



ENDOWMENT POLICY

General

The Board of Governors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted by the state of California, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the value of subsequent gifts donated to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund;
2. The purposes of the Foundation and the donor-restricted endowment fund;
3. General economic conditions;
4. The possible effect of inflation and deflation;
5. The expected total return from income and the appreciation of investments;
6. Other resources of the Foundation;
7. The investment policies of the Foundation.

Investment Policy

The Foundation has adopted investment and spending policies for endowment assets, approved by the Executive Committee, that attempt to provide a predictable stream of funding for the scholarships supported by its endowment assets while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity, debt securities and mutual funds; that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make annual scholarship distributions,



while growing the funds if possible. Investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk. The performance of endowment funds' investments is reported on a monthly basis and the annual real return objective is 5%.

Appropriation of Investment Earnings and Allocation to Individual Endowment Funds

The Foundation will appropriate investment earnings of 2.25% to 3% of the latest 3-year average balance of endowment investments managed by Halbert Hargrove. This calculation will be made early in the first quarter of the calendar year based on the June 30th balances for the prior 3 years.

The Finance Committee and Investment Sub-Committee will meet to set the annual appropriation amount based on a recommendation by the Executive Director. This group will consider the performance of the investments in the prior year, the current value of the investments, the current economic outlook and needs of scholarship recipients. This group will recommend an amount to the Executive Committee for the coming fiscal year.

The approved annual appropriation will be allocated to the individual Scholarship and Non-Scholarship endowment funds based on each fund's proportion to the total endowment funds (excluding endowment funds that are separately invested), calculated using the sum of quarterly fund balances for the preceding fiscal year. The allocated amount will be recorded in the temporarily restricted portion of each donor fund as of July 1st of the next fiscal year.

Spending Policy

At the time the annual appropriation of investment earnings is determined, the Finance Committee and Executive Director will also set the amount of spending for endowed scholarships for the next fiscal year. This group will consider the current balance of the temporarily restricted portion of the scholarship endowment funds, the scholarships awarded in prior years versus the approved spending amount, and the needs of scholarship recipients. This group will recommend a spending amount to the Executive Committee for the coming fiscal year, which will typically approximate the annual appropriation of investment earnings.

The policy of the Foundation is not to distribute the entire temporarily restricted amount in order to retain earning power for any downturns in the market. However, significant



accumulation of unspent temporarily restricted funds will be evaluated by the Finance Committee and the Executive Director, and a plan for reasonable distributions will be developed. In establishing this policy, the Foundation considered the long-term expected return on its investment assets, the nature and duration of the endowment fund which must be maintained in perpetuity because of donor restrictions, and the possible effects of inflation. The policy is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets, and to provide additional real growth through new gifts and investment return.

Effective July 1, 2018, a new individual endowment fund must have a minimum of \$25,000 (twenty-five thousand dollars) in the permanently restricted corpus before any distribution of the temporarily restricted portion may be made. Endowments established before July 1, 2018 will be grand-fathered and donors will be encouraged to increase their permanently restricted corpus to the new level.

The approved annual spending amount and timing will be communicated to Halbert Hargrove for consideration in the ongoing management of investment performance and liquidity.

Administrative Fees

The Foundation assesses a one-time Administrative Fee of 5% on the original corpus of each endowment gift, as well as future contributions to the endowment fund. The Administrative Fee is calculated on the gift amount, not on the investment earnings subsequently allocated to the fund. After the one-time Administrative Fee, the corpus remains unchanged. Nonprofit organizations and foundations that have a written, board-adopted policy that prohibits fees may submit such documentation for a fee waiver.

Administrative Fees will be recorded at the time of the endowment gift or pledge. Both the gift and the Administrative Fee will be recorded at gross; the Fee will not be netted against the gift amount. Recognition of the Administrative Fee is recorded as a transfer from the applicable donor fund to the General Fund #1000.