

CLARK ATLANTA UNIVERSITY

Policy 12.01: Endowment Establishment



CLARK ATLANTA UNIVERSITY		
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1.0. Policy Statement

Endowment funds are an important part of the Clark Atlanta University's (University) operations and play an integral role in helping the University achieve its mission and strategic goals. The Board of Trustees of Clark Atlanta University authorized the establishment of an endowment program, which allows donors to establish and contribute to permanent/true endowments for the perpetual support of academic chairs, professorships, fellowships, scholarships, and other designated purposes. The University's endowment program also allows for the establishment of term endowments, which are donor-restricted funds that must be kept for a specified term. Endowment funds impose upon the University's contractual, legal and ethical obligations, as well as financial and management reporting responsibilities (among other responsibilities). University endowments are managed collectively by Institutional Advancement for record management, Finance for financial aspects of the endowment and Financial Aid for disbursements. Furthermore, the proper management and administration of the University's endowment funds helps maintain and enhance the confidence and trust of the University's constituents (especially its donors).

The purpose of this policy is to set forth principles and procedures that are designed to ensure the University is compliant with its responsibility to establish endowment funds. This policy responds to the legal requirements of state and federal law; to generally accepted accounting principles; and to the specific contractual obligations of individual gift instruments.

The Office of Institutional Advancement and University Relations is responsible for the University's policies and procedures relating to the solicitation, acceptance and voluntary stewardship of gifts, pledges, and bequests. This policy is not meant to encompass or supersede those separate policies. In addition, this policy is not intended to cover all aspects of the endowment program (management, administration, and compliance). For example, this policy does not cover the rules and requirements relating to the financial accounting and reporting of endowment funds. This policy, along with others, supports the overall endowment program of the University.

2.0 Procedure Narrative – Endowments

Endowments can be either fully funded at the amount allocated (\$100,000 minimum) or through a pledged commitment with a signed Memorandum of Understanding. A donor has 5 years to fully fund their endowment. If the pledge commitment hasn't been funded after 5 years, the funds collected from the endowment will be absorbed into the general scholarship fund. Institutional Advancement will keep the donor informed if their endowment is going to be dissolved.

All new endowed funds become part of the endowment pool, which is managed by the University's outside investment management firm with support from the Chief Financial Officer. At the time the funds join the endowment, they acquire percentages in much the same manner as a mutual fund. These percentages provide the basis for determining an individual fund's ownership in the overall investment pool and its share of the distributed income.

New endowment funds acquire a percentage added to the pool effective in the first month following the date the gift cash is received. Consequently, new endowment funds will begin to generate income for the designated purpose within a period no more than 30 days from the date of the gift.

The University invests endowments according to the University Board of Trustees' Endowment Investment Policy. The University Board of Trustees may modify the Endowment Investment policy if they determine it is prudent to do so and after considering any changes in the investment standards set forth in the Georgia Uniform Prudent Management of Institutional Funds Act, any corresponding Georgia law, and any other applicable legal standards. The assets of an endowment may be commingled for investment purposes with other endowment funds of the University. If the assets of an endowment are commingled with the other endowment funds of the University, the income, losses, and gains from the commingled funds are allocated in proportionate part to each endowment. Gifts and contributions to an endowment are segregated from the operating assets of the University.

A permanent/true endowment is a fund/asset that is generally intended to exist in perpetuity, and therefore it is to be managed with the objective of providing a permanent source of income or gains to support its designated purpose.

Quasi-Endowment is an asset donated by individuals or organizations to the University that the governing board of the University decided to treat as permanent capital. Because the decision is optional, principal as well as income may be expended if the board of trustees so chooses.

Term Endowment is an asset donated by individuals or organizations to the University with the understanding that all or part of the principal may be expended after a stated period of time or the occurrence of a particular event. The income earned is available for expenditure by the University.

