

# Section 5 Finance and Investments

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#### **Section 5.01 - Budgeting - Budget Process and Review**

The budget process is designed to provide:

- a. A means by which spending limits are set based on expected revenue levels
- b. A system to allow for procedures to compare actual results to the set spending limits
- c. A means for setting priorities and allocating resources to those priorities
- d. A means for comparison of actual financial results to budgeted amounts and analysis of differences from those budgeted amounts.

##### **5.01.01 Preparation of Budget**

Prior to the spring Board meeting, the Board Chair, Board Treasurer, Director of Finance and Operations and other Foundation staff as appropriate shall prepare a budget for the next fiscal year.

##### **5.01.02 Approval of Budget**

After preparation of the budget for the next fiscal year, copies of the budget, proposals for cost reductions, and proposals for cost increases shall be sent to the Finance Committee. After the Finance Committee makes revisions, if necessary, and approves the budget, it shall be submitted to the Board at their spring in-person meeting. The Board shall approve or reject the budget. If the budget is rejected, the Board shall direct the Board Chair and Board Treasurer to amend the budget for changes as directed by the Board.

##### **5.01.03 Review of Budget**

Once the budget has been set for the fiscal year, the budget shall be included in the accounting system of the Foundation. As monthly financial statements are prepared, a comparison of actual monthly results of operations to budget figures shall also be prepared. The financial statements and budget variances (with detailed explanations) shall be reviewed monthly by the Finance Committee and the Executive Committee. The full Board shall also review the most recent year-to-date financial statements and budget variances (with detailed explanations) at each of their respective meetings. When deemed necessary, the Executive Committee may revise the budget to fund additional services or make allowances for other unbudgeted revenues or expenses. Any changes should be discussed at the next scheduled Finance Committee meeting, as well as, full Board meeting.

**Person responsible for the periodic review of policy - Finance Committee Chair**

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#### **Section 5.02 - Debt**

It is the policy of the Foundation Board that the Foundation will not incur any debt other than for normal accounts payable that is settled out of the current month's cash flow or for normal payments that are to be made to the University that are settled currently. In the extraordinary case where the Board is asked to waive this policy, it will consider doing so only after the following has occurred:

- a. A written request must be made to the Foundation that includes a detailed business case and cash flow analysis that shows how the debt and related interest and all other costs associated with the debt will be paid. In completing the cash flow analysis, only pledges that will be paid within a fixed time frame should then be considered.
- b. The written request must be signed, and the related support approved, by the Chief Financial Officer of the University as well as the University President.
- c. The written request and supporting documents will then be sent to the Finance Committee of the Board for their review. The Finance Committee will then prepare a written report to the Board that outlines the results of their review and recommendation.
- d. Before the request is submitted to the Board, for any proposal involving debt of over \$500,000, the Board Chair and University President will provide written assurance that the State Board of Education has been provided the opportunity to comment on the Foundation's incurrence of debt and all of the State Board's comments will be provided to the Board.
- e. The Board will not meet to discuss and vote on the request until at least two weeks after they have been provided, the report of the Finance Committee and the feedback, if any, from the State Board of Education.
- f. Before the final debt is approved, the Foundation must provide proof of notification to all significant pledge donors that the Foundation is incurring debt in contemplation of their pledge.
- g. The Board must have a second vote to approve the final loan documents.

Notwithstanding the above, this policy does not apply to debt existing at the date of its adoption that was incurred for the construction of the Stephens Performing Arts Center or for any subsequent modification or renewals of that debt.

**Person responsible for the periodic review of policy - Board Chair**

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### Section 5.03 - Financial Controls

#### 5.03.01 Accounts

The Idaho State University Foundation shall maintain its checking and other bank accounts in financial institutions that are federally insured and should, to the extent possible, minimize amounts on deposit in excess of those insurance limits. All funds received by the Idaho State University Foundation should be deposited promptly and within one week. The Foundation will not issue any credit, debit, or ATM cards. All funds that are not needed for current operations (180 days) shall be invested in accordance with the investment policy established by the Board.

#### 5.03.02 Authority to Sign

- a. All orders of withdrawal, whether by check, wire transfer or any other means, shall be approved by the Board Executive Vice President (EXECUTIVE VICE PRESIDENT) or Board Chair in the EXECUTIVE VICE PRESIDENT's absence and then must bear the signature of one of the following officers:
  - i. Board Past Chair
  - ii. Board Chair (unless he has acted as approver in EXECUTIVE VICE PRESIDENT's absence)
  - iii. Board Treasurer
  - iv. Assistant Board Treasurer (who is selected from the Board Members or Emeritus Directors for this purpose).
  
