



TEXAS TECH UNIVERSITY™

Operating Policy and Procedure

OP 02.08: Operation and Maintenance of Endowment Funds

DATE: July 16, 2008

PURPOSE: The purpose of this Operating Policy/Procedure (OP) is to set forth definitions and to outline and establish policies and operating procedures pertaining to the endowment funds of Texas Tech University.

REVIEW: This OP will be reviewed in April of even-numbered years by the vice chancellor for institutional advancement (VCIA) and the Texas Tech University System chief financial officer (CFO).

POLICY/PROCEDURE

1. General

The Board of Regents of the Texas Tech University System (TTUS) recognizes that all great institutions of higher education possess a large endowment and that, in order for Texas Tech University (TTU) to achieve the high standards of which it is capable, the total endowment must be vastly increased. To that end, the Board of Regents has established the primary development priority to be building the endowment of TTU.

2. Definitions of Terms

a. Gift

A gift includes the gratuitous transfer to the institution of cash, cash equivalents such as securities and negotiable instruments, and real or personal property that generates income or that may be sold for cash. A gift may be made by inter vivos transfer or by trust, bequest, pledge, or any legal instrument. (If the “donor” receives any compensation in return for their “gift,” the “gift” must be reduced by the value received by the “donor,” and that portion must be recorded as non-gift income.)

(1) A restricted gift is a gift for which the donor:

- (a) Has specified a particular purpose or use; or
- (b) Has given for the use and benefit of one of the colleges or schools of TTU or a specified unit within TTU that may be “unrestricted” as to the specific use within the unit.

Those gifts that are earmarked by the donor or donors for a specific purpose must be used for that purpose only. No official or employee of TTUS may divert such a gift, whether principal or income generated from the fund, for any purpose unless authorized by law.* **Section 06.02, Regents’ Rules**

- (2) An unrestricted gift is a gift for which the donor has not specified any particular purpose of use and which is given to TTU for its unrestricted use. The use of an unrestricted gift will be determined by the president.

b. Endowment

An endowment is established with a gift from the private sector that comprises the corpus or principal of the endowment. The corpus is invested and a designated portion of income or the capital gain is used to fund a project or need. The corpus remains intact in perpetuity, thereby continuing to generate funds to be used by the institution. Normally, the gain or loss on the sale of any asset that originally comprised the corpus shall be deemed to be part of the corpus of the endowment. Endowments are divided into the following four categories:

(1) Permanent Endowments

Permanent endowments are sometimes referred to as "true" or "pure" endowments and are assets designated by the donor to be held in perpetuity. The corpus of these endowments may never be spent and expenditures must be made in accordance with the terms and conditions established by the donor.

(2) Term Endowments

Term endowments are established when the donor specifies that the endowment shall terminate following a particular date or event and that the corpus of the endowment may be expended in accordance with the terms and conditions specified by the donor. Until the passage of the specific date or event, term endowments operate in a manner similar to permanent endowments, with expenditures made in accordance with the conditions established by the donor.

(3) Quasi-endowments

The Board of Regents of the TTUS or the Board of Directors of Texas Tech Foundation, Inc., (TTFI), with formal action, may set aside certain institutional funds to be maintained as endowments. The formal action will specify the use of the assets and spendable income and set other terms and conditions relating to the fund. The Board of Regents or the Board of Directors may change the terms and conditions of the endowment or terminate the endowment by formal action. If terminated, the corpus of the endowment is returned to the original source of funding.

(4) Funds Held in Trust by Other

Some donors may choose to make income from endowments available to the institution but to leave possession of the endowment corpus with a third party. In these cases, the endowment corpus is not recorded as an asset of TTU or TTFI, but is recorded as a gift in the BSR/ADVANCE database. In accordance with generally accepted accounting principles, the existence of the trust must be disclosed in the notes to the financial statements of TTU or TTFI.

3. Types of Endowments

a. Faculty Support

(1) Endowed Chair

The minimum donation to establish an endowed chair will vary by unit and type of research. The dean will consult with the provost/senior vice president for academic affairs (PSVPAA) and the VCIA before determining the amount requested for a chair in various programs. Recruitment and retention of top faculty engaged in intensive laboratory research require higher levels of support.

Minimum endowment levels are:

- (a) \$1,500,000 for selected chairs; and
- (b) \$1,000,000 for other chairs.

The donor is allowed to name an endowed chair in the college or program of choice. The spendable income is typically used to supplement the chair holder's salary, as well as provide additional income for items such as the purchase of special publications that would compliment the chair holder's work, the hiring of graduate students to assist the chair holder in research projects, and the involvement of post-doctoral students in the particular discipline. Without the prior approval of the president, no more than 50 percent of the spendable income may be used as salary for the individual holding a chair.

(2) Endowed Professorship

The minimum donation to establish an endowed professorship will vary by unit and type of research. The dean will consult with the PSVPAA and the VCIA before determining the amount requested for a professorship in various programs. Recruitment and retention of top faculty engaged in intensive laboratory research require higher levels of support.

