

## Frequently Asked Questions about Endowments:

### What is an endowment?

We think of our legacy in many ways...our descendants, our life's work, our written words or artistic creations. Your legacy can also be a philanthropic investment in a church, organization or institution, carrying on programs important to you or expressive of your values. An endowment is one way of creating such a legacy, which provides benefits to students, faculty or programs year after year, generation after generation. The goal is to ensure that the principal maintains its purchasing power over time to support future generations.

*Legacy...  
what is left behind after the  
actions of a lifetime...*

### Why are endowments important?

An endowment creates financial stability, allowing us to be less dependent on unpredictable sources of revenue, such as state appropriations, federal grants and research sponsorship. The resource base endowments represent allows for a rich variety of activities such as scholarships and fellowships for talented students; support for distinguished and dedicated faculty members through professorships; and funds for teaching, research and extension programs.

### Are endowments regulated legally?

In 2009, North Carolina adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Among other things, this allows prudent spending into the endowment corpus, unless the donor's agreement prohibits it. Total return on the endowment investment (capital appreciation and income) can be spent. Most NC State endowments do not allow such spending; however, newer endowments or updates to existing agreements may authorize it, based on donor preference.

### Who will oversee my endowment?

Either of the College's privately incorporated tax exempt charities, The North Carolina Agricultural Foundation, Inc., or The North Carolina Tobacco Foundation, Inc. manage most of the endowments for the College. Each has their respective Boards and Investment Committees who have the legal fiduciary responsibility for endowment oversight.



### How are endowment investments managed? ?

The endowments are invested with the NC State Investment Fund, Inc. (NCSIF), an external investment pool established in 1999. The University strives to preserve both the corpus and the spending power of the endowments. Asset allocation is the cornerstone of the endowment's investment policy and a key responsibility of the NCSIF Members Board. The overall investment objective is to earn a total net return at least equal to the sum of inflation plus the spending rate. The objective of an endowment (and thus allocation decisions) is to provide "generational neutrality." In other words, endowment management seeks to provide at least the same level of support to future generations as the current beneficiaries receive, taking inflation into account. The Fund invests 90% of its assets with the UNC Management Company (UNCMC), and the remaining assets are committed to three private equity managers, with a small allocation in cash for funding capital calls. Visit this website for information, facts and figures about the investment returns earned by the NCSIF: [http://www.fis.ncsu.edu/foundations\\_accounting/investment-fund/](http://www.fis.ncsu.edu/foundations_accounting/investment-fund/)

### How is spending determined? What is the relationship between overall investment return and the "spending" on an endowment?

Spending policies are set by the Boards of the Foundations. A sustainable spending rule is total net investment return minus inflation. For CALS Foundations, programmatic spending is generally computed as 4% of the average market value of the previous 20 quarters of the fund as long as adequate reserves are available. The annual increase in spending, however, is generally limited to CPI + 1%, unless there were significant additions to an endowment in the last fiscal year. The Foundations use this averaging method in order to smooth out changes due to market volatility.

### How soon will new endowments start to generate spending for programmatic purposes?

New endowments may begin spending after accumulated investment earnings are sufficient to fund a spending budget (the 4% mentioned above). This is generally 18-24 months after an endowment is fully funded. The reason for this delay is to allow the endowment adequate time to generate sufficient spending reserves, as well as the necessity to calculate spending budgets far enough in advance to allow informed decisions regarding their use to be made.

### What happens when investment returns are negative?

An endowment can spend from prior years' excess returns (also referred to as spending reserves), if available. If an endowment allows spending into the corpus, University policy dictates a prudent percentage that may be spent.

### What is an "underwater" endowment?

This is an endowment that, through declining market performance, has used all accumulated earnings and appreciation and is now eating into or eroding the original gift value, or corpus. We also refer to underwater endowments as endowments with eroded corpus.

### How will spending occur if an endowment is underwater?

Spending will not occur in underwater endowments, unless allowed by the endowment agreement. Donors may elect to contribute to the endowment's spending account for current use until the corpus value returns to its designated endowment level.

### What is the minimum amount to establish an endowment?

The University's minimum to endow a fund is \$25,000.\*

### What is an endowment called until funds reach that minimum?

A fund that is Building Io Endowment level is a "BTE." Donors are allowed a five-year period to achieve the minimum level (a different timeframe or minimum level higher than the University's minimum may be established in the endowment agreement). If the BTE does not reach that level within the specified timeframe, it may be transferred into another endowment with a like purpose, or be reclassified to a restricted fund and the balance in the fund may be spent in accordance with the stated purpose. Donors are consulted prior to action, if possible.

*\*Until July 1, 2013, we will allow the creation of endowments at a minimum level of \$15,000, if donors are unable to commit to the \$25,000 level.*

**My endowment agreement states that reasonable fees will be assessed against the endowment for administrative costs.**

**What are those costs?**

Administrative costs may include various types of expenses, such as accounting, secretarial, clerical and fundraising, incurred by CALS Advancement, University Advancement, or Foundations Accounting and Investments. Such assessments are only a small fraction of the overall expenses incurred to manage and steward endowments in perpetuity. Also, if an endowment does not generate a spending budget, assessments are not made against that endowment.

**Can an endowment be designated for a specific purpose?**

Absolutely! Endowments are a perfect vehicle for creating a legacy that lasts forever. As with any gift to NC State University, an endowed gift offers faculty, staff, retirees, alumni and other friends the opportunity to have their names, or the name of a loved one, linked to an area of the University in which they have a special interest.

- Some donors create unrestricted (enhancement) endowments, recognizing that the needs and challenges of the future will differ from those of today. These gifts are used for the highest priority needs, and provide the most flexibility as needs change.
- Many donors create undergraduate scholarships or graduate fellowships to aid deserving students, or endow a professorship in the academic discipline that inspired them as students.
- Others choose to support specific academic programs, research and extension areas, knowing that these additional funds provide an opportunity for continued growth and excellence.

**Must endowments be funded with outright, one-time, cash gifts?**

There are many ways to fund endowments for CALS within the North Carolina Tobacco Foundation, Inc., or the North Carolina Agricultural Foundation, Inc.. The following operate under the auspices of the NC Agricultural Foundation:

- NC Agricultural & Life Sciences Research Foundation
- NC Cooperative Extension Service Foundation
- NC Dairy and Dairy Youth Foundations
- NC ECA Foundation
- NC 4-H Development Fund
- NC FCS Foundation
- NC FFA Foundation

You may use gifts of cash, appreciated securities, mutual funds and real estate, and you may pledge support over a period of one-to-five years. Endowments may also be created through estate gifts.

For more information, please contact the College of Agriculture and Life Sciences Office of College Advancement:

**NC State Campus Box 7645  
Raleigh, NC 27695-7645  
919.515.2000**

**[cals\\_foundation@ncsu.edu](mailto:cals_foundation@ncsu.edu)  
FAX 919.515.5274**

**<http://www.cals.ncsu.edu/advancement>  
Keith D. Oakley, Executive Director**

*what is*  
**YOUR LEGACY?**

**What Do I Need to Know About  
*Endowments* in the  
College of Agriculture  
and Life Sciences?**



*what is*  
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