

| Hennepin Healthcare System | |
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| Title: Endowment Policy | Policy # 0309760 |
| Policy Sponsor: Hennepin Healthcare Foundation (HHF) Finance Committee Chair | |
| Review Body(s): Compliance, Legal Department, Chief Financial Officer (CFO) Council Policy Sub-Committee, CFO Council, Hennepin Healthcare System (HHS), HHF, Hennepin Healthcare Research Institute (HHRI) Board of Directors | |
| Approval Body: HHS, HHF, HHRI Board of Directors | |
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PURPOSE

To provide guidelines to Hennepin Healthcare System, Inc. (HHS), Hennepin Healthcare Research Institute (HHRI) and Hennepin Healthcare Foundation (HHF) (together, the Organization) for the establishment, management, and distribution of endowment(s) that support the mission, vision and goals of the Organization.

POLICY

HHS is a public non-profit subsidiary corporation of Hennepin County, with two subsidiary nonprofit corporations, HHRI and HHF. The Organization is committed to the support of clinical, educational, and research activities to support the Organization and the populations and community served by the Organization. From time-to-time donors may wish to provide support to the Organization's mission, vision, and goals through the creation of endowment(s). It is the policy of the Organization to establish, manage, and distribute endowment funds in a manner that is consistent with state and federal laws and regulations as well as the procedures set forth below. All endowment funds and their distributions shall be used for the enrichment of the Organization and the communities it serves. HHF Finance Committee will be responsible for yearly monitoring, determining distribution amounts, and monitoring usage of endowment funds.

SCOPE

This policy applies to all endowment funds established after the effective date of this policy and does not include endowment funds established prior to that date and does not apply to endowment funds established before this date unless specifically delegated. The Board of each institution may elect to apply portions or all of this policy to endowments established before the original implementation date of this policy.

DEFINITIONS

Board-Designated Endowment Fund: A fund established by an institution's board of directors (Board) and funded with unrestricted assets. These funds operate like endowment funds; however, since they are not legally restricted, the Board may change their use at any time. These funds provide a Board the flexibility to direct the draw towards strategic priorities and emerging needs. A request to terminate a board-designated endowment fund must be approved by the applicable institution's Board. Board-designated funds are not "endowment funds" within the meaning of the

Uniform Prudent Management of Institutional Funds Act as codified in Minnesota Statutes §§ 309.735 – 309.77 (UPMIFA).

Donor-Designated Endowment Fund: A separate, restricted fund created by gifts from a donor for specific purposes. To establish a donor-designated endowment fund a donor must execute a gift agreement that directs an institution to hold the gift as an endowment fund and to use the draw for a designated purpose. The criteria for establishing a donor-designated endowment fund is listed in paragraph III.B. below.

Draw: The dollar amount for current expenditure that is determined to be spent from each endowment fund.

Endowment Fund: A fund, including donor-designated and general endowment funds, created exclusively for charitable purposes that, under the terms of a gift agreement, is not wholly expendable by an institution on a current basis as set forth in Minnesota Statutes § 309.735 (2).

General Endowment Fund: A fund established by or on behalf of an institution to receive and pool gifts from donors with a common purpose. For example, a general endowment fund could provide broad support for general programs or a specific program or initiative.

Gift Agreement: A written agreement under which property is granted to, transferred to, or held by an institution exclusively for charitable purposes, including an agreement to establish an endowed position. See also, HHF Gift Acceptance Policy.

PROCEDURE

I. Procedures for Endowment Gifts

A. Gift Agreement – New Fund.

To establish a donor-designated endowment fund during life, a donor must execute a gift agreement. The gift agreement must be signed by the donor, HHF, and the institution designated as the beneficiary of the gift. Donors will be encouraged to include the following language in gift agreements:

1. If the Board of Directors of the [insert applicable institution] determines in good faith that any donor-imposed restriction on the use of this fund has become unnecessary, incapable of fulfillment or inconsistent with the purposes of the [insert applicable institution], then the Board of Directors may modify or eliminate such restriction in a manner that furthers the purposes of the [insert applicable institution] and that the Board of Directors determines in good faith is consistent with the general charitable intentions of the donor.
2. To establish a donor-designated endowment fund at death, the donor must provide for a gift to an institution in their estate planning documents and direct how such gift shall be held and administered as an endowment fund.