Minimum endowment levels are:

- (a) \$1,000,000 for selected professorships; and
- (b) \$500,000 for other professorships

The donor is allowed to name an endowed professorship in the college or program of choice. The spendable income is used like the spendable income for an endowed chair, except that the spendable income is utilized more frequently for the supplementation of salaries and less frequently for other purposes available through an endowed chair. Without the prior approval of the president, no more than 50 percent of the spendable income may be used as salary for the individual holding a professorship.

(3) Endowed Deanship, Department Chair, or Director

The minimum donation to establish an endowed deanship, department chair, or director is \$2,000,000. The spendable income is used to recruit and retain outstanding leaders by providing funds to support their salaries and to fund the pursuit of their professional goals and the development of the unit. Without prior approval of the president, no more than 50 percent of the spendable income may be used as salary for the individual holding an endowed deanship, department chair, or director.

(4) Endowed Lectureship

The minimum donation to establish an endowed lectureship is \$250,000. The spendable income is used to support honoraria, publicity, and other expenses incurred in bringing distinguished leaders to lecture on campus.

(5) Endowed Faculty Development Fund

The minimum donation to establish an endowed faculty development fund is \$250,000. The spendable income is used to support professional and leadership development of faculty.

(6) Endowed Early Career Faculty Scholar Fund

The minimum donation to establish an endowed early career faculty scholar fund is \$500,000. The spendable income is used to attract and retain the best, brightest, and most promising early career faculty scholars through an annual award to supplement salary and/or teaching/research expenses of selected faculty. A faculty member can hold the award for a maximum of three years.

b. Student Support

(1) Chancellor's Graduate Fellowship Endowment

The minimum donation to establish a chancellor's graduate fellowship endowment is \$100,000. The spendable income is used to provide stipends to graduate students at TTU.

(2) Presidential Scholarship Endowment

The minimum donation to establish a presidential scholarship endowment is \$100,000. Presidential scholarships are awarded to outstanding entering freshmen on the basis of academic achievement. Academic achievement is measured initially by the ACT or the SAT scores. Current minimums are an ACT score of 31 or an SAT score of 1400 (minimums are subject to change and are published in the university catalog and other scholarship publications). The recipient must be in the top 15 percent of her/his high school graduating class or have an International Baccalaureate (IB) diploma. National Merit finalists automatically qualify.

(3) Honors Scholarship Endowment

The minimum donation to establish an honors scholarship endowment is \$50,000. Honors scholarships are awarded to outstanding entering freshmen on the basis of academic achievement. Academic achievement is measured initially by ACT or SAT scores. Current minimums are an ACT score of 29 or an SAT score of 1300 (minimums are subject to change and are published in the university catalog and other scholarship publications). The recipient must be in the top 15 percent of her/his high school graduating class or have an IB diploma.

(4) University Scholars Scholarship Endowment

The minimum donation to establish a university scholars scholarship endowment is \$35,000. University scholars scholarships are awarded to outstanding entering

freshmen on the basis of academic achievement. Academic achievement is measured initially by ACT or SAT scores. Current minimums are an ACT score of 28 or an SAT score of 1250 (minimums are subject to change and are published in the university catalog and other scholarship publications). The recipient must be in the top 15 percent of her/his high school graduating class or have an IB diploma.

(5) Opportunity Scholarship Endowment

The minimum donation to establish an opportunity scholarship endowment is \$35,000. Opportunity scholarships are awarded to students in financial need and/or to reach out to multicultural, non-traditional community college transfer and first-generation students.

c. Other

(1) Library Book Endowment

The minimum donation to establish a library book endowment is \$100,000. The spendable income will be utilized to purchase books or professional journals in a particular area to be designated by the donor.

(2) Research Endowment

The minimum donation to establish a research endowment is \$200,000. Endowed research positions are to support research in particular academic areas or topics specified by the donor and agreed upon by the respective academic dean and the PSVPAA.

(3) Minimum Level Endowment

The minimum donation to establish a scholarship or other endowment in cases where a higher level does not seem possible is \$10,000. Administrators must assure that endowments are solicited at levels that provide adequate support.

4. Request by Donor to Modify Endowment

Generally, the terms and conditions relative to a completed gift may not be modified by the donor of the gift. However, it is recognized that donors of endowment funds, on occasion, have requested and directed that the usage or purpose of their endowment be changed.

All such requests must be made in writing by the donor and delivered to the Office of Institutional Advancement. These requests will require approval as follows:

- a. If the principal amount of the subject endowment is \$25,000 or less, the president must approve the modification.
- b. If the principal amount of the subject endowment is more than \$25,000, the Board of Regents of the TTUS or the Board of Directors of TTFI must approve the modification. In these instances, the Office of Institutional Advancement will be responsible for preparing and presenting the agenda item to the appropriate governing board.

