

## ENDOWMENTS, INFLATION & INVESTMENT RECAPITALIZATION

This procedure is governed by its parent policy. Questions regarding this procedure are to be directed to the identified Procedure Owner.

<b>Category:</b>	F. Finance
<b>Parent Policy:</b>	F08
<b>Approval Date:</b>	May 7, 2025
<b>Effective Date:</b>	May 7, 2025
<b>Procedure Owner(s):</b>	Vice President, Development

<b>Overview:</b>	
<b>Procedures:</b>	<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 percentage that estimates the long-term inflation rate.</li> <li>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.</li> <li>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.</li> <li>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.</li> </ol> <p><b>Endowment Spending</b></p> <ol style="list-style-type: none"> <li>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.</li> <li>2. In the event that expenditures (including contributions to capital purchases) exceed the accumulated value of the endowment spending</li> </ol>

account, spending of the account will be suspended until the shortfall is recovered through endowments earnings, and will resume in the fiscal year following the recovery.

- 2.1 Should the spending account be in arrears after the 2nd subsequent fiscal years of endowment earnings, the College will transfer sufficient investment income to the spending account to bring the balance to zero dollars (\$0.00) at the end of the 2nd subsequent fiscal year.
- 2.2 The President, on the recommendation of the CFO, may direct that a transfer of college investment income be made to bring the balance to zero dollars (\$0.00), at which time spending may resume the following fiscal year.
3. 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.
4. 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.
5. Any intentional over-spending of the spending account is a violation of this policy. Responsibilities for spending accounts are the same as those outlined in policy F02 - Budget Owner Responsibility, to Budget Owners and delegated employees.
6. A report of any spending account in arrears (over-spent) as of June 30th of each fiscal year, is to be presented to the President by September 1 of the same year.

#### **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 spending account reaches a positive balance and all ERA contributions have been made.
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.

#### **Definitions:**

**Economic Rate Adjustment (ERA):** A College estimated long-term inflation factor,

expressed as an annual percentage, used to preserve economic purchasing power of an Endowment.

**Endowments:** Gifts to the College of which the principle, plus any reinvestment made to preserve economic value, cannot be encroached. Endowments can include cash, investments or land. Land is assumed to preserve economic value by virtue of market value changes. Only revenue in excess of what is required to maintain economic value can be distributed in the manner expressed by the donor. 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.

**Capital Account:** 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.

**Spending Account:** 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.

**Core Consumer Price Index (CPI):** The Statistics Canada consumer price index exclusive of food & energy.

**Endowment Gains & Losses:** This is inclusive of interest income, realized and unrealized investment income and losses.

**Return on Investment:** The total gains and losses for the endowment after deducting the fund management fees.

**Related Information:**

D04 Donor Recognition & Stewardship  
D06 Gift Acceptance  
F02 Budget Owner Responsibilities  
F10 Externally Restricted Contributions

**Review Period:**

3 years

**Revision History:**

New: May 2025