2.1.0 Guidelines for Establishing an Endowment

2.1.1 General Guidelines

The general guidelines for establishing endowments are as follows:

- A. Endowed funds may be "named." The University shall have full and complete rights to use the name of the endowment selected by the donor for all purposes related to Clark Atlanta University.
- B. At the initial inquiry by a prospective donor regarding an endowment, the Office of Institutional Advancement and University Relations should be notified promptly. IAUR will work with the Division of Finance and Business Services-Treasurer to coordinate all subsequent activities.
- C. Each endowment fund will have a signed Memorandum of Understanding (see *Appendix A*). The Memorandum of Understanding is a mutual agreement between the donor and the University detailing the purpose of the endowment, which must be consistent with the University's educational purposes and mission.

- D. Endowments that are pledged will not be disbursed until the pledge has been fulfilled and after 2 years invested. (See Appendix A)
- E. Donors will not be permitted to have control over the investment of endowment funds or the use of the endowment beyond the initial restriction.
- F. Contributions to existing funds may be made in any amount. Such contributions will be governed by the gift instrument that established the fund, the policies set forth herein and any other policies adopted by the Board of Trustees for the purpose of governing the fund to which the additions are made. Donors contributing to existing funds may do so using an endowed scholarship fund agreement or other written instrument that directs the contribution to a specific fund.
- G. No recognition program, or public announcement of an endowment, will be made without first obtaining the written approval of the donor (or the estate or legal representative of the donor, where appropriate). The financial and personal details of the donor, the gift arrangement and the economics of the gift, must be kept confidential, except where such information is specifically authorized by the donor to be disclosed.
- H. The Division of Finance and Business Services, Treasury function will ensure continued use of each endowment according to the donor-designated purposes for such endowment. A separate general ledger account will be set up by the Treasurer of the Division of Finance and Business Services for each named endowment.
- I. All endowments must be set up in the financial system using the proper authorization form along with the Scholarship Fund Memorandum of Understanding for the creation of an endowment account. The respective authorization form and associated desktop procedures for establishing the endowment accounts are reflected in sections of the Finance and Accounting Manual maintained by the Controller's Office.
- J. Once distributions for spending from an endowment commence, during the donor's life or until the Fund is exhausted, the donor will receive an annual report from the University stating: (1) the purpose of the Fund, (2) the market value, (3) the amount distributed from the Fund during the preceding fiscal year, (4) income and gifts to the Fund during the previous fiscal year, if any, and, (5) in the case of a scholarship endowment, information on current scholarship recipients to the extent allowed by law.
- K. Endowment levels have been established per the Board of Trustees (See Appendix B).

2.1.2 Specific Guidelines for Endowed Scholarships and Fellowships

- A. All scholarships must be established for a broad charitable class, and the selection process must be objective and non-discriminatory (*e.g.*, financial need, academic excellence, etc.). The scholarship guidelines cannot exclude prospects on the basis of race, color, sex, religion, creed, national origin, political persuasion, marital status, sexual preference, handicap or age. A scholarship cannot be earmarked for the benefit of a specific individual, whether or not related to the donor.
- B. A constant effort will be made to keep the scholarship guidelines flexible to alleviate any potential difficulties, which would make it impossible to administer the scholarship in any one year.
- C. All criteria for endowed scholarships should be outlined prior to acceptance by the University.
- D. Scholarships generally should be granted for tuition, required fees, books, supplies and equipment required for courses. Endowment funds may also be established to provide grants for housing, any extra living expenses, and allowances, although, in such cases, the candidates should be notified in writing of the income tax implications of such grants before the grants are accepted.
- E. Scholarship recipients are encouraged to communicate appreciation to donor(s) of scholarships at least annually.

2.1.3 Specific Guidelines for Endowed Chairs and Professorships

- A. Proposals for the establishment of any endowed chair, named professorship, visiting professorship or lectureship, must have prior approval by the President, and if so approved, shall be recommended by the President to the Board of Trustees.
- B. Endowed chairs provide salary and fringe benefits for the recipient, support staff, travel and other expenses as the endowment may permit in perpetuity.
- C. Named professorships and visiting professorships provide all or a significant portion of salary and fringe benefits for the professorships in perpetuity. Lectureships provide annual stipends and other expenses incurred in the conduct of a lecture series.
- D. The Board of Trustees approves all endowed chairs and professorships.