- b. In addition, the use of a facsimile signature shall be deemed an authorized and acceptable alternative to a personal signature for checks under \$10,000. For checks issued in the amount of \$10,000 and greater the addition of one personal signature from any of the authorized signers as identified in section 5.03.02 a. shall be required.
  - i. The authorized check signer(s) will make disbursements only upon review and approval of the transaction. This will include review for the existence of proper supporting documentation, such as a purchase order and evidence of the receipts of the goods and services as well as the approval of the EXECUTIVE VICE PRESIDENT or, if appropriate, the Board Chair. The EXECUTIVE VICE PRESIDENT or Board Chair's approval can be documented by means of signature or email. The requirement for proper supporting documentation also includes any disbursements to the University. The Foundation must maintain adequate documentation in its own files to show that the University has met the requirements for any disbursements to it. The supporting documents should also be cancelled after the check signer approves.

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- c. Any checks payable to any one of the authorized check signers shall be signed by someone other than the payee and all such checks should, along with explanatory comments, be presented by the Foundation's Finance Director to the Audit Committee at their regularly scheduled meetings.

#### **5.03.03 Deposits**

All mail should be opened by a person independent of any accounting function and all incoming cash receipts should be logged by that person before providing them to the Foundation's accounting department for processing. The log of daily cash receipts should be kept under the control of the person charged with preparing it and on a monthly basis the Foundation Accounting Manager should ascertain that the amount logged in as received agrees to the amount recorded in the Foundation's accounting system as well as the development system.

#### **5.03.04 Bonding**

Each officer or designated signatory with authority to withdraw funds as well as anyone handling checks or other items for deposits shall be bonded. The cost associated to secure the aforementioned coverage shall be that of the Idaho State University Foundation. The amount of insurance coverage will be reviewed annually by the finance committee.

#### **5.03.05 Loans**

No loan may be made to any officer, director, or employee of the Foundation.

**Person responsible for the periodic review of policy - Finance Committee Chair**

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#### **Section 5.04 - Investments**

##### Investment Policies of the Idaho State University Foundation

###### 5.04.01 Preamble

It is the policy of the Board to treat all assets of the Idaho State University Foundation, including funds that are legally unrestricted, as if held by the Idaho State University Foundation in a fiduciary capacity for the sake of accomplishing its mission and purposes. The following investment objectives and directions are to be judged and understood in light of that overall sense of stewardship. In that regard, the basic investment standards shall be those of a prudent investor as articulated in applicable state laws.

###### 5.04.02 Investment Assets

For purposes of these policies, investment assets are those assets of the Idaho State University Foundation that are managed under Policies of the Investment Committee.

###### 5.04.03 Supervision and Delegation

The Board of the Idaho State University Foundation has adopted these policies and has formed an Investment Committee (the Committee), to whom it has delegated authority to supervise the Idaho State University Foundation investments. The Committee and its counselors will act in accord with this investment policy (hereinafter “policy”), and all applicable laws and state and federal regulations that apply to nonprofit agencies including, but not limited to, the Uniform Prudent Investors Act and the Uniform Management of Institutional Funds Act. The Board reserves to itself the exclusive right to amend or revise these policies.

###### 5.04.04 Investment Committee

See Section 9.05 for a description of the Investment Committee responsibilities.

###### 5.04.05 Investment Consultant, Advisors, and Agents

The committee is specifically authorized to retain one or more investment advisors (advisors), as well as any administrators, custodians, or other investment service providers required for the proper management of the Idaho State University Foundation’s funds. See Section 9.05 for further details.

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#### 5.04.06 Objectives

The Idaho State University Foundation's primary investment objective is to preserve and protect its assets by earning a total return for each category of assets (a "fund"), which is appropriate for each fund's time horizon, distribution requirements, and risk tolerance.

