

# **San Francisco State University Foundation**

## **An Overview of Operations & Policies**

ADM 153L  
June 24, 2016

# Presentation Outline

- Overview of the Foundation governance
- Overview of Foundation operations
- Endowment Administration and FAQs

# About the Foundation

- Background/History: The SF State Foundation is a non-profit corporation that was founded in September 2007. Prior to 2007, the Foundation was a part of another entity on campus - University Corporation.
- Purpose: To raise and manage gifts from individuals, foundations and corporations for the sole benefit of SF State.
- The Foundation manages an endowment valued at about \$66 million (as of April 30<sup>th</sup>).
- The Foundation is governed by a 35-member Board.

# Governance

- Board of Directors: The Board is comprised of the following members:
  - Officers (President, Chair, Immediate Past Chair, Vice-Chair, and Secretary & Treasurer).
  - Ex-officio members (SF State University President, Provost, VP University Advancement, and CFO/VP Administration & Finance).
  - Directors (all other board members, including the student and staff representatives).
- The Board meets four times per year (March, June, September and December).

# Governance

- Board Committees: Because the board only meets 4 times per year, the work of the board gets accomplished at the committee level.
- There are seven board committees working on key areas:
  - Executive Committee
  - Advocacy Committee
  - Audit Committee
  - Committee on Athletics
  - Committee on Directors
  - Development Committee
  - Investment Committee

# Governance

- The Executive Committee is comprised of the Foundation president, chair, immediate past chair, vice-chair and the chairs from the remaining six committees.
- Items requiring approval by the full Board must first be discussed and approved at the Executive Committee level.
- The Executive Committee makes recommendations to the full board for approval on matters (i.e. elections, resolutions and Bylaws amendment/repeal, compensation, conflict of interest transactions).
- Bylaws authorize Executive Committee to act in all other matters on behalf of the Board (i.e. policy changes, budget & contract approval, etc).

# Governance

- Advocacy Committee: Counsels and advises the Board of Directors and the leadership of the University on local, state and federal initiatives impacting the University and the Foundation.
- Audit Committee: Required by CA law for nonprofits with revenues of \$2MM+. Oversees the annual audit of the Foundation; recommends the retention and termination of the independent auditor; and negotiates auditor's compensation.
- Committee on Athletics: Provides leadership and advice for the development and fundraising activities of the University's Athletics program (includes identifying and cultivating major donors to build the program).

# Governance

- Committee on Directors: Develops criteria for membership on the Board; assists in the recruitment and orientation of new directors and adopts criteria for directors' evaluations; and makes recommendations for committee appointments.
- Development Committee: Provides leadership for fundraising activities for the University, including overseeing fundraising priorities, managing the campaign, developing communications and the identifying, cultivating, and soliciting prospective donors.
- Investment Committee: Provides active and independent oversight of the Foundation's investments, including policies, controls and processes.

# Foundation Operations

- Staffing Support: Two (2) university employees. Provides oversight of daily operations.
- Contractor: Foundation contracts with on-campus entity for financial, audit and accounting, cash management and accounts payable support.
- Consultants: Foundation legal counsel, investment custodian, others, as needed.

# Foundation Operations

- Foundation revenue comes from a fee that is assessed quarterly on the endowments – also referred to as an Endowment Administration Fee.
- This fee covers the Foundation's expenses, which include staffing support, finance and accounting support costs, audit, insurance, legal, travel and hospitality, among other things.
- Foundation is also required to have six (6) months of operating reserve, so whatever funds not used in a given year goes toward the reserve.
- This endowment administration fee is currently 1.25% of the endowment quarterly balance.

# Endowment Administration

- Per University policy, the Foundation receives all endowed gifts for the university. The gifts are used to establish endowments.
- An endowment is a financial asset donation made to a nonprofit group or institution in the form of investment funds or other property that has a stated purpose at the bequest of the donor. Most endowments are designed to keep the principal amount intact while using the investment income from dividends for charitable efforts.

# Endowments - Types

1. Permanent (true) endowment – Principal/corpus remains inviolate (not used). A minimum of \$25,000 is required.
2. Temporary (term) endowment – all or part of principal is used after a period of time or occurrence of specified purpose, per donor's wishes.
3. Quasi-endowment – a board-designated endowment for a specified program or purpose (i.e. to purchase a building, furniture, equipment, etc.) This is treated as a permanent endowment. NOTE: All gifts of \$25,000 or more from wills, trusts, planned giving instruments are quasi-endowed unless donor specifies otherwise.

- Donors who do not have the \$25,000 minimum to establish an endowment are allowed some flexibility in doing so.
  - *Why?:*
    1. Donation to SF State is made sooner than would otherwise be possible.
    2. Funding provides current financial support to support student, faculty and campus needs.
  - *Current Terms & Requirements:*
    1. Donor makes an initial minimum gift of \$5,000 towards the establishment of the endowment.

2. Donor agrees to make annual gifts to the spending account of \$1,000 (the rationale is that the endowment would have generated about 4% had it been fully in place).
3. Donor agrees to fully fund the endowment within five (5) years.
4. If donor forfeits, the existing funds may be: 1) merged with another endowment fund that best meets the intent of the donor or 2) deposited in the Foundation's general endowment account or 3) placed in a spending account to be used for the original purpose of the former endowment.
5. When the principal is met, the endowment is considered fully funded and the donor's commitment is fulfilled.

