Frequently Asked Questions About Endowments

Updated 1/13/15

1. Why are endowments important to NC State University?

An endowment creates financial stability, allowing NC State to be less dependent on unpredictable sources of revenue, such as state appropriations. The base of resources from endowments represent a rich variety of activities such as scholarships and fellowships for talented students, support for distinguished and dedicated faculty members through professorships and chairs, support for research, support for the libraries, or support for other programs.

2. How can an endowment be established at NC State University?

Any of the development officers listed at this link can explain how to create an endowment:

http://giving.ncsu.edu/connecting-to-nc-state/staff-listings/

3. What is an endowment?

An endowment is a long-term investment in NC State University that provides benefits to students, faculty and programs year after year, generation after generation.

An endowment is made up of gifts (including will bequests) that are subject to a donor requirement that corpus be maintained and invested to create a stream of income, with a portion of the average investment earnings expended to carry out the specified purpose of the endowment. To guard against the eroding consequences of inflation, the remaining portion of investment return is reinvested to help ensure that the endowment maintains its purchasing power over time to support future generations.

4. What is corpus?

NC State defines corpus as total donor gifts to an endowment. Corpus for older endowments may also include (a) investment earnings during the period before achieving the minimum endowment level and (b) donor-specified returns of a percentage of income to principal.

5. What is endowment principal?

Here at NC State, the term endowment principal incorporates corpus as well as excess returns (see #16 for definition) not needed for spending, any unused spending budgets that have been returned to principal and reinvested, and unrealized appreciation or depreciation.

NOTE: Sometimes the terms principal and corpus have been used interchangeably. Usually the context in which either term is used clarifies the intent of the speaker or writer. For example, older endowment agreements include a phrase similar to "Income, but not the principal, of this endowment may be used to fund scholarships." In this context, principal is understood to mean corpus.

6. What is the difference between a quasi endowment and a true endowment?

A true endowment is one created by an external donor that requires that corpus be maintained. A quasi endowment is one that has been established by an internal board or administrative unit that may be fully expended or unendowed by that internal board or administrative unit. The corpus of a quasi endowment is always zero.

7. What is the difference between market value and book value?

The difference between book value and market value is unrealized appreciation (if market value is more than book value) or depreciation (if market value is less than book value).

8. What legal requirements regulate endowments in North Carolina?

In March 2009, North Carolina adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). This act replaces the previous guidance (UMIFA) adopted in 1985. (See Chapter 36E of the NC General Statutes).

Unlike UMIFA, UPMIFA does not prohibit invasion of the endowment corpus, but instead applies a prudence standard for investment and spending decisions. Endowment spending rules adopted by the various entities supporting NC State have established 15% as the prudence level, or floor, for spending into corpus, if not prohibited by the endowment agreement.

9. Do other states have the same legal requirements for endowments?

With various modifications, UPMIFA has been adopted by 49 states and the District of Columbia. As a result of the state-by-state modifications to UPMIFA, legal requirements for endowments in other states may differ from North Carolina.

10. Who will oversee my endowment in support of NC State University?

The following entities hold endowments benefitting NC State University:

- The North Carolina Agricultural Foundation, Inc.*
- NC State University Alumni Association, Inc.*
- The Endowment Fund of NC State University*
- NC State Engineering Foundation, Inc.*
- NC State Natural Resources, Foundation, Inc.*
- North Carolina State University Foundation, Inc.*
- North Carolina State University College of Sciences Foundation, Inc.*
- North Carolina Tobacco Foundation, Inc.*
- North Carolina Veterinary Medical Foundation, Inc.*
- NCSU Student Aid Association, Inc.

- North Carolina Textile Foundation, Inc.

The board of directors and investment committees for each entity listed above has legal fiduciary responsibility for endowment oversight.

*The endowments for these entities are invested in the NC State Investment Fund, Inc. (See #12) and the University Treasurer's Division assists in carrying out their board policies.

11. What is the difference between University and Foundation Endowments?

North Carolina State University and the numerous non-profit organizations associated with the University (see #10) are separate legal entities, each with its own federal tax I.D. number and each with its own endowment. When an endowment is established, a determination is made as to whether it should reside in the University or in an associated entity depending on how the donor's gift is designated. In accordance with North Carolina General Statute 116-36.(j), any gift, devise or bequest to NC State University, or a college, department or division of the University, shall be considered a part of the NC State University Endowment Fund. Consequently, endowment gifts must be specifically designated by the donor for an associated entity in order for the gift to reside there.