B. Minimum Initial Contribution for a Donor-Designated Endowment Fund.

To establish a donor-designated endowment fund, a donor must make a gift that is at least equal to the minimum initial contribution amount as set forth in HHF's Gift Acceptance Policy, as amended from time to time. As of the effective and/or reviewed date(s) of this policy, except for endowed positions, the minimum initial contribution amount necessary to

establish a donor-designated endowment fund is \$250,000. A donor may establish a donor-designated endowment fund with a gift less than the minimum initial contribution amount if (a) the initial gift is at least \$25,000; and (b) the donor establishes a pledge schedule for future gifts that will bring the aggregate value of the gifts to the minimum initial contribution amount within five (5) years. If a pledge is not fulfilled according to the schedule, the applicable institution reserves the right to transfer any assets in the fund to a general endowment fund with a purpose that best matches the donor's expressed intent.

C. Acceptance by HHF.

Before HHF signs a gift agreement to establish a donor-designated endowment fund, the HHF President will obtain approval from the appropriate HHS Directors and Department Chairs, and/or HHRI President regarding the use and stewardship of the fund. Acceptance of any assets other than cash must comport with HHF's Gift Acceptance Policy.

D. Use of Endowment Gifts Not Designated by Donor.

If a donor makes a gift to create an endowment fund, but either fails to designate a specific purpose or designates a general purpose, such as "to support Hennepin County Medical Center," the gift will be added to a general endowment fund with a purpose that best matches the donor's expressed intent, if any.

E. Gifts to Existing Endowment Funds.

To make a lifetime gift to an existing donor-designated endowment fund or a general endowment fund, the donor must specify the fund and notify HHF or the appropriate institution of their intent in a written statement. To make a gift to an existing donor-designated endowment fund or a general endowment fund at death, the donor must specify the intended endowment in their estate planning documents.

II. Administration and Investment of Endowment Funds

A. Administrative Authority.

The Board of the institution that holds or is the beneficiary institution of the endowment fund has ultimate authority over the administration of the endowment fund so long as such authority is consistent with this policy. Endowments held at HHRI or HHS at the time the policy is instituted will be administered by the respective institution unless delegated to HHF by the institution's Board.

B. Investment Authority.

The Board of each institution has ultimate authority to set policies for and oversee the investment of its endowment funds. Each institution's Board hereby delegates to the HHF Finance Committee the authority to set policies for and to oversee the endowment funds established after the effective date of this policy by HHF on behalf of the respective institution or endowment funds later delegated to HHF. The HHF Finance Committee may delegate day-to-day investment management responsibility for the endowment fund assets to the HHF Chief Financial Officer. The HHF Finance Committee and the HHF Board has delegated the selecting of investment managers, establishing the scope of investment managers' duties, and periodically reviewing investment performance to the HHS Organizational Asset Committee. In managing the endowment funds, the Board of each institution, the HHF Finance Committee, and the HHF Chief Financial Officer must apply the standards for investment management set forth in UPMIFA, Minnesota Statutes Section 309.74.

C. Commingling of Assets.

For investment purposes, the assets of the endowment funds held at HHF may be

commingled. HHF, in consultation with and on behalf of each institution, will keep separate records and books of account with respect to each commingled endowment fund.

D. Administrative Costs.

HHF may charge a ratable share of fees paid to outside investment managers to each endowment fund.

III. Endowment Spending

A. Background.

There shall be a single endowment spending policy that applies to the Organization. Such policy shall be recommended by the HHF Finance Committee for approval by each institution's Board. When adopting or amending such endowment spending policy, each Board shall ensure that the policy is prudent in light of the "uses, benefits, purposes and duration" of its endowment funds and shall act in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances. In acting, each Board must consider the following factors listed in UPMIFA, Minnesota Statutes § 309.745:

1. The duration and preservation of the endowment fund;
2. The purposes of the institution and the 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 institution; and
7. The combined investment policy of the Organization.

