



# FINAL POLICY

<b>Policy Name</b>	<b>Endowment Policy</b>
<b>Policy Category</b>	Administrative
<b>Policy Approved By</b>	Board of Trustees
<b>Responsible Division Head or VP</b>	Vice President for Finance and Strategic Partnerships
<b>Responsible Department</b>	Finance and Operations
<b>Responsible AVP or Director</b>	Controller
<b>Original Policy Date</b>	2/12/2022
<b>Last Known Revision Date</b>	N/A
<b>Current Policy Effective Date</b>	2/12/2022
<b>Recommended Policy Review Date</b>	2/12/2025
<b>Policy Applies To</b>	Entire Campus
<b>Additional Authority/References</b>	<p>Pennsylvania law: 15 Pa. C.S.A. §5548 and 20 Pa. C.S.A. Ch. 81            RELATED DOCUMENTS/POLICIES</p> <p>Quasi-Endowment Policy            Investment Policy Statement of the Endowment Fund            Endowment Policy</p>

## POLICY PURPOSE

Endowment funds are assets that help to provide long term stability, thus allowing a longer time horizon for planning and creating intergenerational equity. An endowment is created either by the Albright College Board of Trustees or by a gift in which the donor's intent is to preserve the corpus in perpetuity and spend the income only. The purpose of this policy is to provide guidelines for endowment funds, including annual endowment spending, responsibility of individuals and departments, use of unspent funds, etc.

## DEFINITIONS

TERM	DEFINITION
<b><u>College Endowment or Institutional Endowment</u></b>	Endowments and Quasi-endowments are included within the College's Endowment which is managed by the Investment Subcommittee and is subject to this policy, as well as the Investment Policy Statement of the Endowment Fund, and the Quasi-endowment Policy. The College Endowment is invested and a portion of the investment return provides support to the College's operations.
<b><u>Endowment or Endowed Fund</u></b>	A true or permanent Endowment is defined as a fund that, under the terms and donor-restrictions contained in the gift instrument, is not wholly expendable by the institution on a current basis. An Endowment

	<p>does not include assets that the College designates as an Endowed Fund for its own use, which are termed Quasi-endowment. The following terms are applied to an Endowed Fund:</p> <ul style="list-style-type: none"> <li>• <u>Corpus</u>: original gifts and additional gifts that may come in. The Corpus does not include Earnings.</li> <li>• <u>Earnings</u>: weighted proportion of investment return for that Endowment; calculated monthly. Earnings accumulate over time.</li> <li>• <u>Investment Pool</u>: total Corpus plus total accumulated Earnings minus approved Spend.</li> <li>• <u>Annual Distribution or Spend</u>: the funds available for spending to support the donor’s intentions within a given year. The spending allocation rule (or rate of spend) is approved by the Albright College Board of Trustees as part of this Endowment Policy. Annual Distribution for a given Endowment is then calculated as the Board-approved rate of spend times the Endowed Fund Value over the previous three audited years. Spend can sometimes begin with only a one year lag (rather than three), so that one audited year of Value is available. Spend is calculated once a year, ideally at the beginning of the College’s fiscal year.</li> <li>• <u>Underwater Endowed Fund</u>: a time when the Fund Value is less than Corpus, which should be avoided. A Fund that has been Underwater for more than one fiscal year is not available for spend until Value has been positive for at least one full fiscal year. This can occur when the approved spend exceeded the allocated earning to an individual endowed fund.</li> <li>• <u>Value</u>: includes the Corpus plus any Earnings that were unspent or that were earned over the allowed approved spend. Ideally, this value will grow over time to support inter-generational equity.</li> </ul>
<p><b><u>Endowed Fund Fiscal Officer</u></b></p>	<p>Ultimate responsibility lies with the Endowed Fund Fiscal Officer (“Fiscal Officer”), who is the vice president or Cabinet member designated by the president as the officer with final responsibility for the Endowed Fund. The Fund Manager and Fiscal Officer may, in some cases, be the same person. The Fiscal Officer should be designated by the College (the President), not by the donor.</p>
<p><b><u>Endowment Fund Manager</u></b></p>	<p>The Endowment Fund Manager (“Fund Manager”) is responsible for the day-to-day management and Annual Spend of the Endowed Fund, including applying appropriate expenses towards the Endowed Fund. The Fund Manager is responsible for knowing and following the donor intention, as outlined in the Gift Instrument. The Fund Manager and Fiscal Officer may, in some cases, be the same person. The Fund Manager is typically designated by the College (the president or cabinet member who serves as the Fund’s Fiscal Officer), not by the donor.</p>
<p><b><u>Endowed Fund Minimum</u></b></p>	<p>Albright College Board-approved Minimum dollar amount, as set within this policy that must be donated in order to create an Endowed Fund. For Endowed Funds that were established prior to the designation of Minimum to begin spending can accumulate Earnings to reach the Minimum Level</p>

