

## Cal State Fullerton Philanthropic Foundation Endowment

**PURPOSE:** To provide information and general guidelines for the establishment and administration of endowment funds.

**EFFECTIVE DATE:** September 1, 2016

### **I. BACKGROUND**

An endowment fund is defined as a single or combined pool of assets gifted to the Cal State Fullerton, Philanthropic Foundation (“Foundation”) to provide resources for various activities consistent with the mission of Cal State University Fullerton (“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 account 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 account, if needed, to comply with donor restrictions.

### **II. POLICY**

#### **A. Types of Endowments**

Endowments are classified as permanent or quasi 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.

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 stipulated by the donor. The Foundation CFO and Executive Director must approval the establishment of a quasi-endowment.

#### **B. Establishing Permanent Endowments**

Acceptance and receipt of endowment funds is determined by the Advancement policy on Gift Acceptance.

A minimum of \$25,000 is required to establish a permanent endowed fund. Donated funds can be accumulated in a campus program or scholarship account until it reaches the \$25,000 minimum. When the minimum is met then a new endowment account can be established and the funds are transferred to the endowment pool.

A named endowment requires a gift agreement that is 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.

If the endowment is established with multiple donations an endowment summary is created and signed by the college/program requesting the establishment of the endowment.

All requests to establish an endowment account will be done through a Foundation new account form submitted to Advancement services along with a gift agreement or endowment summary for approval.

Appropriate records related to the endowment funds and accounts shall be maintained by the Foundation.

### **C. Establishing Quasi Endowments**

Any establishment of a quasi-endowment shall have written approval by the CFO and Executive Director of the Foundation.

Distribution of the income and principal from quasi-endowment funds are subject to the discretion of the campus responsible person for designated activities.

From time to time, the Foundation receives proceeds from estates that are unrestricted or restricted for a specific use or purpose. However, the donor does not specify whether the proceeds are to be endowed or expended immediately for current uses. Oftentimes, the donor(s) is (are) deceased so the Foundation is unable to seek clarification.

In such instances, it is the policy of the Foundation that all receipts of \$25,000 or more from wills, trusts or other planned giving instruments received by the Foundation shall be designated by the Executive director to an appropriate quasi endowment.

### **D. Accounting of Funds**

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 account.

The endowment accounts will be audited at least annually as part of the audit of the Foundation performed by an external certified public accounting firm.

Each University Development Officer will report the accounts and activity of each endowment to the donor as specified in the gift agreement.

Recording and reporting of all related transactions shall be consistent with currently established accounting procedures and methodology.

### **E. Investing Endowments**

Endowment funds will usually be invested consistent with the Foundation's Investment Policy for Restricted Funds.

### **F. Spending Payout Rate**

As stated in the Foundations Endowment Investment Policy; The spending rate will be determined by the Board on a semi-annual basis with consideration given to market conditions, the spending levels of peer institutions and the level of real return after spending over a rolling sixty-month time period. The goal for the annual spending rate is 3.0% - 4.5%. The spending rate will be applied to the sixty-month moving average market value. The use of a rolling sixty-month time period and the expectation of infrequent adjustments to the spending rate are intended to provide relatively stable spending allocations. In accordance with UPMIFA standards adopted by the State of California in 2009, for General Endowed accounts with no donor restrictions to the contrary, the Board will determine on an annual basis the availability for appropriation for expenditure of so much of an endowment fund as is prudent considering the following factors: the duration and preservation of the endowment fund; the purposes of the institution and the endowment fund; general economic conditions, including the higher education price index (HEPI); the possible effect of inflation or deflation; expected total return from income and appreciation of investments; other resources of the institution; and the investment policy of the institution.

The determination of the spending rate will take place at the Board of Governors meetings prior to the distribution calculation dates.

The Finance and Investment Committee will determine the frequency of the distributions to better accommodate endowment awards/scholarships but to avoid risk in the event of poor performance by financial markets.

The Finance and Investment Committee will set an annual spending distribution reserve rate, from unrestricted net assets, of up to 2% of the market value of the endowment to be utilized when the average return of the endowment does not meet the investment policy expectations.

Corpus – Per UPMIFA, the Foundation reserves the right to appropriate a portion of the corpus of an endowed fund if it deemed prudent to do so.

### **G. Management Fee**

All permanent, term and quasi endowments will be assessed an annual management fee of 1.4% plus investment management fees that are calculated and assessed on a quarterly basis upon the average daily balance of each endowment during the quarter here within.

### **III. IMPLEMENTATION**

Foundation management, working in conjunction with the University's Office of Development, 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 directors.

### **IV. ENDOWMENT GIFT AGREEMENT REQUIRED INCLUSIONS**

All endowment gift agreements written on behalf of Cal State University Fullerton and its Foundation must contain these elements:

#### Establishment

- Date of establishment
- Name of donor
- Title of endowment
- Principal endowment fund amount/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

#### Donor's Intent

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

#### Purpose of Funds

- Description of scholarship or program that any distributed funds will be used to support

#### 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 Executive Director of the Foundation or their designee.

In addition to an endowment gift agreement the Foundation will also require the campus department/program to complete a new account form. If there are multiple donors where no gift agreement is applicable the department/program will also complete an endowment summary form.