B. Spending.

For all endowment funds established after the effective date of this policy on behalf of the respective institution, the HHF Finance Committee will recommend to each institution's Board the spendable amount for the endowment funds for the upcoming budget year following the close of the September 30 quarter by calculating the average fair market value of such endowment funds, calculated over twelve (12) quarters ending with the September 30 quarter, and multiplying that average value by the applicable spending percentage. As of the effective and any subsequent review dates of this policy, the spending percentage for the Organization is four percent (4%). This percentage may be modified by the Organization's Boards upon recommendation from the HHF Finance Committee from time to time, taking into account the factors set forth in Minnesota Statutes Section 309.74.

1. New General Endowments.

Unless a gift agreement directs otherwise, no spending will occur from a new general endowment fund during the first three (3) years following its creation.

2. New Donor-Designated Endowments.

The HHF Finance Committee will not calculate an annual spendable amount for a donor-designated endowment fund that has not yet reached the current minimum initial contribution amount by September 30, unless the donor either (i) makes a current gift that is equal to the endowment fund's projected annual spendable amount based on the minimum initial contribution amount, or (ii) the donor makes a current gift that brings the value of the endowment fund to the minimum initial contribution amount.

3. Underwater Endowments.

The HHF Finance Committee will not calculate an annual spendable amount for a donor-designated endowment fund which, as of September 30, has fallen below ninety percent (90%) of the aggregate value of all gifts to that endowment fund.

4. Extraordinary Withdrawals from Funds Board Designated.

Notwithstanding the preceding provisions of this section III, B., an institution's Board, by resolution, may withdraw an amount from a board-designated fund in excess of the spendable amount for that fund and use that extraordinary withdrawal in whatever manner an institution's Board determines.

C. Expenditure of Spendable Amounts.

In January of each year, HHF will appropriate and transfer from each endowment fund the annual spendable amount, as calculated above. HHF will work with the appropriate HHS and HHRI directors and department heads to identify and make expenditures that meet donor restrictions and assure appropriate stewardship.

IV. Modification of Use of an Endowment Fund

A. Modification of Use.

The Organization will comply with the original use of an endowment fund designation in the gift agreement that established the endowment fund. However, if the relevant institution's Board later determines that the original use has become obsolete, inappropriate, impractical, or not in the institution's best interest, such Board or its delegate may change the endowment fund's use in one of the following four ways:

1. Default Provision.

The institution may exercise a default provision in a gift agreement that gives it the right to determine an appropriate new use for the endowment fund if the original use has become obsolete, inappropriate, impractical, or not in the institution's best interest.

2. Donor Consent.

The institution may obtain written consent from the donor, if living, to change the use of the endowment fund.

3. Court Proceeding.

The institution may determine that the original use has become impracticable, inexpedient or impossible, and obtain a court order authorizing a change in the use of the endowment fund.

4. Small Old Funds.

If the institution (a) determines that the endowment fund has a value of less than \$50,000 and has existed for more than twenty (20) years; (b) determines that the restriction in the gift agreement is unlawful, impractical, impossible to achieve, or wasteful; and (c) gives the Minnesota Attorney General notification of its intent to release or modify the restriction; then, after sixty (60) days, the applicable institution may use the endowment fund in a manner consistent with the charitable purposes expressed in the gift agreement but without regard to its endowment spending policy, as described in section III of this policy.

V. Review of Endowments

The CEO and Presidents of the Organization shall review the terms of every endowment held by that entity at least every three (3) years and take the necessary actions to ensure that the entity holding the endowments is fulfilling its legal obligations to utilize endowment draws fully in a manner consistent with the gift agreement.

SUPPORTIVE INFORMATION

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| Regulatory Statute/Standard Reference: MN Statutes §§ 309.73 – 309.77 |
| Related Policies: HHF Gift Acceptance Policy, Institutional and Endowment Investment Policy Statement |
| References: |
| Communication/Employee Education: |
| Patient Education: |