SAN FRANCISCO STATE UNIVERSITY FOUNDATION	SECTION NO. **300**
POLICY STATEMENT	DOCUMENT NO. **301**

SECTION: **POLICY STATEMENT – ENDOWMENT AND INVESTMENT**

SUBJECT: **ENDOWMENT ESTABLISHMENT AND ADMINISTRATION**

PURPOSE: To provide general guidelines, policies and principles for the establishment and administration of endowment funds.

EFFECTIVE DATE: August 19, 2025 (Revision Date)

I. BACKGROUND

An endowment fund is defined as a single or combined pool of assets gifted to the San Francisco State University Foundation ("Foundation") to provide resources for various activities consistent with the mission of San Francisco State University ("University"). The Foundation will serve as a trustee for these endowment funds and, therefore, has a fiduciary duty to the donor and the University to administer the assets consistent with the donor's wishes, the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), and generally accepted financial standards. Since permanent endowments continue in perpetuity, it is very important that the Foundation maintains, in all permanent records, a clear understanding of any donor restrictions.

Generally, when there are donor restrictions, a separate account to track the expenses is established. If a donor deposits restricted funds to the Foundation and these funds are later transferred to the University, fiduciary responsibilities follow the funds. Special care must be taken to ensure that the donor's wishes are followed; this includes establishing a separate account, if needed, to comply with donor restrictions.

II. POLICY

A. Types of Endowments

Endowments are classified as permanent, quasi, or term endowments. Funds can be either restricted or unrestricted within each of these classifications. Restricted endowment funds are funds for which the donor specifies how the endowed income will be used. Unrestricted endowment funds are funds for which the annual earnings are used at the discretion of the Board of Directors of the Foundation.

1. **Permanent Endowments:** Permanent Endowment funds are those which are intended to have a perpetual life. Only the income of the fund, as defined in UPMIFA, may be expended.

2. **Quasi Endowments:** Quasi Endowment funds are funds functioning as an endowment that are established by the institution from either donor or institutional funds and will be retained and invested rather than expended. The quasi endowment must retain the purpose and intent as specified by the donor or source of the original funds, and the income (as defined in UPMIFA) may be expended only for those purposes. Since quasi endowments are established by the institution rather than by an external source, the principal may be expended for the purposes stipulated by the donor.

3. **Term Endowments:** Term endowment funds are similar to permanent endowment funds, except that after the expiration of a stated period or the occurrence of a specified event, all or part of the principal may be expended depending on the donor's wishes.

B. Establishing Permanent Endowments

1. Acceptance and receipt of endowment funds is determined by the Foundation policy on Gift Acceptance.

2. A minimum of $25,000 is required to establish a permanent (that is, "named") endowed fund, the structure of which is limited only by the interests and creativity of the donor and Foundation and University policies. An amount less than that may be accepted under the following conditions:

   a) A date is determined and agreed upon with the donor (typically a year from the initial acceptance) to secure funds to meet the minimum requirement, or

   b) A donor agrees to establish a flexible endowment with an initial gift and will make additional gifts to build the principal of the endowment until it reaches the minimum level; in addition, the donor will make annual gifts to provide spendable cash equivalent to the amount the endowment would have generated were the endowment fully in place. (See attachment A, Flexible Endowment)

3. A gift agreement must be prepared and submitted prior to establishing an endowment fund. The document will contain the information, as outlined in attachment B, Endowment Gift Agreement Required Inclusions.

4. Appropriate records related to the endowment funds and accounts shall be maintained by the Foundation.

C. Establishing Quasi Endowments

1. Any establishment of a quasi-endowment must be approved by the Board of Directors or the Executive Committee of the Foundation.

2. Distribution of the income and principal from quasi-endowment funds are subject to the discretion of the Board for designated activities.

3. From time to time, the Foundation receives proceeds from estates that are unrestricted or restricted for a specific use or purpose. However, the donor does not specify whether the proceeds are to be endowed or expended immediately for current uses. Oftentimes, the donor(s) is(are) deceased so the Foundation is unable to seek clarification.

   In such instances, it is the policy of the Foundation that all receipts of $25,000 or more from wills, trusts or other planned giving instruments (as defined by the Board of Directors) received by the Foundation shall be added to a quasi-endowment fund, unless otherwise specified by the donor in the gift instrument. The Board of Directors or the Executive Committee may make exceptions to the policy from time to time.

