



University of Dallas

**Financial
Endowment Distribution
Policy**

POLICY FEDP

Responsible Executive:
Vice President for Finance and Chief
Financial Officer
Responsible Office:
Office of the Vice President for Finance
and Chief Financial Officer
Issued: 01.19.2023
Revised: n/a

1. PURPOSE AND SCOPE

The purpose of the University endowment distribution policy is to set forth the manner in which the earnings of each University endowment fund is distributed to the operating budget and other restricted funds at the University on an annual basis. The primary goal of this distribution is to achieve a proper balance between the present and anticipated future needs of the University. Accordingly, the following objectives form the fundamental tenets of the policy:

- To ensure that the real value (i.e. purchasing power) of the revenue does not decline over the long term;
- To provide current activities with a predictable and relatively stable stream of revenue;
- To mitigate the lagging effect of up or down markets in the annualized endowment distribution rate formula; and
- To appropriate distributions considering general economic conditions and the effect of inflation or deflation.

The University of Dallas and its Board of Trustees are committed to administering and investing endowment funds in compliance with applicable federal and state laws, and in accordance with industry standards. The Board of Trustees monitors the annualized endowment distribution rate on an annual basis.

This policy applies to all distributions from the University’s endowment including both donor-restricted funds as well as Board restricted (e.g. quasi-endowment) funds.

2. ENDOWMENT DISTRIBUTION POLICY, GENERALLY

2.1. Efficient Management

In order to provide for efficient management of endowment assets and to reduce the risk associated with closely tying a particular endowment fund to the performance of separate investments, the University’s endowment assets should be pooled for investment purposes to the greatest extent possible. Pooled assets will be called the Consolidated Endowment Fund ("CEF") and individual endowments will be issued shares at the end of the month in which they buy into the CEF. Share values will be computed at the end of each month and new purchases will be made at the end of the month per share market value.

- 2.2. The University's policy governing distributions from endowments is designed to be in accordance with the Texas Uniform Prudent Management of Institutional Funds Act ("TUPMIFA"). The University interprets TUPMIFA 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.

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

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

3. DISTRIBUTING ENDOWMENT EARNINGS

- 3.1. The Board of Trustees has established a distribution formula that attempts to provide a predictable stream of funding to current operations while seeking to achieve long-term real market gains of the endowment assets. The amount to be distributed each fiscal quarter is calculated at the end of each fiscal quarter using the following formula :

One-fourth of the:

Annualized Endowment Distribution Rate

x

Historical rolling 12-quarter average market value not including the quarter in which the calculation is performed.

- 3.2. Distributions will not be authorized until, at minimum, the quarter ending 12 months after gifts to a Donor Restricted Endowment meet the minimum funding level articulated by the donor, otherwise referred to as the Investment Period. This is a prudent approach to minimize the impact should there be a sustained period of investment difficulty or market volatility.
- 3.3. It is the policy of the University that it does not allow spending from Underwater Endowment funds. An Underwater Endowment is a Donor Restricted Endowment for which the market value of the fund at the current quarter end is less than the gifts given by the donor(s), also referred to as Historic Dollar Value.

- 3.4. The Annualized Endowment Distribution Rates approved by the University’s Board of Trustees are:
- 5.3% in FY23
 - 5.1% in FY24
 - 4.9% in FY25
 - 4.7% in FY26 and thereafter unless further amended by the Board of Trustees

4. UNDERWATER ENDOWMENT DISTRIBUTIONS

- 4.1. UPMIFA’s predecessor, the Uniform Management of Institutional Funds Act, contained an express restriction that an institution could not make distributions (other than from “accounting income” such as dividends, interest, and rents) from an endowed fund if the distribution would reduce that fund below its “historic dollar value,” there defined as the original gift value, unadjusted for changes in purchasing power. That express restriction was deleted from UPMIFA, although the official comments state that an institution should consider the donor’s intent that an endowed fund should be maintained permanently and that maintenance of purchasing power over time, is a part of such permanence, to be considered in developing and administering a policy of distributions from endowed funds. The deletion of the prohibition against distributions that would reduce a fund below its “historic dollar value” permits an institution to avoid artificial restriction on distributions that may result from the fact that contributions are received at all stages of the investment cycle.
- 4.2. It is the policy of the University not to permit spending from Underwater Endowment funds.

5. EXEMPTIONS FROM THIS POLICY

- 5.1. This policy applies to all University endowment funds. While the University of Dallas strives to apply the same Annualized Distribution Rate to Board Designated Endowment funds (or Quasi-endowments), it is not obligated to do so and may appropriate special distributions from a Quasi-endowment as the need arises and following the explicit approval of the University’s Board of Trustees.

