BOARD POLICY: ENDOWMENT

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PURPOSE

This policy governs the establishment, management, and disbursement of endowments held by Scarborough Health Network Foundation ("the Foundation").

SCOPE

This policy applies to all gifts accepted to any existing or newly-created endowment funds.

DEFINITIONS

Endowments are funds where the capital is held without encroachment (typically in perpetuity or for a minimum period of ten years) and the income generated is used to provide funding for the specific purpose of the endowment. Endowments can be externally endowed by the donor or internally endowed by the Finance Committee of the Board of Directors.

POLICY

Establishment of Endowment

Endowments may be established through:

(1) Execution of a gift agreement with a donor provided there is a minimum commitment of $100,000; or
(2) Conveyance of a bequest with terms set out in a will; or
(3) Establishment of an internally restricted endowment, with approval by the Finance Committee.

In all cases, endowments must be supported by written terms.

The Foundation may maintain a variety of endowment funds to which the endowed gift may be applied at the Foundation's discretion based on the gift terms outlined by the donor.

All endowed gifts are subject to acceptance by the Foundation President & CEO. The Foundation reserves the right to refuse endowment funds with terms that are onerous, highly restrictive, or for purposes that do not further the mission and/or strategic priorities of Scarborough Health Network Foundation.

Additional Gifts to Existing Endowments

Once established, the Foundation may accept additional gifts into an existing endowment fund, with no minimum threshold.

Terms of Gift Agreement

Where endowments are established through gift agreement with donors, the following terms are mandatory:

- Purpose of the endowment;
- Naming and recognition commitments;
- Notation that Board-approved development and administration fees are applied to restricted endowment gifts;
- A provision allowing the donor and Foundation to amend the executed agreement by mutual consent;
- A right to vary clause allowing the Board of Directors to vary the terms or the purpose of the endowment should the Foundation be unable to reach mutual consent with the donor (see further details below);
- A reference that endowments are accepted and managed in accordance with this policy and other pertinent Board policies; and
- A term that endowments are administered in accordance with all laws and regulations, which prevail over terms in the endowment agreement.

Beyond these mandatory terms, the gift agreement will contain standard terms and conditions (such as donor information, payment terms, signatories, etc.).

Right to Vary Clause

All gift agreements will include terms that establish the Foundation's the right to vary the restrictions on any endowed funds where the intended purpose becomes impossible or impractical to fulfill. Subject to approval by the Board of Directors, the Foundation may re-designate the purpose of the endowment provided that the endowment continues to bear the donor's name (if applicable) and the amended terms shall adhere as closely as practical to the donor's original intent.

Only the Board of Directors has the authority to waive the requirement for a right to vary clause in a gift agreement.

Naming and Recognition

The naming of endowments is addressed by the Foundation's Donor Recognition Policy.

Investment of Endowment Funds

Endowment funds are pooled together for investment purposes, professionally managed, and maintained according to the Board's Statement of Investment Policies.

Endowment funds will be invested with a view to both preserve and grow capital such that the future value of disbursements continues to achieve the intended impact.

Accounting of Endowment Funds

While the investments are pooled for investment management purposes, the general ledger will maintain accounting and reporting for each distinct endowment fund.

Each endowment fund is to be accounted in the general ledger as follows:

(1) The original endowment contributions are to be maintained in capital accounts housed within the overall endowment fund
(2) A stabilization account will record all net investment income (dividends, interest, realized and unrealized capital gains and other investment income, net of investment fees) less cumulative investment appropriations. The stabilization account is also housed within the overall endowment fund.
(3) Investment appropriations represent withdrawals from the endowment fund for:
    (a) the annual expendable allocation for the designated purpose of the fund, which is transferred from the stabilization account to the respective restricted fund, and
    (b) the administration fee, which is transferred from the stabilization account to the unrestricted fund.

Purpose of Stabilization Account

The stabilization account is intended to:

- Preserve the purchasing power of the endowment funds on an inflation-adjusted basis;
- Ensure the long-term capacity of the Foundation to pay the annual expendable allocations, even in a particular year where the investment return is below the annual expendable rate or a negative return;
- Grow the long-term value of the endowment fund to support higher expendable allocations in future years (depending on market returns).

Based on its review, the Investment Committee may from time to time choose to endow funds available in the stabilization account. In other words, transfer funds from the stabilization account to the endowment's permanent capital. Likewise, the Investment Committee may choose to endow any unexpended allocations.

Annual Expendable Allocation

Expendable allocations may fund eligible expenditures of the Foundation or grant disbursements to the hospital. The expendable funds carry any restrictions that the donor has established in the endowment terms.

The annual expendable allocation will occur at the start of each fiscal year and will be calculated as the lesser of:

- 3.5% of the fiscal year's opening market value
- The fund's stabilization balance

The annual expendable allocation cannot encroach on the capital of the endowment funds.

For a named endowment, annual expendable allocations will not commence until the donor's entire pledge has been fulfilled. During the payment period, the endowment will be credited with investment income.

The distribution rate will be reviewed as part of this policy's review to ensure that it is reflective of market returns and the stated intention to maintain the real value of the endowments.

Administration Fee

The administration fee represents a cost recovery of 1% calculated on the opening endowment portfolio market value.

Management of Endowment Inflows and Outflows

The Associate Vice President, Finance & Operations has the discretion to manage the cash inflows and outflows of the endowment funds within the parameters of this policy. The AVP may chose to offset endowment contributions to the pooled investment portfolio against withdrawals for payouts. The AVP may also choose to fund the payout from operating cash balances and later make recovery from the endowment funds based on operational needs or investment performance.

Any funds due to/from the endowment will be reflected in the interfund cash position. All transactions will be appropriately documented in the Foundation's general ledger.

Stewardship Reporting

As part of the stewardship process, the Foundation may produce an annual financial report for each endowed fund for distribution to interested parties.

Accountability

A standard endowment gift agreement template is to be maintained by the Vice President, Philanthropy with review by the Associate Vice President, Finance & Operations.

RELATED DOCUMENTS

Board Gift Acceptance Policy
Board Donor Recognition and Naming Policy
Board Policy on Interfund Transfers
Board Statement of Investment Policies