2.2.0 Memorandum of Understanding

In order to confirm a donor's intent regarding the use of funds, recognition and public disclosure of the terms of the gift, all endowments should be accompanied by a written Gift Agreement and, if appropriate, an accompanying Scholarship Fund Memorandum of Understanding (Appendix B)

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that provides additional information regarding the specific purposes of the gift and expectations of the donor, and documents the schedule of contributions to be made and any other relevant information regarding the commitments made by the donor and the University. The form of such agreements may vary, depending upon the nature of the transaction and Clark Atlanta University's relationship with the donor, but in all instances should make clear that the endowment will be invested according to the University's Endowment Investment Policy, and shall be subject to the endowment spending guidelines set forth in that Policy). **See Appendix A for examples of Endowed Scholarship Fund Agreement and a Memorandum of Understanding.*

2.2.1. Pledge Payments

Annual letters will be sent to donor's informing them of their existing pledge balance. These letters will be sent at the end of each calendar year.

2.3.0. Creating an Endowment Fund in the Financial System

All endowments must be set up using the proper authorization form for the creation of an endowment account. These forms and instructions are referenced in Section 7.3.1 of the Accounting Manual of the Division of Finance and Business Services. Approval by the Vice President for Finance and Business Services, or his/her designee, is required to set up an endowment account.

2.4.0 Inability to Achieve Purpose of Endowment

- A If, in the opinion of the President or the Executive Committee of the Board of Trustees of Clark Atlanta University, all or part of an endowment fund cannot, in the future, be applied usefully to the designated purposes, the following procedure will be substantially adhered to:
1. The University will make all attempts to notify the principal donor, if still available, that the Board of Trustees of Clark Atlanta University has determined that the particular endowment fund can no longer usefully serve the purpose originally intended.
 2. The principal donor may then select such other form of endowment which may then be available for immediate implementation by Clark Atlanta University.
 3. If the University agrees, the use of the original endowment fund will be transferred to the selected endowment, which shall bear the name of the original principal donor.
 4. If, for any reason, the original donor is unavailable, or should there be no agreement as to the disposition of the endowment fund, then said fund shall be transferred to be used for educational purposes of Clark Atlanta University as the Board of Trustees of the

University may determine in a manner consistent with the requirements of the Georgia Uniform Prudent Management of Institutional Funds Act.

5. Should Clark Atlanta University cease to exist, then its endowment funds shall be transferred in accordance with the then-existing Articles of Incorporation of Clark Atlanta University or, if more specific, the provisions stated in the applicable gift instrument.

2.5.0 Recap of Endowment Spending Guidelines for Permanent/True, Quasi, and Term Endowments

Permanent endowment funds are intended to provide the University with a perpetual source of revenue for making distributions consistent with the designated purposes of the endowments and the University's tax-exempt purposes. Endowment funds shall be allocated for expenditures or accumulated in accordance with the provisions of the spending guidelines set forth within the University's Endowment Investment Policy.

3.0 Entities Affected By This Policy

This policy affects all University employees with financial, administrative and reporting responsibility with respect to endowment funds, including the University departments that provide support with respect to endowment funds (e.g., Treasurer's Office, Office of the Controller, Chief Financial Officer, and Office of the General Counsel).

4.0 Definition of Key Terms

- A. **Permanent/true endowment** - a fund/asset that is generally intended to exist in perpetuity, and therefore it is to be managed with the objective of providing a permanent source of income or gains to support its designated purpose.
- B. **Quasi-Endowment** - an asset donated by individuals or organizations to the University that the governing board of the University decided to treat as permanent capital. Because the decision is optional, principal as well as income may be expended if the board of trustees so chooses.
- C. **Term Endowment** - an asset donated by individuals or organizations to the University with the understanding that all or part of the principal may be expended after a stated period of time or the occurrence of a particular event. The income earned is available for expenditure by the University.



