



Delaware State University

University Area(s) Responsible: University Foundation

Policy Number & Name: 15-06 Endowment Spending Rate Policy

Approval Date: 02/29/2016

Next Review Date: 03/01/18

I. Purpose

The purpose of this policy is to provide guidance in the spending of endowment funds of Delaware State University (the "University") and the Delaware State University Foundation, Inc.

II. Scope

This policy applies to all endowments made to the University and the Delaware State University Foundation Inc.

III. Definitions

An endowment is established by a gift to the University which is restricted by the donor so that the corpus or principal of the gift must be maintained in perpetuity and only the income or capital gain from the gift corpus may be expended by the University. The corpus remains intact in perpetuity, thereby continuing to generate funds to be used by the University. Endowments are divided into the following three 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. Earnings and capital gains must be expended in accordance with the terms and conditions established by the donor. However, it must be recognized that the corpus may decline during unfavorable market conditions.

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 or Board designated endowments

The Board of Trustees may designate certain institutional funds to be maintained as endowments and will specify the qualifications and set other terms and conditions relating to the fund. The Board of Trustees may change the terms and conditions of the endowment or terminate the endowment.

4. Total Return

Total Return is defined as the accepted method of measuring the performance of equity and bond funds; it is the combination of income (interest and dividends) and appreciation/depreciation in the fund's value for a specified period of time.

5. Net Current Yield

Net current yield is defined as the sum of total interest and dividends earned less investment management costs.

IV. Policy

Unitization of Endowments

The commingled endowment funds, excluding endowments not permitted to be invested in equities shall be unitized and each new endowment gift added to the Fund shall receive units in the fund based upon the market value of the gift and the unit value of the Fund for the preceding quarter. The unit value of the endowment fund shall be determined at least quarterly. Income determined under this spending policy shall be calculated on a unit basis for distribution purposes.

Spending Policy for Unitized Endowments

Delaware State University recognizes the need for spendable income by the beneficiaries of the endowment funds under their custodianship. The following spending policy reflects an objective to distribute as much total return as is consistent with overall investment objectives defined herein while protecting the real value of the endowment principal.

An endowment should be excluded from the target distribution until the endowment has been established for one year.

Unless otherwise determined by the Board of Trustees, the target annual distribution of spendable income to each unit of the endowment fund will be 4.5 percent of the average market value of a unit of the endowment fund for the preceding 12 quarters or the life of the unit, whichever is less. If, at any point of distribution, the fair market value of the endowment is below the corpus of the endowment the annual distribution shall be net current yield during the prior fiscal year. If, in any given fiscal year, the total return shall be less than the target annual distribution, the actual distribution shall be limited to the net current yield for that year, not to exceed the target distribution rate. The actual annual distribution, as determined by the Development and Investment Committee from year to year, shall vary from 0 percent to 5 percent of the average market value of a unit of the endowment fund for the preceding 12 quarters or the life of the unit, whichever is less.

Spendable Dollars is the term applied to the funds calculated and made available (allocated) as per this spending policy. The dollars are determined at March 31 of each fiscal year, for each qualified endowment, and can be accessed by the benefiting department after July 1 of the following fiscal year. The fiscal year runs July 1 through June 30.

The spending policy determines how much of the total return will be allocated and identified as spendable (amount available to distribute) and how much will be reinvested in the endowment investment pool. Total return is defined as the accepted method of measuring the performance of equity and bond funds; it is the combination of income (interest and dividends) and appreciation/depreciation in the fund's value for a specified period of time. Spendable dollars accumulate from year to year, and remain invested until withdrawn from the endowment fund.

Endowments not unitized

Endowments that do not provide for investments in equities will not be unitized and they will receive interest and dividends on their funds invested in fixed income securities.

Management of Funds

Endowment funds are to be managed in accordance with the Delaware State University Statement of Investment Objectives and Guidelines for Investment Managers and Delaware Title 12, Chapter 47, Uniform Prudent Management of Institutional Funds Act, "Uniform Management of Institutional Funds Act" (UMIFA) (59 Del Laws, c. 572, §1).

Management Fees

The Development and Investment Committee is authorized to retain investment managers to manage the investment of endowment funds of the University and the Delaware State University Foundation, Inc. and to pay such managers such fees as it determines to be appropriate. In selecting each manager, the Committee shall follow procurement policies applicable to the University.