All entities that invest their endowments with the NC State Investment Fund (NCSIF), including the University Endowment Fund and 8 foundations, follow the same investment and spending policies.

12. How are endowment investments managed at NC State University?

Most endowments are invested with the NC State Investment Fund, Inc. (NCSIF), an external investment pool established April 1, 1999. The NCSIF strives to preserve both the corpus and the spending power of the endowments. Asset allocation is the cornerstone of the endowment's investment policy. The strategic asset allocation policy should set the course for endowment investing for many years to come.

The overall investment objective is to earn a total net return at least equal to the sum of inflation plus the endowment spending rate over the long-term investment horizon. For more information, see: http://www.ncsu.edu/project/fdns-acct/investment_fund/NCSIFPolicy_Dec2013.pdf

13. What investment performance returns have been earned by the NCSIF?

See: http://foundationsaccounting.ofa.ncsu.edu/investment-fund/investment-fund-performance/

14. What is asset allocation?

Asset allocation is the manner in which endowment funds are distributed among the various long-term investment asset classes. Asset allocation is a major factor in maximizing portfolio return taking into consideration an acceptable risk level. The objective of an endowment, and thus the allocation decision, is to provide "generational neutrality". In other words, endowment management seeks to provide at least the same level of inflation-adjusted support to future generations as the current beneficiaries receive. The most recent quarter end asset allocation is available under "Investment Performance" at this link:

http://foundationsaccounting.ofa.ncsu.edu/investment-fund/investment-fund-performance/

15. How is spending determined? What is the relationship between overall investment return and the "spending" on an endowment?

Spending policies are set by the various boards of the entities supporting NC State University. A sustainable spending rule is total net investment return minus inflation to cover programmatic spending as well as assessment fees (see #26). Programmatic endowment spending is generally computed as 4% of the average market value of the previous 20 quarters. The annual increase in spending, however, is generally limited to CPI + 1%, unless there were significant additions to an endowment during the last fiscal year. The supporting entities use this averaging method in order to smooth out significant changes from year to year that would otherwise occur due to market volatility.

The endowment spending rule utilized by NC State entities is available at this link:

http://www.ncsu.edu/project/fdns-acct/dev_officers_toolbox/Spending_RuleFY14.pdf

16. What happens to any "excess returns" in the endowment?

Earnings beyond the amount needed for spending are referred to as "excess returns" and are added back to principal and reinvested in the long-term pool to promote growth and protect against inflation for future programs. These excess returns are also used to provide funding for future spending budgets in down investment performance periods.

17. How soon will new endowments start to spend for programmatic purposes?

If the endowment agreement prohibits spending of corpus, new endowments may begin spending after accumulated investment earnings (also referred to as spending reserves) are sufficient to fund a spending budget, subject to the annual computation date for endowment spending budgets of June 30th. Normally, it takes at least one full year before a new endowment can begin to spend.

If the endowment agreement does not prohibit spending of corpus, an exception request may be approved which would allow new endowments to begin spending at some level as long as endowment market value is greater than 85% of corpus as of the annual computation date for endowment spending budgets of June 30th.

18. What happens when investment returns are negative?

An endowment can spend from prior years' excess returns, also referred to as spending reserves. However, if there are no spending reserves available, there are two possibilities with respect to spending when investment returns are negative:

A. If the endowment agreement prohibits spending of corpus, there can be no spending.
B. If the endowment agreement does not prohibit spending of corpus and endowment market value is greater than 85% of corpus, spending at some level may be possible.

19. What is an "underwater" endowment?

This is an endowment that, through declining market performance has used all accumulated earnings and appreciation and has eroded the original gift value, or corpus. Eroded corpus and negative spending reserves are other terms used to denote "underwater" endowments. The market value of an underwater endowment is less than corpus. Spending of corpus, if permitted by the endowment agreement, by its very nature creates an underwater endowment.

20. How will spending occur if an endowment is "underwater"?

See #18. Also, when an endowment is underwater, donors may elect to contribute to the endowment income fund (also known as the spending account) for current year spending until the endowment recovers and is able to fund spending budgets again.

21. What is the minimum amount for establishment of an endowment?

The University's minimum to fund a scholarship endowment is $25,000.

