# ENDOWMENT POLICY

## PURPOSE

To provide general guidelines, policies and principles for the establishment and administration of endowment funds.

## I. BACKGROUND

An endowment fund is defined as a single or combined pool of assets gifted to the Cal State East Bay Educational Foundation ("Foundation") to provide resources for various activities consistent with the mission of California State University, East Bay ("University"). The Foundation will serve as a trustee for these endowment funds and, therefore, has a fiduciary duty to the donor and the University to administer the assets consistent with the donor's wishes, the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), and generally accepted financial standards. Since permanent endowments continue in perpetuity, it is very important that the Foundation maintain in all permanent records, a clear understanding of any donor restrictions.

Generally, when there are donor restrictions, a separate fund to track the expenses is established. If a donor deposits restricted funds at the Foundation and these funds are later transferred to the University, fiduciary responsibilities follow the funds. Special care must be taken to insure that the donor's wishes are followed; this includes establishing a separate fund, if needed, to comply with donor restrictions.

## II. POLICY

### A. Types of Endowments

Endowments are classified as permanent, quasi, or term endowments. Funds can be either restricted or unrestricted within each of these classifications. Restricted endowment funds are funds for which the donor specifies how the endowed income will be used. Unrestricted endowment funds are funds for which the annual earnings are used at the discretion of the Board of Trustees of the Foundation.

1. **Permanent Endowments:** Permanent endowment funds are those which are intended to have a perpetual life. Only the income of the fund, as defined in UPMIFA may be expended.
2. **Quasi Endowments:** Quasi endowment funds are funds functioning as an endowment that are established by the institution from either donor or institutional funds and will be retained and invested rather than expended. The quasi endowment must retain the purpose and intent as specified by the donor or source of the original funds, and the income (as defined in UPMIFA) may be expended only for those purposes. Since quasi endowments are established by the institution rather than by an external source, the principal may be expended for the purposes as stipulated by the donor.

3. **Term Endowments:** Term endowment funds are similar to permanent endowment funds except after the expiration of a stated period of time or on occurrence of a specified event, all or part of the principal may be expended depending on the donor's wishes.

## B. Establishing Permanent Endowments

1. Acceptance and receipt of endowment funds is determined by the Foundation policy on Gift Acceptance.
2. A minimum of $25,000 is required to establish a permanent (that is, "named") endowed fund, the structure of which is limited only by the interests and creativity of the donor and Foundation and University policies. An amount less than that may be accepted under the following conditions:
   a) A date is determined and agreed upon with the donor (typically one-to-five years from the initial acceptance) to secure funds to meet the minimum requirement, or
   b) A donor agrees to establish an endowment with an initial gift and will make additional gifts to build the principal of the endowment until it reaches the minimum level within a prescribed period of no more than five years; in addition, the donor will make annual gifts to provide spendable cash equivalent to the amount the endowment would have generated were the endowment fully in place. (See attachment A, Flexible Endowment)
3. A gift agreement must be prepared and submitted prior to establishing an endowment fund. The document will contain the information as outlined in attachment B, Endowment Gift Agreement Required Inclusions.
4. Appropriate records related to the endowment funds and accounts shall be maintained by the Foundation and University.

## C. Establishing Quasi Endowments

1. Any establishment of a quasi endowment shall have written approval by the Board of Trustees of the Foundation.
2. Distribution of the income and principal from these are subject to the discretion of the Board for designated activities.

## D. Accounting of Funds

1. The endowment funds for investment purposes may be commingled consistent with legal and/or regulatory provisions. However, each endowment shall be maintained as a separate fund except when it falls below the minimum balance required.
2. The endowment funds will be audited at least annually as part of the audit of the Foundation performed by an external certified public accounting firm.
3. The Office of University Advancement will report the accounts and activity of each endowment to the donor as specified in the gift agreement.
4. Recording and reporting of all related transactions shall be consistent with currently established accounting procedures and methodology.

## E. Investing Endowments

Endowment funds will be invested consistent with the Foundation's Investment Policy.