**SAMPLE
(NAMED) SCHOLARSHIP FUND
GIFT AGREEMENT
Clark Atlanta University
Memorandum of Understanding**

This (named) Gift Agreement (the “Agreement”) is made this ___ day of _____ by and among _____ (hereinafter referred to as “the Donor”), and the President and Board of Trustees, Clark Atlanta University (hereinafter referred to as “the University.”)

The Donor and the University agree as follows:

1. **Donor Commitment.** The Donor hereby gifts to the University the sum _____ (\$_____), which is provided for herein and designated for _____ for students with financial need (need or merit based scholarships).

2. **Donor Purpose.** It is understood and agreed that the gift will be awarded to an undergraduate students as determined the Director of Scholarships and any others deemed appropriate. The criteria and any other appropriate documentation that reflects the consistency of the scholarship awarding and awardees should be provided to the Director of Scholarships. Any amendments for the criteria will be done in writing, and approved by the donor.

3. **Scholar Selection Process.** As stated in the Fund Agreement, CAU will annually select a scholar to benefit from this Fund from among a pool of applicants it recruits through its regular scholarship application process. This process consists of: distributing printed and web-based application materials to all Greater Atlanta area high school students (the Fund will be listed in these materials) and mailing award renewal applications to previous recipients, contacting selected high-priority high schools directly, and conducting one on one interview with applicants. It is understood that in its ongoing efforts to improve its Scholarship Program (of which the Fund is now part), CAU may change this process in the future.

4. **Payment of Scholarship Award.** Please accept an initial _____ (\$_____). It is also understood and agreed that the gift funds as received may be invested by the University as it shall best determine pending distribution to the purpose or purposes described herein. The amount of the scholarship awarded from the Fund shall be determined annually by CAU. It will not be less than the Fund’s annual income as determined by CAU’s spending policy. CAU has adopted a spending policy to stabilize annual spending levels

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and to preserve the real value of the fund over time. Currently, the spending policy formula determines spending from funds at 5% of the average of the previous twenty quarters' market value; however, spending is subject to a minimum of 4.25% and a maximum of 5.75% of the current fair market value of assets as of the beginning of the current fiscal year. This formula is subject to change at the discretion of CAU Board of Trustees. CAU will manage all aspects of the administration of the scholarship award. This includes notifying the student of the award and making payment to the college upon proof of the student's enrollment. No payments will be made directly to the student or his/her family. Payments will be made in accordance with the CAU's policies, which currently allow awards to be used to reduce the amount of money students must pay for tuition, room, board, and routine fees as billed on an invoice from the college, or in some cases, for college loans from a variety of lenders.

5. Endowment. The gift specified above shall be used for the purpose of creating with the University an endowed scholarship to be known as _____ (the "Fund"). The assets of the Fund may be merged or pooled for investment and investment management purposes with the general endowment or other assets of the University and managed and invested in accordance with University policy and procedure, but shall be entered on the books and records of the University as "_____." Distributions in support of the above gift purpose and reasonable fees associated with securing, raising, investing, and administering such funds shall be charged to the said Fund administered in accordance with the policies and procedures of the Clark Atlanta University then in effect.

6. Administrative Fees. The reasonable expenses of administration of the fund are charged annually to income and currently amount to 2.00% of fund value. The administrative fees are calculated on the principal balance of each fund and are charged directly to the Fund. This covers the services provided by the University's council and other administrative cost. Since the fees are spread over a substantial asset base, the fees to any one fund are modest. In addition to the administrative fees, the University incurs investment-related fees, which are netted out of investment results before fund balances are reported to the donor. The full costs of the investment related activities on an annual basis generally range from 100 to 115 basis points of the endowment portfolio average market value. The cost of the services of the professional investment managers retained by the University represents approximately 75 to 85 of the total basis points. The remaining costs covered by these fees are the cost of custody of the assets, investment consulting services.