   If the Board or the Executive Committee determines that the language of the gift instrument is ambiguous on whether the contributed funds are to be endowed, it shall consult legal counsel prior to establishing a quasi-endowment under this section.

D. Accounting of Funds

1. The endowment funds for investment purposes may be commingled, consistent with legal and/or regulatory provisions. However, each endowment shall be maintained as a separate account except when it falls below the minimum balance specified in Section B.2.

2. The endowment accounts will be audited at least annually as part of the audit of the Foundation performed by an external certified public accounting firm.

3. The Office of University Development will report the accounts and activity of each endowment to the donor as specified in the gift agreement.

4. Recording and reporting of all related transactions shall be consistent with currently established accounting procedures and methodology.

E. Investing Endowments

Endowment funds will usually be invested consistent with the Foundation’s Investment Policy for Restricted Funds. However, under a donor’s specific instructions, a particular endowment fund may be invested consistent either with the Foundation’s Investment Policy for Unrestricted Funds or in the manner prescribed by the donor.

F. Spending Payout Rate

In order to preserve the real value of the Foundation’s endowed assets, a spending payout rate will be selected that strikes a reasonable balance between current spending outlays and reinvestment of the remainder to support spending in the future. Unless otherwise specified in the endowment gift agreement, the Foundation shall determine the spending payout rate for its endowed funds by considering the following factors:

- the duration and preservation of the fund;
- the purposes of the Foundation and the fund;
- general economic conditions;
- possible effects of inflation or deflation;
- the expected total return from income and appreciation of investments;
- other resources of the Foundation; and
- the Foundation's Investment Policy for Restricted Funds.

Except as otherwise provided in this policy statement, it shall be the Foundation's general policy to pay out annually, up to 4% of a 12-quarter moving average of the market value of the endowment pool as of December 31st.[1] Payout distributions from permanent and quasi endowments shall be prorated, if established less than one year.

i) Income Determination - Interest, dividends, and realized gains or losses on investments will be allocated to endowment spending accounts, on a pro-rata basis calculated on the average cash balance of the endowment compared to the total average balance of the investment pool.

ii) Basis and Timing of Appropriations - The endowment spending amount will be automatically distributed to participating projects on an annual basis.

iii) Investment Reserves - The payout rate is designed to provide for the spending needs of participating projects; the Board recognizes that stability is not to be relied upon a dynamic market and to reverse any negative effects of a downward trend in the market, cash income and market value adjustments over and above the current payout rate will not be distributed to cover spending needs but will be earmarked as investment reserves. The purpose of these reserves is to ensure an even income stream and lessen the project's reliance on economic forces in making decision in its budgetary process.

iv) Corpus – Per UPMIFA, the Foundation reserves the right to appropriate a portion of the corpus of an endowed fund if it deemed prudent to do so.

For permanently endowed funds, which have a fair market value of less than $25,000, the Foundation may consider accumulating (instead of expending) the amount otherwise distributable under this policy statement until such time as its balance equals or exceeds $25,000, in no case to exceed five (5) years, and in each case except as otherwise specified in the endowment gift instrument. In making this determination on a case by case basis, the Foundation shall balance the purpose of such permanent endowment with the preservation of such fund, consider the need to grow the fund so that its distributions are meaningful in amount, assess the Foundation's current needs versus its future needs, and generally consider the factors relevant to prudent management of the fund under UPMIFA.

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[1] For clarity, the average fair market value of the endowment pool shall be calculated on the basis of the fair market values for the twelve calendar quarters, determined at the end of such quarters, ending with the last quarter of the previous calendar year. This figure is proportionally allocated to all endowed funds.

G. Residual Endowment Balances

If an endowment and its corresponding spending account have been formally closed, for whatever reason[2], and it is not feasible to use the residual funds for the stated purpose, it is the Foundation's policy to transfer residual balances of $1,000 or less into the Foundation's General Endowment Fund. The General Endowment Fund is a board-established or quasi endowment for unrestricted use.

H. Fees

Effective July 1, 2025, all permanent, term and quasi endowments will be assessed an annual **endowment administrative fee** of 1.50% that is calculated and assessed on a quarterly basis.