6. DEFINITIONS

- 6.1. **“Annualized Endowment Distribution Rate”** means the percentage of the trailing twelve-quarter average market value of the Consolidated Endowment Fund that is distributed and made available to be spent in a manner consistent with the donor’s intent.
- 6.2. **“Board Designated Endowment”** means a fund created when the Board of Trustees designates or earmarks a portion of its net assets without donor restrictions to be invested for a generally long, but not necessarily specified, period of time. Also known as a “Quasi-endowment.”
- 6.3. **“Consolidated Endowment Fund (CEF)”** means the investment pool comprised of the University’s Board Designated and Donor Restricted Endowments. The CEF operates in a manner similar to a

mutual fund. When an endowment is initially added to the CEF, it buys units in the Fund at the CEF unit market price at that time. Each individual endowment maintains a separate identity but is commingled with all the pooled endowments for investment purposes.

- 6.4. **“Donor Restricted Endowment”** means a fund that results from a gift made by an external person or organization with a stipulation that the donated resources be invested either for a long, specified period of time or in permanently.
- 6.5. **“Historic Dollar Value”** means the aggregate fair value in dollars of (1) an endowment fund at the time it became an endowment fund, (2) each subsequent donation to the endowment fund at the time it is made, and (3) each accumulation made pursuant to a direction in the applicable gift instrument at the time the accumulation is added to the endowment fund.
- 6.6. **“Investment Period”** means the initial period of time a Donor Restricted Endowment must be invested in the Consolidated Endowment Fund to become eligible for distribution.
- 6.7. **“Quasi-endowment” – see “Board Designated Endowment”**
- 6.8. **“Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA)”** means the uniform act implementing the Uniform Prudent Management of Institutional Funds Act (UPMIFA) that replaced UMIFA and provides guidance on investment decisions and endowment expenditures for nonprofit and charitable organizations in Texas.
- 6.9. **“Underwater Endowment”** means a Donor Restricted Endowment whose current market value has fallen below the original gift(s) amount or the amount required to be maintained (by the donor or by law).
- 6.10. **“Uniform Management of Institutional Funds Act (UMIFA)”** means the former law designed to provide guidance and authority to charitable organizations concerning the management, investment, expenditure, and delegation of management and investment duties of endowment funds held by such organizations. UMIFA required an institution to exercise ordinary business care and prudence in making investment decisions.
- 6.11. **“Uniform Prudent Management of Institutional Funds Act (UPMIFA)”** means the uniform act that replaced UMIFA and provides guidance on investment decisions and endowment expenditures for nonprofit and charitable organizations. The UPMIFA modifies the general obligation of UMIFA that a charity exercise ordinary business care and prudence in making investment decisions and directs a charity to consider its management and investment decisions in relation to the whole economic situation of the institution and its charitable purposes. It enumerates factors for consideration in management and investment decisions.

7. RESPONSIBILITIES

Responsible Party

List of Responsibilities

Office of General Counsel

1. Monitor compliance with this Policy.

Chief Financial Officer	1. Monitor compliance with this Policy.
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8. PROCEDURES

Task	Procedure
Establish the Annual Endowment Distribution Rate	1. The University Board of Trustees monitors endowment performance and may approve a change to the annual endowment distribution rate at the recommendation of the CFO and President of the University.
Compute endowment distributions	1. The CFO or his designee computes the endowment distribution at the conclusion of every fiscal quarter. The funds are distributed to accounts to be spent in accordance with donor-imposed restrictions.

9. POLICY ENFORCEMENT

Enforcement	The Office of General Counsel or the Office of the Chief Financial Officer will investigate suspected violations of this Policy, and take appropriate action in accordance with University policy.
Reporting Violations	Report suspected violations of this Policy to the Office of General Counsel or the Office of the Chief Financial Officer.

10. RELATED DOCUMENTS

Policy or Document	Web Address
Policy FRG – Managing Restricted Gift Funds	https://udallas.edu/about/university-policies/index.php
Board Protocol 002 – Investment Policy	

11. CONTACTS

Subject	Office or Position	Telephone Number	Office Email or URL
Policy Clarification	Office of General Counsel	(972) 721-5363	hlachenauer@udallas.edu
Implementation	Office of the Chief Financial Officer	(972) 721-5236	rwatling@udallas.edu
Web Address for this Policy		https://udallas.edu/about/university-policies/index.php	