7. Allocation of Funds for Expenditure. The amount of funds allocated for expenditure for the purpose for which an Endowed Fund was established in a given year will equal 5% of the of the fund's rolling prior 12-quarter average fair market value with a 2-quarter lag (see Appendix A for example). In the event that a 5% expenditure amount would result in an endowment fund balance less than the gift establishing the fund, no amount will be expended from the fund. For new funds, no amount will be expended during the first full fiscal year of the fund's existence

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unless the original gift instrument requires otherwise. For example, earnings from a fund whose original gift instrument was received by the University in March 2010 will not be available for expenditure until fiscal year 2012. If the value of the University's endowment assets declines or increases by greater than 10% due to securities market conditions in any given year, the Finance and Audit Committee of the University's Board of Trustees will determine whether 5% expenditure is appropriate and may, at its discretion, adjust the percentage of expenditure for the succeeding year. The adjusted amount should be no less than 2% and no greater than 7% of the fair market value of the fund's prior 12-quarter rolling average fair market value. In the event that the adjusted expenditure percentage would result in an endowment fund balance less than the gift establishing the fund, no amount will be expended from the fund.

8. Investment & Management Fees.

Type	Admin. Fee in basis points ¹
Restricted Fund	175
Named Award in the General Endowment Scholarship Fund	190
Individual Scholarship Fund	200

(Effective DATE 4/13/2011); ¹ A basis point is one hundredth of 1% (.01%).
The chart above explains the administrative fees applicable to various types of funds.

9. Inadequate Funding. The amount needed to fully fund such an endowed fund shall be that amount required by the Clark Atlanta University on the date the first gift is received into the Fund. If, after the specified pledge period is ended, the value of the Fund is less than the minimum required by the University as of the date of this Agreement for the establishment and continuing support of the named fund, the Fund may be transferred to and merged with an existing endowment or other fund at the University approved by the University whose purpose will most nearly accomplish the Donor's intention evidenced by the purpose described above.

10. Reporting and Stewardship. Reports on performance of the Fund and use of the proceeds shall be provided annually to the Donor for endowment gifts. For capital and current use gifts, once the gift has been fully paid and/or employed by the University for the purpose specified in this Agreement, the University will normally report at least one time annually (except as the Donor and the University may otherwise mutually agree in writing) on the outcome of the gift.

11. Additional Gifts. The Donor reserves the right to increase the Fund through additional gifts and hereby consents to additional contributions to the Fund by any individual, corporation,

foundation, trust, estate or other legal entity through individual gift, bequest or other gift vehicle, and all gifts so designated shall be subject to the provisions of this Agreement.

12. Future Changed Circumstances. If, in the opinion of the President and Board of Directors of the Clark Atlanta University, all or part of this gift cannot at some time in the future be usefully or practically applied to the above purposes or if the purpose cannot be achieved because of a future change in law or unforeseeable circumstances, it may be used for any related purpose which in the opinion of the President and Board of Directors will most nearly accomplish the Donor's wishes.

13. Amendment. By mutual consent of the University and the Donor, the Donor's legally or duly appointed agent or attorney-in-fact, or the personal representative of the Donor's estate, any provision of this Agreement may be amended, modified, or deleted. Any such changes, deletions or additions shall be recorded in written signed addenda, which shall form part of this Agreement.

14. Entire Agreement. This Agreement contains the entire understanding of the parties with respect to the subject matter of the Agreement and is subject to the laws of the State of Georgia. This Agreement also supersedes all other agreements and understandings, both oral and written, between the parties relating to the subject matter of the Agreement.

In witness whereof, the parties to this Agreement have affixed their signatures:

THE PRESIDENT AND BOARD OF DIRECTORS
OF THE CLARK ATLANTA UNIVERSITY

_____ By: _____
XXXXXX (President's Name)
President
Clark Atlanta University

Date: _____ Date: _____

OR

(Senior Vice President of IAUR)
Senior Vice President for University Advancement
Clark Atlanta University

Date: _____



Minimum Funding

The minimum contribution amounts for particular types of endowments, which may be adjusted from time to time by the Board of Trustees, are set forth below. For those endowments with minimum contributions of \$50,000 or more, if approved by the President of the University or his or her agent, donors may have up to a maximum of five years to reach the minimum endowment threshold. The assets of all undercapitalized endowment funds will be allowed to accumulate, without any spending from them, during such period. If the minimum contribution amount is not attained within five years of the establishment of the fund, the University may, in its sole discretion, terminate the fund and utilize the remainder to support the University's general scholarship fund.