See https://giving.ncsu.edu/your-gift/endowments/ for other minimum endowment levels.

Also, donors may specify an endowment level greater than the University minimum in their endowment agreement.

22. What is a BTE?

A BTE is a fund that is Building To *(the minimum)* Endowment level. Minimum endowment levels have been established for each type of endowment, depending on purpose. (See link provided in #21.) Also, donors may specify an endowment level above the minimum set by the University in their endowment agreement.

BTE's are allowed a five-year period to achieve the minimum required level. If the BTE does not reach the required minimum within 5 years, it will be converted to a restricted fund or transferred to the general fund, depending on the donor agreement, and the balance spent in accordance with the stated purpose.

23. How do I know when a BTE fund has reached the required minimum?

For BTE funds in the foundations, Foundations Accounting & Investments (FAI) staff reviews BTE's monthly to identify those that have achieved the required minimum balance. The foundation development officers are notified by email of the funds that have reached endowment level that will be invested in the foundation's long-term investment pool. Time is allowed for the development officer to respond in case the donor has requested a portion of the funds not be endowed and left for spending. If there is no response from the development officer, FAI will endow 100% of the balance in the BTE fund.

Distinguished professorship BTE's in the University Endowment Fund are tracked by the Office of Development Communications and Donor Relations to determine if the minimum level specified for a matching grant from UNC-GA has been achieved. The Chancellor's Office then sends a letter to the Office of the President notifying them of the fund balance and requesting the matching funds. When those matching funds will be disbursed by UNC-GA is dependent upon the number of requests for matching funds and the level of state funding provided for the program each year. For more information on the Distinguished Professors Trust Fund matching program, see:

http://www.northcarolina.edu/apps/policy/index.php?pg=vs&id=s425

Other BTE's in the University Endowment Fund are reviewed annually to determine if the minimum endowment level has been achieved.

24. When can I spend from a BTE?

Spending is not permitted from funds building to endowment level, unless there is a specific donation earmarked for current year spending. After a BTE fund has been endowed, the endowment follows the board-approved spending policy subject to covenants contained in the endowment agreement.

25. What are assessment fees?

Assessment fees are annual charges against endowment investment earnings that help fund administrative and fund-raising costs. Currently, there are three types of assessment fees.

a. Foundation based – Many foundations charge an assessment that supports the foundation's general fund, to help defray administrative and fundraising costs at the college level. Foundation based assessments on endowments vary from foundation to foundation and currently range from 25 basis points to 75 basis points.
b. Central university development – An assessment to help defray both administrative and fundraising costs at the central or university level. Costs may include salaries for fundraisers, systems support (hardware and software), donor research and stewardship reporting, and other necessary expenses to further the fund-raising efforts of the university and foundations.
c. University level – Implemented in 2010, this 50 basis point assessment is designated solely for fund-raising costs, and is allocated equally between college-based development offices and University Advancement.

All endowment assessments are computed using the same methodology as programmatic spending (see #15). In the event that spending reserves are insufficient, priority is given to the programmatic spending budget.

Your development officer can provide specific information on assessments, including the total assessment that is applicable to your endowment.

26. What are basis points (bp)?

A basis point (bp) is a unit that is equal to 1/100th of 1%, and is often used instead of percentages when discussing interest rates, rates of return, and other percentage-based metrics that can occur as fractions of a percent. EXAMPLES: 1% = 100 basis point; 0.50% = 50 basis points; 0.01% = 1 basis point.

27. Can an Endowment be designated for a specific purpose?

Absolutely! As with any gift to NC State, an endowed gift offers alumni and friends the opportunity to have their names, or the name of a loved one, linked to an area of the University in which they have a special interest.

- Some donors create unrestricted endowments, recognizing that the needs and challenges of the future will differ from those of today. Unrestricted gifts are used for the highest priority needs on campus, and provide the most flexibility as these needs change.
- Many donors create undergraduate scholarships or graduate fellowships to aid deserving students.
- Some donors choose to endow a professorship in the academic discipline that inspired them as students.
- Others choose to support research in areas of particular importance to them.
- Other donors choose to direct their gifts to areas or programs of special concern to them, knowing that these additional funds provide an opportunity for those programs to grow and continue to excel.

Again, here is the link to a list of development officers who can answer your questions about how to establish an endowment at NC State: http://giving.ncsu.edu/connecting-to-nc-state/staff-listings/