5. Procedure for Establishment

a. Minimum Endowment Level

- (1) A minimum gift of \$10,000 shall be required to establish any endowment. The gift must be made in compliance with applicable federal and state laws, and, after acceptance by the institution, it must be used as designated by the donor.
- (2) An endowment may not be established in an amount less than \$10,000.

Gifts of less than \$10,000 that are meant to be endowed will be established in a current restricted account where:

- (a) The initial gift must be at least \$3,333 with a pledge to reach \$10,000 in total gifts to the endowment within 3 years of the initial gift; and
- (b) All future gifts and all income and gains will assist in bringing the endowment assets to the minimum endowment funding level.

If, after three years from the date of the gift, the value of the assets has not reached the minimum endowment funding level, the existing assets of the fund shall be transferred to an existing scholarship endowment.

If the original gift was designated for a particular college within TTU, the funds will be transferred into a scholarship endowment designated for that college.

If the original gift was not designated for a particular college within TTU, the funds will be transferred into a scholarship endowment designated for the university as a whole.

b. Endowment Agreements

For all endowments, the TTU contact for the gift should work with the TTFI counsel to complete the appropriate endowment agreement, have it signed by the donor, and forward the agreement to the Office of Institutional Advancement for signature by the appropriate parties.

Approval by the TTUS CFO is required for any agreement requesting investment in any fund other than the Long Term Investment Fund (LTIF) or any deviation from university investment policy regarding LTIF.

6. Administration

a. Endowments Invested in the Short/Intermediate Term Investment Fund (SITIF)

Current restricted accounts established at less than the minimum amount required for an endowment will be invested in the SITIF, and 100 percent of the earnings will be directed to the corpus account until the corpus account reaches the minimum required amount. Upon reaching the minimum for an endowment to be established, the funds will be transferred to the LTIF and will be subject to the spending rules thereof.

For those endowment accounts that the donor specified the funds would remain invested in the SITIF, 90 percent of the earnings will be made available for spending and 10 percent of

the earnings will be directed to the corpus account. The purpose of the reinvestment of 10 percent of the earnings is to hedge against inflationary effects.

b. Endowments Invested in the Long Term Investment Fund (LTIF)

Unless prohibited by restrictions placed upon a gift by the donor of that gift, all new endowments shall be invested in the LTIF. Spendable income generated by endowments invested in the LTIF will be expended in accordance with Section 09.02, *Regents' Rules*. All endowment funds invested in the LTIF will be subject to an investment management fee of 0.5 percent in accordance with Section 09.02, *Regents' Rules*.

For those endowment accounts that are invested in the LTIF, a portion of the earnings will be made available for spending in accordance with Section 09.02, *Regents' Rules*.

c. Other

Restrictions by the donor on investment by TTU or TTFI outside the mission or current programs of TTU shall not be honored without prior approval by the Board of Regents of the TTUS or the Board of Directors of TTFI.

7. Unrestricted Gifts

a. Real Property

Unrestricted gifts of real property will usually be placed in an endowment, and use of the earnings from the gift, unless restricted by the conditions of the gift, shall be under the direction of the chancellor. However, in the event of special, extenuating, and extraordinary circumstances, the Board of Regents may except the direction of real property into the endowment.

b. Other

Any gift of \$100,000 or more that is unrestricted by the donor as to use or purpose will be placed in a quasi-endowment upon action by the Board of Regents of the TTUS or the Board of Directors of TTFI. Any unrestricted amount of less than \$100,000 but not less than \$10,000, upon recommendation by the president, will be placed into a quasi-endowment upon action by the Board of Regents or the Board of Directors.

8. Management and Recording of Endowment Funds

a. General

- (1) Responsibility for the overall management of endowment funds in accordance with terms and conditions of the donor and recording in accordance with generally accepted accounting principles rests with the TTUS CFO.
- (2) Endowment fund manager responsibility will be assigned at the vice president or the dean level. Donors may specify fund managers below this level, subject to approval of the TTUS CFO, the divisional vice president or the PSVPAA, and the VCIA.
- (3) Designation as the manager of an endowment operating fund will be assigned to an individual by the benefiting unit's divisional vice president, the PSVPAA, or dean.

- (4) Unless otherwise specified by the donor, the spendable portion of the endowment income will be credited to a separate endowment operating fund in the current restricted fund group of TTU. The endowment operating fund shall also be credited with earnings on the investment of its cash and/or other assets without regard to any minimal balance limits as may be established.
- (5) Annual budgets will be submitted on each endowment operating fund as directed in the annual instructions for submitting budgets.

b. Procedures for Recording Endowments

- (1) University endowment funds will be recorded in fund number range 28AA-3599. Foundation endowment funds will be recorded in fund number range 44AA-4599. The endowment principal will be recorded in balance sheet account entitled "Permanent Endowment Principal."
 - (2) A separate operating fund will be established at the same time as the permanent endowment to receive the endowment spendable income and to provide for the accounting of expenditures in accordance with the donor's terms and conditions.
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