Table-Minimum Funding for the Establishment of an Endowment by Type:

<u>Type of Endowment</u>	<u>Amount</u>
Endowed Dean/Center Director	\$ 3,000,000
Endowed Chair	\$ 2,700,000
Endowed Professorship	\$ 1,500,000
Fully Endowed Scholarship	\$ 500,000
Endowed Faculty Fellowship	\$ 250,000
Endowed Graduate Fellowship	\$ 150,000
Endowed Scholarship	\$ 100,000
Endowed Loan Fund	\$ 100,000
Endowed Award	\$ 100,000
Endowed Lectureship	\$ 50,000
Endowed Book Fund	\$ 50,000



ENDOWMENT DESCRIPTIONS

ENDOWED DEAN/CENTER DIRECTOR

- \$3 million minimum gift—or more, depending upon the size and scale of the unit—is necessary.
- To provide discretionary funds to support the strategic vision of the unit, as determined by the unit director or department chairperson.
- In such cases, the position—not a specific person—is supported by the endowment

ENDOWED CHAIR

- \$2.7 million minimum gift is necessary.
- To recruit, retain, and reward superior faculty members.
- To enhance the faculty member's scholarly efforts and/or research program.
- In such cases, the position and/or specific discipline—not a specific person—is supported by the endowment.

ENDOWED PROFESSORSHIP

- \$1.5 million minimum gift is necessary.
- To recruit, retain, and reward outstanding faculty members.
- To enhance the faculty member's scholarly efforts and/or research program.
- In such cases, the position and/or specific discipline—not a specific person—is supported by the endowment.

ENDOWED FACULTY FELLOWSHIP

- \$250,000 minimum gift is necessary.
- For any rank of faculty member.
- For research and teaching efforts, and for visiting scholars while in residence.
- In such cases, the position and/or specific discipline—not a specific person—is supported by the endowment.

ENDOWED GRADUATE FELLOWSHIP

- \$150,000 minimum gift is necessary for an honors graduate fellowship.
- To support a student working toward an advanced degree in any of the graduate fields.
- Academic merit and/or financial need may be a consideration.
- The donor may suggest other preferential criteria.

ENDOWED SCHOLARSHIP

- \$100,000 minimum gift is necessary for an honors scholarship.
- To support an undergraduate or graduate student.
- Academic merit and/or financial need may be a consideration.
- The donor may suggest other preferential criteria.

**ENDOWED LOAN FUND
ENDOWED AWARD**

ENDOWED LECTURESHIP

- \$50,000 minimum gift is necessary.
- To be used to cover all or most of the expenses associated with planning and implementing lectures in specific areas and/or on specific topics.
- The endowed fund and the lecture or lecture series may carry the name of the donor, or someone of his/her choosing, in recognition of the gift.
- Can pay administrative costs, publications, advertising, travel, lodging, and honoraria.

ENDOWED BOOK FUND

- \$50,000 minimum gift is necessary.
- To purchase books, library technology, or other materials in a specified field.
- May also be used for preservation of books.
- May also be used for repair, cataloging, and other expenses of the library.



Desktop Procedures 12.01 How to Establish an Endowment

An interest in establishing an endowment is created:

IAUR Staff speak with donors about endowment policies/procedures, as well as, endowment requirements. During the initial conversation, the type of endowment is established

After verbal agreement is reached, IAUR prepares a Memorandum of Understanding (MOU) and sends it to donor

Donor reviews and signs agreement, and returns signed MOU back to CAU with initial check

Senior VP of IAUR signs agreement and gives paperwork to Advancement Services for setup

Advancement Services completes out a 405 (provided by Finance) along with a FOPAL request form

Once all paperwork is completed, scan and keep a copy for records

Take signed paperwork over to Grants & Contracts for setup

Once setup in Grants and Contracts, create the fund in the donor database

Once the fund is set up, the check can be deposited to that fund.

Annually audited reports are sent in the spring