the college whereby the donor has requested that the funds be invested to finance an ongoing commitment – e.g., Bursary, award, capital project, or educational program.</p> <p><b>Capital Account:</b> The total of all contributions made to the principal portion of the endowment. It can be comprised of: charitable donations, government matching contributions, annual inflation adjustments, or other amounts.</p> <p><b>Spending Account:</b> The portion of the endowment that is available to be spent to support the intended purpose of the endowment fund. The balance of the account can consist of an allocated portion of interest earned, other cash contributions intended for expenditure, and any unspent spending allocations carried forward from prior years.</p> <p><b>Core Consumer Price Index (CPI):</b> The Statistics Canada consumer price index exclusive of food &amp; energy.</p> <p><b>Endowment Gains &amp; Losses:</b> This is inclusive of interest income, realized and unrealized investment income and losses.</p> <p><b>Return on Investment:</b> The total gains and losses for the endowment after deducting the fund management fees.</p>
<b>Related Information:</b>	
<b>Related Procedures:</b>	D04 Donor Recognition and Stewardship
<b>Review Period:</b>	3 years
<b>Revision History:</b>	Revised: September 2016 Revised: May 2023 Revised: November 2023