# Frequently Asked Questions (FAQs)

## How are the Endowments Managed?

- The Foundation's endowments are managed by the Investment Committee, according to the Foundation's Investment Policy Statement (IPS).
- The IPS is developed by the Foundation's Investment Committee and lays out the Foundation's investment philosophy (i.e. targets, benchmarks, investment restrictions, etc.)
- Foundation released an RFP last week to identify an OCIO/ advisor.

# FAQs

## How are Endowment Distributions Used?

Endowments are established for a number of purposes, including:

- Scholarships
- Fellowships
- Programs (salaries, expenses, travel)
- Chairs
- Construction of Facility

# FAQs

## How are Distributions Determined?

- Because endowments are intended to exist permanently, and because they are subject to market conditions, it is extremely important that the capital is preserved.
- Therefore, the Foundation has implemented certain policies to determine how much can be distributed from the endowments each fiscal year.
  - I. The maximum annual distribution from endowments is 4% of the endowment (aka spending policy).

# FAQs

- The specified quarter is the March 31<sup>st</sup> quarter prior to the beginning of the upcoming fiscal year. For example, the payout amounts for FY 2016-2017 are based on the average daily balance of the endowments as of the March 31, 2016 quarter.
- 2. For endowments with balances more than 4% above contributions, we distribute 4%.
- 3. For endowments with balances above water but less than 4% above contributions, we distribute 2%.
- 4. There is no distribution when an endowment is underwater (i.e. when the balance is lower than the contributed amount). Reports are submitted to the donor(s), regardless of the endowment status

# Endowments FAQs

5. There is no distribution in the first year a permanent/quasi-endowment is established to allow for growth.
- **NEW TIMELINE TO BE APPROVED:** An endowment established between January 1st and June 30 can expect to have a payout in the next fiscal year. Eg. Set up of Jan 1, 2016-June 30, 2016 >> FY 2017-2018.
  - Each year, the Investment Committee approves the distributions (endowment payouts) for the upcoming fiscal year.
  - The list of approved distributions/payouts is then circulated to gift officers, deans, department chairs, project directors, and other key folks.

# FAQs

- Distributions are made annually. Project directors may request the entire amount or portions but within the fiscal year.
- Distributions can be made immediately from temporary endowments.
- The endowment administration fee is charged: 1) during the first year the endowment is established even though a distribution may not allowed and 2) even though the endowment is underwater.

## **Why are some endowments under water and some aren't if endowments are pooled and invested together?**

- Endowment performance (earnings) has to do with how long the funds are invested and when.
- So, an endowment set up 15 years ago would have had enough time to build up a good balance compared to one established 2 years ago. The one established 15 years ago has enough built up in it to withstand losses in the market. In other words, because it has been invested for some time, even with some market losses it would still have a balance that is more than its contribution.
- Also, an endowment invested in a really good year where it made a lot, may still have a balance that is more than the contribution even with market losses.
- Finally, an endowment that has not made a distribution in a while, will more likely have a balance that is above the contributed amount.

# FAQs

## **How are the Approved Distributions (aka Payout) Accessed?**

- All payments and transactional activities for the Foundation are processed by University Corporation (UCorp).
- Each Foundation account has a corresponding “spending” account that sits on the UCorp side.
- Funds must be transferred from a Foundation account to the spending account before it can be paid out. Transfers are not automatic.
- A “Request for Transfer of Funds” form must be submitted to the Foundation Treasurer for approval. The approved form is then submitted to UCorp to process the transfer and/or make disbursements.

# Gift Agreements

- A gift agreement or an MOU is required to establish an endowment.
- A gift agreement is used when there is one or more donors involved.
- An MOU is used when there is no donor but the terms and conditions of the endowment need to be documented for implementation. For example, college-established endowment or a quasi-endowment.
- A gift agreement or MOU is the instrument that outlines the donor's wishes as well as terms and conditions of the gift, including criteria for use and eligibility requirements.
- Gift agreements (for endowments only) are signed by the donor, dean of the college, AVP for University Development and the President of the Foundation.
- MOUs (for endowments only) are signed by the Dean and President or CFO of the Foundation.

# FAQs

## How do you amend an endowment?

1. Contact the donor to amend.
2. If donor is deceased and endowment amount is over \$100,000 and/or under 20 years, file the change in probate court - work with legal counsel.
3. If donor is deceased and endowment amount is under \$100,000 and over 20 years (i.e. old and small), notify Attorney General's Office.

NOTE: For quasi-endowments, go back to Foundation Board.

# Foundation or UCorp?

	Foundation	University Corporation
Gift Agreements for endowments	X	
Gift Agreements for current use gifts		X
Financial Reporting for current use gifts		X
Endowment (donor) reports	X	
Request for Transfer of Funds from endowment to spending account	X	
Request for Transfer of Funds from spending account to spending account		X
Amending endowments	X	
Amending current use gifts		X
Payment requests		X

# Questions??

For more on Foundation policies, please visit our website at: <http://sfsufdn.sfsu.edu/>

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