## F. Spending Payout Rate

In order to preserve the real value of the Foundation's endowed assets a spending payout rate will be selected that strikes a reasonable balance between current spending outlays and reinvestment of the remainder to support spending in the future. Unless otherwise specified in the endowment gift agreement, the Foundation shall determine the spending payout rate for its endowed funds by considering the following factors:

- the duration and preservation of the fund;
- the purposes of the Foundation and the fund;
- general economic conditions;
- possible effects of inflation or deflations;
- the expected total return from income and appreciation of investments
- other resources of the Foundation; and
- the Foundation's Investment Policy

It shall be the Foundation's general policy to pay out annually up to 4.0% of a fund's fair market value, based on a twelve quarter moving average calculated as of March 31. An endowment shall be established for at least one year before disbursing a payout distribution.

i) Income Determination – Interest, dividends, and realized gains or losses on investments will be allocated to endowment funds, on a pro-rata basis calculated on the average balance of the endowment compared to the total average balance of the investment pool.
ii) Basis and Timing of Appropriations - Cash Income as previously defined and unrealized gains or losses will be distributed to participating funds on a monthly basis.
iii) Investment Reserves - The payout rate is designed to provide for the spending needs of participating projects; the Board recognizes that stability is not to be relied upon a dynamic market and to reverse any negative effects of a downward trend in the market, cash income and market value adjustments over and above the current payout rate will not be distributed to cover spending needs but will remain in each endowment fund. The purpose of these is to ensure an even income stream and lessen the fund's reliance on economic forces in making decision in its budgetary process.
iv) Corpus/Principal – Per UPMIFA, the Foundation reserves the right to appropriate a portion of the corpus of an endowed fund if it is deemed prudent to do so.

**H. Endowment Administration Fee**

1. All permanent, term and quasi endowments will be assessed an annual endowment administration fee of no more than 1.0% plus investment fees that are calculated and assessed on a monthly basis upon the average monthly balance of each endowment.
2. Endowments that restrict the collection of an annual management fee will be assessed the fee out of other discretionary or departmental funds.

## III. IMPLEMENTATION

Foundation, working in conjunction with the Office of University Advancement, is authorized to develop and adopt written guidelines to implement this policy statement. Any changes to the spending pay out rate or management fee shall be approved by the Foundation's board of trustees.

# FLEXIBLE PERMANENT ENDOWMENT

Since the principal of an endowed fund is never used, endowments typically require a significant initial capital outlay. For those who are not in a position to prudently divest themselves of the full amount of capital required to establish an endowment, a flexible endowment arrangement may offer the means. Flexible permanent endowment gifts provide an opportunity for friends of the campus to accomplish principal and major gift objectives in support of Cal State East Bay years earlier than would otherwise be possible. It also provides current financial support to support student, faculty and campus needs. The following describes the process for establishing a flexible permanent endowment at Cal State East Bay:

1. Donor makes an initial minimum gift of $5,000 towards the establishment of a flexible permanent endowment.

2. Donor agrees to make annual gifts to Cal State East Bay to provide spendable cash equivalent to the amount the endowment would have generated were the endowment fully in place at the minimum threshold level and at the then-current payout distribution rate, e.g., $1,000 annual gift for a $25,000 endowment with a 4% payout distribution rate.

3. While making these annual, spendable gifts, the donor makes additional gifts of at least $5,000 per year to build the principal of the endowment. The donor determines the amount of these contributions and they can vary from year to year, depending upon on the specific financial situation of the donor.

4. If the donor fails to meet the minimum requirement or is unable to comply with the conditions of a flexible endowment, then the existing funds may be merged with another endowment fund that best meets the intent of the donor. If no endowment fund is available, then Foundation, in consultation with the donor to the extent possible, will deposit the funds in a general endowment fund or place the funds in a current-use spending fund to be used for the original purpose of the former endowment.

5. When the principal of the flexible endowment equals the prescribed level of funding, the endowment is considered fully funded and the donor's commitment is fulfilled.

## ENDOWMENT GIFT AGREEMENT REQUIRED INCLUSIONS

All endowment gift agreements written on behalf of California State University, East Bay and Cal State East Bay Educational Foundation must contain these elements:

Establishment

- Date of establishment
- Name of donor
- Title of endowment
- Permanent or term endowment
- Principal endowment fund amount

Purpose of Funds

- Title of individual who will administer distributions
- Terms and conditions of distributions, including process for identification and selection of scholarship recipients

Source of Funds

- Description of original gift source type, i.e., cash or stock
- Dollar amount of original gift; or in the case of stock, number of shares
- Pledge schedule or agreement (if a pledge is involved) including statement of agreement to disburse or merge funds by a certain date unless specific progress in made towards fulfilling the pledge
- Incorporation of additional gifts into the endowment

Fund Administration

- Reference to management or administrative fee charge
- Reference to spending payout rate

Amendment Clause

- Allowance for amendment by donor and the Foundation, with consultation by the University
- Allowance for alternative use of endowment if it becomes impossible, impracticable, or illegal to satisfy the original intent of the donor

Miscellaneous

- Affix signatures of donor, and both the appropriate level University representative and the President of the Foundation or their designee.

Donor's Biography/Intent (as an attachment)

- Biographical information about the donor and connection to Cal State East Bay
- Reason for establishing the endowment