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## **Purpose**

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Our Mission seeks to educate people with intellectual freedom and moral conscience. We are guided by firm Christian principles that requires our University community to conduct ourselves and be committed to ethics and integrity at all times and in all our endeavors.

This is the policy of the Universidad del Sagrado Corazón with respect to the classification of **donor-restricted endowment funds** also referred as donor-restricted net assets. All University accounting and financial records, tax reports and other documents must be accurate, clear and complete. All published financial reports will make full, fair, accurate, timely and understandable disclosures as required under generally accepted accounting principles, bond covenant agreements and other requirements. All entries in University books and records must accurately reflect each transaction.

## **Definitions**

1. “Endowment Fund” is a University fund that is restricted by others and may not be wholly expendable by the University. A restriction that makes a fund an endowment fund arises from the stipulations in the Gift Instrument including funds that may last in perpetuity and also funds that are created to last for a fixed term or until the University achieves a specified purpose. Endowment funds are invested and used pursuant to the Endowment Fund – Statement of Investment Objectives, Policies and Guidelines.

2. “Endowment Fund – Statement of Investment Objectives, Policies and Guidelines” is the investment policy approved by the University’s Board of Trustees that includes, among other, the investment objectives and risk parameters, the spending policy, and the strategy to achieve the objectives.

3. “Gift Instrument” refers to the records that establish the terms of a gift and may consist of more than one document. The only legally binding restrictions on a gift are those stipulated in writing.

4. “University or Institution” refers to the Universidad del Sagrado Corazón.

5. “University Fund” is any fund held by the University for the advancement of the University’s mission and objectives.

6. “Unrestricted Net Assets” refers to those net assets whose use is not restricted by donors. This includes Board designated net assets and undesignated net assets.

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**Classifications of Net Assets**

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1. Donor-restricted net assets. The University will follow the donor’s intent expressed in a written Gift Instrument. Donor’s intent does not mean that the donor controls the fund’s management.

A donor-restricted net asset may be: of perpetual duration (“permanently restricted net assets”), or restricted by time or purpose (“temporarily restricted net assets”).

- a. Permanently restricted net assets are the amount of the fund that must be retained in perpetuity in accordance with the donor’s explicit stipulations.
- b. Temporarily restricted net assets are the amount of the fund that must be retained for a term (“time restriction”) in accordance with the donor’s explicit stipulations after which the assets are released for expenditure by the University without restrictions. The donor may also temporarily restrict the assets for a specific use (“purpose restriction”). The University may spend the funds in accordance with the donor’s stipulations.

<b>Examples</b>	<b>Classifications</b>
Donor intent is to keep the whole gift amount in perpetuity and use the investment return for a specified purpose.	Gift amount is entirely classified as a permanently restricted net asset and the investment return is classified as a temporarily restricted net asset (purpose restriction).
Donor intent is to keep a defined portion of the gift amount in perpetuity and the remaining balance to be used for a specified purpose.	Defined portion of the gift amount is a permanently restricted net asset and the remaining balance is a temporarily restricted net asset for purpose.
Donor’s intent requires use of the gift amount during a defined term.	Gift amount is entirely classified as a temporarily restricted net asset until the defined period has expired. Once expired, the unused portion of the gift is considered unrestricted.
Donor intent is to use the gift for a specified purpose.	Gift amount is a temporarily restricted net asset until used for the purpose specified by the donor

2. Board-designated assets (“unrestricted net assets”) are University Funds but not Endowment Funds. The University may place such restrictions that it deems necessary and appropriate for the advancement of the University’s mission and objectives.

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## **Gift Instrument**

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Donor-restricted assets are perfected by means of a written Gift Instrument that can be recorded in one or more documents. The record is a writing in any form (print or electronic) such as a will, deed, grant, conveyance, agreement, or memorandum, and other writings where both the donor and the University are aware of the gift’s stipulations.

All donor-restricted assets classified as either permanently and temporarily restricted net assets, must be in writing with clear stipulations on the restrictions and signed by the donor and the University. Unless otherwise specified by the donor in the Gift Instrument, gifts shall be automatically classified as unrestricted net assets.

Only gifts in the amount of \$25,000 or more shall be classified as permanently restricted net assets. Gifts below \$25,000 shall be classified as temporarily restricted net assets or unrestricted assets, depending on the donor’s intent.

## **Investment Return**

Investment return refers to (a) the net appreciation on the investment (interest, dividends, realized and unrealized gains) and, (b) the net depreciation (realized and unrealized losses) on the investment.

### **1. Appreciation (Gains)**

The appreciation of the assets in the Endowment Fund will be classified according to the donor’s expressed restrictions specified in the Gift Instrument. To the extent the donor does not specify a restriction on the use of the appreciation, such funds will be treated as increases to the unrestricted net assets. If a donor stipulates that interest, dividends and net gains be added to the principal of the gift until the endowed gift increases to a specified dollar level, then the accumulated earnings and gains are also classified in the same net asset classification where the principal of the gift is recorded (“temporarily or permanently restricted net assets”). Once the specified dollar level is reached, the excess accumulated earnings and gains shall be considered temporarily restricted or unrestricted depending on the restrictions imposed by the donor in the Gift Instrument.

Appreciation on the investment will be recognized at the closing of the University’s fiscal year (June 30).

