Florida Institute of Technology

Endowment Policy

Introduction

It is the policy of Florida Institute of Technology to adopt and adhere to standards that are designed to ensure the proper management, administration and compliance of restricted endowment funds. Endowment funds are an important part of the University’s operations and play an integral role in helping the University achieve its goals. Endowment funds impose upon the University contractual, legal and ethical obligations, as well as financial and management reporting responsibilities.

This policy is combined with two other policies to represent the administration of our Endowment. The Development office has a Gift Acceptance, Management and Disposition policy and the University’s Board of Trustees has an Investment Policy Statement. Gifts received for an endowment should comply with the Gift acceptance policy. The investment of the Endowment funds shall be in accordance with the Investment Policy Statement; and endowment earnings shall be spent in accordance with the Spending Policy within the Investment Policy Statement. The Investment Policy Statement is approved by the Board of Trustees. The Investment Committee, within the broad framework of policy set by the Board of Trustees, shall have direct responsibility for the oversight and management of the endowment funds and for the establishment of investment policies and procedures.

Responsible Parties

- Deans, Department Chairs, Directors of Institutes, Centers and other University units
- All University faculty and staff with signature authority over one or more endowment funds
- All University employees with financial, administrative and reporting responsibilities with respect to endowment funds
- Office of Alumni
- Office of Development
- Office of the Controller

Types of Endowments

- **Permanent (True) endowments**: These are endowments in which the donor, by agreement or other evidence, has stipulated that the fund be maintained in perpetuity. The value of the original gift and any
other amounts stipulated by the donor to be maintained in perpetuity shall be classified as permanently restricted funds and is referred to as the corpus value.

- **Term Endowments**: A term endowment is created when a donor specifies that the funds must be held and invested until the passage of a specified time or the occurrence of a specified event. The donor also specifies what is to be done with the income and investment growth during the specified period. A term endowment is considered to be temporarily restricted per accounting rules, but are always restricted per donor terms.

- **Quasi-endowments** (sometimes called “board designated”): These funds function like an endowment, but without any legal or donor restriction to hold the fund permanently. Thus, net appreciation, reinvested income and/or principal may be appropriated and expended in full. There are two types of quasi-endowments:
  - **University-Directed**: The President, Provost, Vice Presidents, or Board of Trustees may designate certain gifts or excess funds to be held as quasi-endowments. However, Board approval is required to remove funds from this designation. University-Directed quasi-endowments shall be classified as unrestricted funds.
  - **Donor-Directed**: Donors may direct that their gifts be held as quasi-endowments, either because they envision the spending of principal at some point in time (or under certain conditions), or because they want to give the University that flexibility. The corpus of donor-established quasi-endowment accounts may be expended in accordance with donor terms and restrictions. Donor-Directed quasi endowments shall be classified as temporarily restricted.

**Funds**: Each endowment will include two separate funds, a principal fund and a spending fund. The principal fund is used to hold gifts, corpus, to perpetuity. Investment earnings (and losses) will also be posted to the principal fund. The spending fund will contain distributions made from the principal fund in accordance with the Investment Policy Statement or requirements of the donor. Amounts spent to fulfill the purpose of the endowment may only be spent from the endowment spending fund.

**Minimum Endowment Amount**: The minimum amount to establish a new endowment shall be $25,000.

**Growth endowments**: In accordance with Gift Acceptance, Management and Disposition policy, an endowment may be established with an initial gift of less than the minimum endowment amount if there is a reasonable expectation that the minimum amount will be reached within a five year period. This expectation could come from a donor pledge or from a fund raising campaign as in the case of memorial endowments contributed to by many donors. During the period between establishment and achieving the minimum endowment amount, all investment earnings (losses) will be added to the endowment corpus. If the corpus does not reach the minimum of $25,000 within the 5 year period, the Development Office will work with the donor to resolve.
Endowment Investment Pool: The endowment funds will be invested in a common endowment investment pool and managed in accordance with the Investment Policy Statement. Individual endowment funds will be placed in the investment pool and investment earnings and losses will be allocated based on the individual endowments percent of the total pool. When an endowment is established with a gift of a non-liquid, non-earning asset (e.g. real estate), that endowment will not be part of the endowment investment pool. In that case, the endowment asset will be held in the endowment principal fund and when it is liquidated the net proceeds will become the endowment corpus and will be invested with the endowment investment pool.