Furthermore, effective July 1, 2025, all new gifts to permanent, term and quasi endowments will be assessed a one-time **philanthropic allocation** on the following sliding scale:

- First $2 million @ 5%
- The third $1 million @ 4%
- The fourth $1 million @ 3%
- The fifth million and above @ 2%

Consistent with industry best practices, both the endowment administrative fee and the philanthropic allocation support the costs associated with the management of the endowment; the Foundation's legal, accounting, auditing, fundraising, reporting and other administrative obligations; and the university's fundraising and engagement efforts.

Exceptions to the Fees

Charitable organizations may have a policy of not paying or capping overhead or administrative costs as part of their giving. If this is the case, the appropriate percentage of the Philanthropic Allocation will not be assessed on their gift nor will an exception need to be documented. For internal documentation and audit purposes, written confirmation of the organization's policy is required. The following are acceptable:

- A copy of the organization's governing documents indicating their policy
- A letter or email indicating their policy
- A copy of their policy information from the organization's website

NOTE: The policy should apply to all of the charitable organization's giving and not just to the specific gift.

III. IMPLEMENTATION

[2] Administering the program/scholarship may no longer be practicable, prudent, or legal based on changes in law or policy.

Foundation management, working in conjunction with the University's Office of Development, is authorized to develop and adopt written guidelines to implement this policy statement. Any changes to the spending pay out rate or management fee shall be approved by the Foundation's board of directors.

FLEXIBLE ENDOWMENT

Since the principal of an endowed fund is never used, endowments typically require a significant initial capital outlay. For those who are not in a position to prudently divest themselves of the full amount of capital required to establish an endowment, a flexible endowment arrangement may offer the means. Flexible endowment gifts provide an opportunity for friends of the campus to accomplish principal and major gift objectives in support of SF State years earlier than would otherwise be possible. It also provides current financial support to support student, faculty and campus needs. The following describes the process for establishing a flexible endowment at SF State:

1. Donor makes an initial minimum gift of $5,000 towards the establishment of a flexible endowment.

2. Donor agrees to make annual gifts to SF State to provide spendable cash equivalent to the amount the endowment would have generated were the endowment fully in place at the minimum threshold level and at the then-current payout distribution rate, e.g., $1,000 annual gift for a $25,000 endowment with a 4% payout distribution rate.

3. While making these annual, spendable gifts, the donor makes additional gifts of at least $1,000 per year to build the principal of the endowment. The donor determines the amount of these contributions and they can vary from year to year, depending upon on the specific financial situation of the donor. However, the donor must meet the $25,000 threshold within five (5) years of establishing the endowment.

4. If at the end of five (5) years the donor fails to meet the endowment requirement, then the existing funds may be merged with another endowment fund that best meets the intent of the donor. If no endowment fund is available, then Foundation, in consultation with the donor, to the extent possible, will deposit the funds in a general endowment fund account or place the funds in a current-use spending account to be used for the original purpose of the intended endowment.

4\. When the principal of the flexible endowment equals the prescribed level of funding, the endowment is considered fully funded and the donor's commitment is fulfilled.

ENDOWMENT GIFT AGREEMENT REQUIRED INCLUSIONS

All endowment gift agreements written on behalf of San Francisco State University and its Foundation must contain these elements:

Establishment
- Date of establishment
- Name of donor
- Title of endowment
- Permanent or term endowment
- Principal endowment fund amount

Donor's Intent
- Biographical information about the donor and connection to SF State
- Reason for establishing the endowment

Purpose of Funds
- Title of individual who will administer distributions
- Criteria for distributions, including process for identification and selection of scholarship recipients

Source of Funds
- Description of original gift source type, i.e., cash or stock
- Dollar amount of original gift; or in the case of stock, number of shares
- Pledge schedule or agreement (if a pledge is involved) including statement of agreement to disburse or merge funds by a certain date unless specific progress in made towards fulfilling the pledge
- Incorporation of additional gifts into the endowment

Fund Administration
- Reference to management or administrative fee charge
- Reference to spending payout rate

Amendment Clause
- Allowance for amendment by donor and the Foundation, with consultation by the University
- Allowance for alternative use of endowment if it becomes impossible, impracticable, or illegal to satisfy the original intent of the donor

Miscellaneous
- Affix signatures of donor, and both the appropriate level University representative and the President of the Foundation or their designee.