<b><u>Gift Instrument (Fund Agreement)</u></b>	Gift agreement signed by donor and College that outlines donor’s wishes as well as other items, as outlined in this policy.
<b><u>Pending Endowment</u></b>	Pledge or committed gifts that carry intent to complete or add to an Endowment or an Endowed Fund to reach the required Minimum. Pending Endowments are not available to spend until the pledge or committed gifts have been received.
<b><u>Quasi-endowment Fund</u></b>	A Quasi-endowment, or board-designated, Fund is an expendable fund designated by the Board for medium- to long-term investment. A Quasi-endowment Fund represents unrestricted funds designated by the Board of Trustees as endowment. Quasi-endowment funds function like an Endowed fund, except that the Corpus may be totally expended at the discretion of the Board. The Fund’s assets are invested in the same manner as those of a true Endowment and have the same payout provisions. At the time of establishment, the use of the annual spending from the Quasi-endowment is typically stated and agreed to by the president and the Board of Trustees. At Albright College, Quasi-endowments are governed by both this policy and the Quasi-endowment policy.
<b><u>Total Endowment Fund</u></b>	Represents the College funds held within the Institutional Endowment and Trusts Held By Others.
<b><u>Other Endowed Assets</u></b>	The College is the beneficiary of several trusts whose assets are controlled, held, and managed by third parties; these assets are not included within the Endowment Fund managed by the Investment Subcommittee. The assets within these trusts are restricted by donors for a particular purpose and are invested according to separate investments policies maintained by the third parties managing the trusts. The spending from these trusts is governed by the agreement and donor restrictions that established the trust and these funds are not subject to this Endowment Spending Policy or the Investment Policy Statement of the Endowment Fund.
<b><u>Unrestricted and Restricted Endowments</u></b>	<p>Unrestricted Endowments are the most flexible and provide the College to use the funds where they are needed most, with no restrictions. Restricted Endowments have a designated criteria or purpose that must be followed, according to the donor’s wishes expressed in the Gift Instrument.</p> <p>There are four endowed fund types at Albright College:</p> <p><b>College Operating Fund:</b> A fund designed to benefit the College by providing general operating support that can be unrestricted or restricted for a broad purpose and act in the capacity of budget relieving as they cover routine operating expense. The endowment draw is automatically released by the Controller’s Office each year to provide operating support without further internal administration.</p> <p><b>Departmental Operating Fund:</b> A fund designed to provide general support or enhance the budget of a particular department or program and actively managed by a fund manager. Spending from these endowments act as budget enhancing as they call for specific</p>

	<p>expenditures which may or may not be routine operating expense. This type would also include endowed chair positions.</p> <p><b>Scholarship:</b> Awarded to students with financial need by the director of financial aid as part of their total financial aid package. Under current practice, the scholarship replaces other institutionally funded financial aid.</p> <p><b>Award and or prizes:</b> Awarded as payments to student (regardless of financial need) or faculty member by a department or division on campus. Awards for faculty research and/or innovation are also included in this category. An award does not impact a student’s financial aid package and student receives a 1099. For faculty awards, these are administrated through the payroll system to ensure that appropriate taxes are withheld.</p>
--	---