Spending Distribution: Annually, a spending distribution (payout) will be made from the principal fund to the spending fund. The amount will be calculated in accordance with the Investment Policy Statement. The Investment Policy Statement’s Spending Policy states:

“it is the policy of the Florida Institute of Technology Board of Trustees to annually distribute an amount equal to 5% of the average endowment value for the previous 36 months calculated at the end of each calendar year. Annual, nominal changes greater than 10% require Finance Committee approval. The calculation of the endowment market value should not include any portion of the endowment which, by donor or board restriction, all income from the investment must be spent on the designated purpose.”

Establishing an Endowment Fund

- **Endowment Gift Acceptance**: The Development Office is responsible for accepting gifts and has the Gift Acceptance, Management and Disposition policy which defines the steps that must be taken to accept an endowment gift. Prior to soliciting or accepting any gift that establishes an endowment fund, the University must understand the proposed terms of the endowment fund and the restrictions on spending and use and have confidence that the University will be able to administer and spend in accordance with the terms and restrictions. A donor agreement, such as a MOU (Memorandum of Understanding) or executed will, must include provisions identified in the policy to ensure our stewardship responsibilities.

- **Financial Reporting**: All endowments must be set up in the University’s financial system. The Development office will forward to the Controller’s office:
  - Chart of Accounts Request Form which identifies:
    - Name of Donor
    - Amount and date of donation
    - Identification of the type of fund (i.e. endowed scholarship, departmental scholarship)
    - Financial manager responsible for the endowment
  - Donor Agreement
• **Calculation of Endowment Payout**
  o New endowment funds (Permanent and Quasi) must be invested for a full year at 12/31 in order to be included in the endowment payout calculation for the next fiscal year, for example:
    ▪ Gift received and deposited 3/31/16 (within fiscal year ended 4/30/16) will not be included in the payout calculated as 12/31/16 (to be spent in fiscal year 4/30/17) since it wasn’t invested for one year at that time. At 12/31/17, the funds had been invested for one year and will be included in the payout to be spent in fiscal year 4/30/18.
  o The endowment payout calculation, per Investment Policy Statement, is based on a 36 month average of market values as of 12/31. The average market value is multiplied by 5% to get the distribution amount (5% = spending rate as defined in Investment Policy Statement).
  o Each individual endowment is assigned a percentage of the total endowment market value as of December 31 of the previous calendar year. The total payout is then multiplied by the assigned percentage for each individual endowment to get the individual payout amount.
  o The individual corpus is reviewed to determine that the corpus value was at least $25,000 for a full calendar year, if it was not, then no distribution is made.
  o The individual payout amounts are then summed to get the adjusted endowment draw amount.

• **Budgeting** – Annually at 12/31, the Controller’s office will calculate the payout for the endowments for the upcoming fiscal year based on the process above. The distribution amount will automatically be included in the budget for the next fiscal year. Any surpluses from prior year must be budgeted by the financial manager in addition to the annual payout.

• **Charging expenses to endowment**
  o The financial manager of the endowment which could be a Dean, Department Chair, Director or other employee that has responsibility with respect to endowment funds are responsible for ensuring that the expenditure of endowment funds complies with the terms of the gift instrument, applicable legal and accounting standards, and University policy. If there is any question as to whether the expenditure complies with the gift agreement, the financial manager will seek clarification from the VP, Development.
  o Expenses should be charged directly to the endowment spending fund

• **Overdrafts and Surpluses in Endowment spending**
  o Overdrafts – If an endowment fund is over spent, the expenses should be moved out of the endowment fund to relieve the overdraft.
  o Surpluses – As a matter of policy, surpluses and excessive accumulation of income should be avoided and endowment payout should be expensed regularly. Under limited circumstances accumulation of income may be appropriate and can either:
    ▪ Support activities in the next fiscal year that conform to donor restrictions
Committing the funds to future planned and approved programs that conform to donor restrictions

Reinvesting part or the entire surplus if consistent with donor restrictions.

Surpluses, where the MOU does not specify what is to be done with unused funds, will be reinvested in the corpus value to increase future payout calculations.

Underwater Endowments: When an individual endowment fund’s market value is less than Corpus then the endowment fund is considered underwater. Individual endowment funds that are underwater are reported in our financial statements and are temporarily funded by unrestricted funds. Future monitoring of spending payouts will take place until the market value has increased to the Corpus value.