#### 5.04.07 Tax-Based Restrictions

The Idaho State University Foundation is a charitable organization under § 501(c)(3) of the Internal Revenue Code. Consequently, its income is generally exempt from federal and state income tax with the exception of income that constitutes unrelated business taxable income (UBTI). The committee is to determine if a particular strategy or investment will generate UBTI, for which it may rely on advice of counsel. Since UBTI can be generated by leveraged investments (resulting in "debt-financed income"), the Idaho State University Foundation will not utilize margin, short selling, or other leveraged investment strategies unless the Investment Committee grants a specific exception. When granting exceptions, the Committee must determine that the potential rewards outweigh the incremental risks and costs of UBTI. All such exceptions shall be made in writing and shall be communicated to the Board as part of the next regular Investment Committee report.

#### 5.04.08 Reporting Requirements

Monthly — The Committee Chair will have the option to obtain written monthly custodial statements. Such statements should contain all pertinent transaction details for each account that holds all or a portion of any of the Idaho State University Foundation investment funds. Each monthly statement should include:

- a. The name and quantity of each security purchased or sold, with the price and transaction date; and,
- b. A description of each security holding as of month-end, including its percentage of the total portfolio, purchase date, quantity, average cost basis, current market value, unrealized gain or loss, and indicated annual income (yield) at market.
- c. In addition, if not included in the custodial reports, the consultant and/or the investment advisor(s) should provide a report for each fund or portfolio showing the month-end allocation of assets between equities, fixed-income securities, and cash. The monthly review of custodial statements may be delegated to the Idaho State University Foundation accounting staff.

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Quarterly — The Committee should obtain from its investment consultant and/or investment advisors, a detailed review of the Idaho State University Foundation's investment performance for the preceding quarter and for longer trailing periods as appropriate. Such reports should be provided as to each fund and as to the Idaho State University Foundation investment assets in the aggregate. As to each fund, the committee should establish with its investment consultant and/or investment advisors the specific criteria for monitoring each fund's performance including the index or blend of indices that are appropriate for the objectives of each fund and for the investment style or asset class of each portfolio within a fund. The Committee shall meet with the consultant to conduct such reviews to the extent it deems necessary.

Periodically — The Committee should meet with its investment consultant at least annually to review all aspects of the Idaho State University Foundation's investment assets. Such a review should include:

- a. Strategic asset allocation,
- b. Manager and investment entity performance,
- c. Investment management expenses,
- d. Anticipated additions to or withdrawals from funds,
- e. Future investment strategies,
- f. Any other matters of interest to the committee.

**Person responsible for the periodic review of policy - Investment Committee Chair**

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### Section 5.05 - Endowments and Endowment Spending

#### Endowments and Spending Policies

##### 5.05.01 Endowments

An endowment is established with a gift from the private sector, which comprises the corpus or principal of the endowment. The corpus is invested, and the income or the capital gain is used to fund a project or need. The corpus remains intact in perpetuity, thereby continuing to generate funds to be used by the institution. Endowments are divided into the following three categories:

- a. Permanent endowments
  - i. Permanent endowments are sometimes referred to as "true" or "pure" endowments and are assets designated by the donor to be held in perpetuity. The corpus of these endowments may never be spent. Earnings and capital gains must be expended in accordance with the terms and conditions established by the donor. However, it must be recognized that the corpus may decline during unfavorable market conditions.
  
- b. Term endowments
  - i. Term endowments are established when the donor specifies that the endowment shall terminate following a particular date or event and that the corpus of the endowment may be expended in accordance with the terms and conditions specified by the donor. Until the passage of the specific date or event, term endowments operate in a manner similar to permanent endowments with expenditures made in accordance with the conditions established by the donor.
  
- c. Quasi-endowments
  - i. The University Administration may set aside certain institutional funds and provide to the Foundation to be maintained as endowments and will specify the use of the assets and spendable income, and set other terms and conditions relating to the fund. The University Administration may change the terms and conditions of the endowment or terminate the endowment.

##### 5.05.02 Gifts to Establish Endowments

A written donative instrument should be provided for each new endowment fund established. This instrument would provide:

- a. A statement providing that additions to the endowment from any other person or entity, unless prohibited, are made subject to the provisions of the donative instrument, and

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- b. A statement that if, in the opinion of the Board of Directors of the Foundation, future circumstances change so that the purposes for which the endowment is established become illegal, impractical or no longer able to be carried out to meet the needs of Idaho State University or its Foundation, the Foundation Board may designate an alternative use for the endowment payout to further the objectives and purposes of Idaho State University, giving consideration to the donor's special interest as evidence by the original purpose of the endowment.

In cases where an endowment is established pursuant to a solicitation letter or document sent to the donor or donors that may be used as the instrument to evidence the donor intent and purposes.