**POLICY TEXT**

<p><b><u>ENDOWMENT PURPOSE</u></b></p> <p>Albright College encourages unrestricted Endowment gifts because they provide the College with the most flexibility in its financial planning, as situations can change significantly over long time horizons. However, donors may restrict the use of income for a specific purpose, if the purpose is acceptable to the College. Generally, an Endowed Fund can only be accepted for a given set of funding priorities. Endowed Funds outside of the list of endowment priorities must be approved by the Vice President for Advancement and the President, prior to discussion of details with the donor. Every effort should be made to only raise Endowed Funds for the designated funding priorities.</p> <p>Some purposes are not appropriate for an Endowed Fund. For example, gifts for the construction of physical plant or other purposes that do not involve long-term investment; however, an Endowed Fund is appropriate to support the long-term facilities needs of such construction. If a donor has an expectation that their gift will be invested for a near term (i.e., less than ten years) with a set expectation for liquidation, the gift would not be considered appropriate for Endowment.</p> <p><b><u>GIFT DESIGNATION AND ADDITIONS</u></b></p> <p>It is expected that a donor designation to Endowed Fund is final. Typically, once a gift is designated to an Endowed Fund, the donor's gift designation may not be changed, except as provided below.</p> <p>A gift addition to an existing Endowed Fund takes on the terms of the Fund. Donors wishing to make a gift addition must be made aware of this policy.</p> <p><b><u>DOCUMENTATION REQUIREMENTS</u></b></p> <p>To establish an Endowed Fund, Albright College requires as documentation a Gift Instrument with certain elements approved and signed by the donor and the College. The document must clearly identify Fund intended use. This documentation serves as evidence of donor intent, and helps to ensure the terms of the gift are clearly documented and followed. The donor’s wishes should be expressed as broadly as possible, and should have an out-clause in case circumstances change.</p>
---

All restricted endowments must have an alternative use clause, giving the Board of Trustees the authority to repurpose the gift in certain circumstances, such as operating deficits in excess of five percent of the total operating budget, but still within donor intent, such as:

If the purpose of the endowed fund is no longer viable or available, the Board of Trustees, upon recommendation by the President, may elect to change the purpose of this Endowed Fund. Use shall align as closely as possible with the donor's intention.

Gift instruments for restricted Endowed Funds created subsequent to the date of this policy are required to have the following disclosure:

The Fiscal Officer and Fund Manager for this Endowed Fund will be designated by the President or the appropriate vice president or Cabinet member. As with other Endowed Funds, the College's Controller's Office will oversee this fund in accordance with policies established by the Board of Trustees. These policies govern the investment of Endowment Funds and the distribution and utilization of Endowed Fund Earnings. Such policies may be revised from time to time by the Board of Trustees. A summary of current policies is available from the Advancement or Controller's Office upon request.

There is a small subset of gifts, such as bequests, that established Endowed Funds where the College either has no Gift Instrument or said documents that establish the fund do not contain the above disclosure. These funds are treated the same way as funds that were established with the disclosure unless expressly advised otherwise in the applicable Gift Instrument. It should be noted that this provision only applies to the designation of a Fund Manager, Fiscal Officer and the College's policies governing the investment and draw down of endowed funds. Additionally, and with the permission of the PA Attorney general, this provision can be applied to the repurposing of gifts in extreme circumstances based on Board approval.

#### **ENDOWMENT FUNDING LEVELS**

The College's minimum threshold (Endowed Fund Minimum) to establish a new endowment is \$25,000. Albright College requires that endowment levels be achieved with donor additions (primarily gifts). Accumulated Earnings, retained as part of a fund's market value, typically do not count towards reaching these levels because these distributions are designed to preserve the long-term purchasing power of the Endowed Fund. For Endowed Funds created before the establishment of the current minimum threshold, Earnings may accumulate to the required Minimum, at which time the Minimum amount is designated as Corpus.

A gift addition to an existing Endowed Fund is not currently subject to a minimum amount.

From time to time, the Board of Trustees may approve thresholds or minimums for specific types of Endowed Funds. The objectives in establishing these thresholds are to:

- 1) encourage gifts by providing donors with a variety of important giving opportunities, and
- 2) ensure that endowments sufficiently provide Annual Distribution amounts, which cover the estimated costs of the program/purpose they support, both at the time they are established, and in the future.

#### **ENDOWMENT DISTRIBUTION AND SPENDING OBJECTIVES AND GUIDELINES**

The spending policy for the Albright College Endowment determines the dollar amount that will be available for College operations in a given fiscal year. Endowed Funds are considered to be permanent and, thus, the Annual Distribution or Spend should meet the following objectives:

1. **Generational Neutrality or Equity:** To benefit future generations spending should be equitable in its benefit to the current and future generations. Generally, the amount spent annually should remain constant or increase, when measured over time on an inflation-adjusted (“real”) return basis.
2. **Maximum Sustainable Spend:** Because the Institutional Endowment is meant to be sustained over time, and is meant to ensure equitability between generations, the maximum sustainable Spend should be less than the actual Earnings, so that the Endowed Fund Value grows over time.
3. **Minimize Volatility of Amount Available for Spending:** Because many Endowed Fund Earnings needs and uses are recurring, or ongoing in nature, the spending strategy is structured in a way that attempts to minimize year-to-year volatility.