### **2. Depreciation (Losses)**

Permanently restricted net assets are not reduced by losses on the investments of the Endowment Fund, unless permitted by the donor in the Gift Instrument. However, unrealized gains or losses related to specific investments that the donor requires that the University hold in perpetuity shall increase or decrease, respectively, the permanently restricted net assets.

*Investment Losses Classified as Temporarily Restricted Net Assets-* Investment losses of a donor-restricted endowment fund will reduce temporarily restricted net assets to the extent that the donor fund has sufficient available resources classified as temporarily restricted net assets to offset such loss. If there are no available funds or available funds are insufficient, the remaining loss shall reduce unrestricted net assets. Gains that restore the fair value of the assets of the endowment fund to the required level must first replenish the unrestricted net assets for previous investment losses. Once replenished, the gains will be recorded as temporarily restricted net assets.

The following represent examples to explain the treatment of investment returns:

**Example 1**

Year 20x1- Donor X provided a gift, amounting to \$100,000 that was classified as a permanently restricted net asset. Appreciation must be used for scholarships according to donor's intent as stipulated in the Gift Instrument. The appreciation of the assets in the Donor's X's Endowment Fund amounted to \$10,000 in Year 20x1 and was classified as temporarily restricted net assets.

Year 20x2- Donor X's invested endowed funds have an unrealized loss of \$4,000. Scholarships granted amounted to \$1,000.

*Treatment:* The unrealized loss reduces temporarily restricted net assets by \$4,000 as the principal amount of the gift must remain at \$100,000. The scholarships granted reduce the temporarily restricted net assets. Amounts available for scholarships at the end of the year is now reduced to \$5,000 calculated as follows:

Temporarily Restricted Net Assets:

Amounts available at year 20x1	\$	10,000
Less loss on investments in 20x2		(4,000)
Less scholarships granted in 20x2		<u>(1,000)</u>
Amounts available at end of year 20x2	\$	<u>5,000</u>

Year 20x3- Invested endowed funds have an unrealized loss of \$7,000. No scholarships were granted in year 20x3.

*Treatment:* The unrealized loss reduces temporarily restricted net assets by \$5,000 (up to the amount available for scholarships for Donor X) and reduces unrestricted net assets for the remaining \$2,000.

Year 20x4- The invested endowed funds have an unrealized gain of \$13,000.

*Treatment:* , The unrestricted net assets would recover the \$2,000 impacted in 20x3 and the remaining \$11,000 would be classified as an increase in temporarily restricted net assets.

### **Example 2**

Same facts as Example 1 except that the appreciation has no restriction on its use.

*Treatment for Years 20x2 and 20x3-* The unrealized loss on both years reduces the unrestricted net assets. The recovery of the fair value in 20x4 would be treated as an increase in unrestricted net assets.

Depreciation on the investment will be recognized at the closing of the fiscal year June 30.

### **Appropriation for Expenditure**

Appropriations for expenditure occur upon approval for expenditure by the University Board of Trustees as defined in the Endowment Fund – Statement of Investment Objectives, Policies and Guidelines. In order to protect the University’s operating cash flows, amounts available for appropriation shall not include unrealized gains on investments.

Temporarily restricted assets for purpose are released for expenditure when the amount is spent for such purpose. Temporarily restricted assets for time are released for expenditure upon the expiration of the term specified by the donor in the Gift Instrument.

### **Modifications to Donor Restrictions**

Restrictions to permanently restricted assets may only be modified with the donor’s written consent.

The University may seek a modification of a restriction to allow a more effective and efficient administration of the endowment fund that furthers the purposes of the fund and the donor’s intent. Modifications may be necessary and appropriate to manage situations unanticipated when the donor created the restriction or, if the restriction impairs the management or investment of the fund.

There may be circumstances when a modification to a donor restriction is necessary but the donor or his/her heirs cannot be located. For example, if the purpose restriction becomes impossible, impractical, illegal or wasteful. The University will make all reasonable efforts to locate the donor or his/her heirs for a period of 5 years. After exhausting these efforts, the Board of Trustees shall authorize that the funds be reclassified as a Board designated fund and its use be for a purpose which falls within the general intention of the donor and will be subject to the policies and procedures established for these types of funds.

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### **Endowment Fund Reporting**

A separate subsidiary record will be maintained for each donor-restricted endowment fund detailing the balances available at the beginning of the fiscal year, additions and reductions to the fund during the year and the balances available at the end of the fiscal year. The University will provide annual reports for each donor-restricted endowment fund in excess of \$25,000 containing the following information (1) the fund balance as of the end of each fiscal year and (2) additions and reductions of each donor endowment fund for the fiscal year then ended. The annual report shall include a copy of the University's audited financial statements for the fiscal year covered in the report.

### **Violations to this Policy**

Any violation of the provisions in this Policy shall result in disciplinary sanctions accordance with the established institutional procedures for this purpose in the Employee Handbook, the Faculty Handbook, and any other applicable policy or regulation.

### **Interpretation of this Policy**

In the event of ambiguity in any provision of this Policy, the University reserves the right to interpret the same according to the purpose for which it was established, the impact on the University's operations and good faith, except as otherwise provided by law.

**The Universidad del Sagrado Corazón reserves its right to revoke or make amendments to this policy at any time.**

Approved:



Gilberto J. Marxuach-Torrós  
President