The Idaho State Board of Education and Idaho State University reserves the right to establish the amount required for a permanent endowment for the naming of a college, department or other unit or academic position (i.e. chairs, professorships, lectureships, and fellowships). Accordingly, in no case will the Foundation accept an endowment for the naming of a college, department or other unit or academic position to be established without prior approval of the President of the University or his designee.

All endowments are subject to a Board established annual management fee which is currently 1 ½ percent. This fee is to be reviewed annually as part of the budget process.

#### 5.05.03 Fiduciary Responsibility

The Board of Directors of the Idaho State University Foundation has a fiduciary responsibility to comply with the restrictions imposed by the donors of endowment funds. The Directors also have a legal responsibility to ensure that the management of endowment funds is in compliance with all laws and regulations.

The primary and constant standard for making investment decisions for endowment is the "Prudent Person Rule" which states that the investment manager may trade and retain investments... "that standard of judgment and care that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment."

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#### 5.05.04 Donor direction of Investment Policy

Without specific approval of the Foundation Board, no endowment shall be accepted in which the donor directs the investment transactions or holdings or may approve investment policy or strategy. The endowment fund shall be under the sole control of the Board of Directors of the Foundation acting through its Investment Committee pursuant to its Investment Policies. Furthermore, it is the specific and strong preference of the Foundation's Board of Directors that all endowment gifts are eligible for commingling for investment purposes with other endowment funds. This commingling permits enhancement of long-term investment programs, affords appropriate risk control through diversification, and provides for optimization of asset mix through time.

#### 5.05.05 Relative Fair Value of Endowments

The value of each commingled endowment fund shall be calculated based upon its relative market value to the total market value of the endowment. Income under the policy statement's spending policy should be calculated on its relative portion of the applicable investment portfolio.

#### 5.05.06 Distribution Policy for Endowments

The Idaho State University Foundation Board of Directors recognizes the need for spendable income by the beneficiaries of the endowment funds under their custodianship. The following distribution policy reflects an objective to distribute as much total return as is consistent with the Foundation's overall investment objectives, defined in its investment policies. The policy also outlines the methods used in making the distribution and in establishing the distribution rate:

- a. An endowment should be excluded from the target distribution until the endowment has been established for one year.
- b. If the donor has specifically stated, in the gift instrument, the amount and timing of disbursements to be appropriated from a particular endowment, the donor intent will be honored.
- c. In most cases the gift instrument is either silent or leaves it to the Foundation to determine an appropriate distribution rate. In such circumstances the Idaho enacted Uniform Prudent Management of Institutional Funds Act (UPMIFA) directs that the following factors, if relevant, be considered:
  - i. The duration and preservation of the endowment fund;
  - ii. The purposes of the institution and the endowment fund;
  - iii. General economic conditions;
  - iv. The possible effect of inflation or deflation;
  - v. The expected total return from income and the appreciation of investments;

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- vi. Other resources of the institution; and
  - vii. The investment policies of the institution.
- d. Each fall the Finance Committee will consult with University Officials, the Investment Committee and others, that it deems necessary, to appropriately consider the factors specified by UPMIFA. The Finance Committee will report to the Board, during its fall meeting, the results of their review and consultations. This report will also recommend an annual distribution rate. The distribution rate, for the upcoming fiscal year, will then be decided by the Board at that fall meeting.
- e. It is expected that the distribution rate approved by the Board will be between 3 to 6 percent of the average fair market value of the individual endowment for the preceding 12 quarters.
- f. Distributions shall be made monthly by removing the amount from the endowment to the restricted expendable classification, as soon as practicable, after the last calendar day of each month. This distribution amount shall be recalculated each year based on a 12 quarter rolling average of the fair market value of an endowment multiplied by the approved distribution rate.
- g. From time to time, application of this policy may result in the fair market value of assets associated with individual endowment funds to fall below the historical contribution value. While this is acceptable under UPMIFA, it may be prudent to curtail distributions from those endowments in certain circumstances.
- i. An endowment's fair market value falls below the historical contribution value by more than 10 percent but less than 20 percent  
Remediation - the distribution rate should be 2 percent until such time as the fair market value equals or exceeds the historical contribution value.
  - ii. The fair market value falls below the historical contribution value by 20 percent or more  
Remediation - distributions will be suspended until such time as the fair market value equals or exceeds the historical contribution value.
  - iii. To ensure good donor relations no curtailment should occur on endowments of more than \$100,000 without a discussion with the donor, or their representative. This discussion is under the direction of the Executive Vice President of the Board of Directors. In the absence of a donor or representative the above curtailment distribution formulas shall be followed. If, as a result of the discussion, a new agreement is reached with the donor or their representative, it should be documented as an addendum to the gift instrument. Accordingly, this policy encourages such discussion on a curtailment-of any endowment which has a historical contribution value of over \$100,000.