Given the above objectives, the percentage of the market value of the Institutional Endowment to be utilized as Annual Distribution should be between 2-7% (in concurrence with Pennsylvania State Law). By default, the Annual Distribution percentage of the Albright College Institutional Endowment is set at 5% of the average market value of the Investment Pool over the last three fiscal years ending with the most recent audited fiscal year.

Deviation from 5% requires annual fiscal year approval by the Board of Trustees, through both the Investment Committee and the Finance Committee.

The calculation of the dollar amount of the Spend is accomplished as defined above for Annual Distribution or Spend: As an example, the Annual Distribution for the fiscal 2019-20 budget was based on information derived from the three year market value average of the prior three fiscal years ending with the most recent audited fiscal year, or fiscal years 2015-16, 2016-17, and 2017-18. This lag provides for an actual determination rather than an approximation to be used in administering financial aid and other restricted expenditures.

Earnings beyond the Annual Distribution will be added to the Endowed Fund Value.

Financial investments, as part of the Investment Pool, purchased by new gifts entering the Institutional Endowment during the year are allowed a prorated amount of income, based on the quarter in which gifts are received. *Note:* For purposes of calculating the average, if the assets of a particular endowment have been held for less than three years, the average shall be determined over the period during which the assets have been held.

#### **USE OF ENDOWMENT FUND DISTRIBUTION**

Each year, the Annual Distribution for each Endowed Fund is determined and then communicated to the appropriate Endowed Fund Manager by the Controller’s Office, to be used for purposes that align with the Gift Instrument for that Endowed Fund. The Endowed Fund Manager is responsible for designating the uses of these funds each year. Generally, it is expected that the Endowed Fund Manager will expend the Distribution, not hoard it, each year. In some instances and for various planned and unplanned reasons, the Annual Distribution will not be totally expended.

By default, unexpended Annual Distribution is added back to the Endowed Fund Value (not the Corpus). As such, these funds could be available to spend in subsequent years, but typically would simply accumulate to increase the future capacity for Annual Distribution.

In some instances, the Fund Manager may request that accumulated Distribution be accumulated for a specific, larger purpose (still within the allowances of the donor intent as described in the Gift Instrument). The Fund Manager must submit this request (including how the accumulated funds would be used, when they would be expended, and how the larger purpose fits within the donor intent) in writing to the responsible Fiscal Officer (for accountability purposes and approval), who will communicate to the President and Controller’s Office (for informational and accounting purposes). This option, which must be communicated to the Fiscal Officer annually, provides the opportunity for Endowed Fund Managers to do multi-year planning, and allows for strategic accumulation of funds for a planned purpose that requires more funds than a single year Distribution.

**ENDOWMENT FISCAL OFFICERS AND FUND MANAGER RESPONSIBILITIES**

Ultimate responsibility for Spend of an Endowed Fund within the intention of the donor and state and federal laws lies with a vice president or Cabinet member who is designated as Endowed Fund Fiscal Officer. The vice president or Cabinet member may delegate management responsibility to another Albright employee, the Fund Manager, who would then be responsible for the day-to-day management and spend of the Fund within the Annual Distribution, as well as ensuring that expenses fall within the guidelines of the Gift Instrument.

Fund Managers exercise their duties in a special position of trust and responsibility, both to the College and to the donors. When the College accepts endowment gifts that are restricted by the donor (either time restrictions or use restrictions), those restrictions will be honored to the extent permitted by law. If there is difficulty interpreting the donor's intention, Fund Managers should discuss with the Fiscal Officer and contact the Advancement Office for clarification.

To monitor ongoing adherence to donor-imposed restrictions, the Fiscal Officer will periodically review a report of endowment disbursements. This Policy recognizes that there may be cases where a restricted use becomes obsolete or over-fulfilled, or becomes inconsistent with the College’s needs or mission. In such cases, the College would follow both the fund Gift Instrument and appropriate law to modify the use of the Endowed Fund.

**REVISION LOG**

DATE OF REVISION	MAJOR CHANGES <i>(Note: electronic copies of the former versions of the policy must be maintained within the unit, department, or division)</i>
Click or tap to enter a date.	