**Person responsible for the periodic review of policy - Executive Vice-President**

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### Section 5.06 - Gift Assessment

This policy has been jointly adopted by Idaho State University and the Idaho State University Foundation.

#### 5.06.01 Policy

The assessment fee will be applied according to the following guidelines:

- a. A 5% assessment will be levied on all gifts received by Idaho State University or the Idaho State University Foundation. Gifts above \$25,000 will be subject to a 3% fee. This assessment applies to all cash gifts without exception. It will not apply to grants from state and federal governments or to contracts.
- b. Non-cash gifts (gifts in kind) will not be subject to the fee.
- c. Donors will receive credit for the full amount of their gifts.
- d. Charitable trusts and bequests (all planned gifts) will be assessed at the time they are realized.
- e. In cases where the donor (individual, corporate or foundation) refuses to contribute to indirect costs, the unit receiving the gift will have the option of paying the appropriate fee from other departmental sources.
- f. Outside scholarship gifts following specific students and sent directly to the scholarship office will not be assessed.
- g. This policy will be reviewed periodically.

#### 5.06.02 Responsibilities of Idaho State University Units and of the Idaho State University Foundation.

- a. Units will be responsible for:
  - i. Submitting each gift to the Idaho State University Foundation for processing in accordance with University policies and procedures.
- b. The Idaho State University Foundation and University will be responsible for:
  - i. Using the revenues generated by the fee to provide better services and additional fundraising resources for the entire University community.
  - ii. Providing stewardship reports including investment information to all donors.
  - iii. Disclosure of Foundation policy

**Responsible for the periodic review of policy - Audit Committee Chair**

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#### **Section 5.07 - Financial Audits**

In order to ensure financial accountability, the Idaho State University Foundation will have its financial statements audited by an independent auditing firm on an annual basis. The firm selected should have a significant portfolio of not for profit clients. The selection of the firm to conduct the audit will be made by the Audit Committee, but any change of firm will be submitted to the full Board for ratification. The auditor's report, management letter, and IRS Form 990 (and 990T if necessary) will be presented to the Audit Committee for approval. A copy of the audited statement will be distributed to the full Board. The audited financial statements and Form 990 (and 990T, if necessary) will be posted on the Foundation's web site and by that means is made available to anyone.

**Person responsible for the periodic review of policy - Audit Committee Chair**

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#### **Section 5.08 - IRS Form 990**

The Foundation's Finance Director shall ensure that tax payments and other government-ordered payments or filings are filed in a timely and accurate manner.

The Foundation's Finance Director shall sign and certify that the IRS Form 990 (and 990T if necessary) is accurate and complete.

The Audit Committee shall review and approve the IRS Form 990 (and 990T if necessary) annual tax filing prior to submission, and the full board shall be provided a copy electronically before it is filed with the IRS.

Consistent with the requirements of §6104(d) of the Internal Revenue Code and the regulations there under, copies of the organization's Form 990 (and 990T if necessary) shall be made available to any individuals who request it by referring them to the Foundations website or providing them with a copy, without charge, if they indicate they do not have website access.

**Person responsible for the periodic review of policy - Audit Committee Chair**

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### Section 5.09 - Risk Management

#### 5.09.01 Insurance

The Idaho State University Foundation will purchase necessary policies to insure the organization against risk of loss or claims or determine that coverage is provided by the State of Idaho or University. Among the areas of insurance coverage to be purchased or provided are the following:

- a. Employee theft and dishonesty (crime coverage)
- b. General liability (including real and personal property coverage)
- c. Directors, Officers, and Entity liability coverage
- d. Employment Practices liability coverage
- e. Fiduciary liability coverage

Such other insurance coverage and indemnification provisions as are or may become generally prudent and accepted for non-profit organizations of the size and nature of the Foundation.

**Person responsible for the periodic review of policy - Board Executive Vice President**