



## FEE ENDOWMENT SPENDING INCOME ALLOCATION POLICY

### PURPOSE

#### TERMS DEFINED

**Current use gift:** A gift made for current spending. The gift may be restricted to a specific College, Department, or Program of the University or it may be made without any restriction. In any case, the entire gift is available for spending.

**Endowment gift:** Gift made with donor-imposed stipulation that the principal be invested permanently. A portion of the investment income is used for purposes specified by the donor.

**Current use gift held as quasi-endowment:** A gift designated for current use, however either the Foundation or the University directs that the gift be treated similar to an endowment gift although there is no donor-imposed stipulation that requires that the principal be invested permanently.

**Deferred gift:** A gift in trust or through a charitable gift annuity made in exchange for a life income to the donor. A deferred gift may also be a gift of home or ranch whereby the donor has retained a lifetime right to continue to occupy the premises. Upon termination of the trust or annuity contract, the assets are available for the designated purpose specified by the donor.

**Agency funds:** Funds held and invested by the Foundation for MSU and for other MSU related organizations.

### FEE ASSESSMENT POLICY

#### Gift Service Fee:

**Current use gifts:** A one-time 5% gift service fee is assessed on the value of and deducted from the gift.

**Current use gifts designated for scholarships:** Exempt from the 5% gift service fee.

**Current use gift directed to quasi-endowment:** Exempt from the 5% gift service fee.

**Endowment gifts:** Exempt from the 5% gift service fee.

**Deferred gifts:** A one-time 5% gift service fee is assessed at the time the gift matures.

**Agency gifts:** Gift fees are set forth in the Memorandum of Understanding with each individual organization.

**Administrative Fee:**

**Current use gifts:** An annual 1.75% administrative fee, based on the average account balance, is assessed and netted against allocated earnings.

**Endowment and Quasi-endowment gifts:** An annual 1.50% administrative fee is charged quarterly at .375% (1/4 of 1.5%) against earnings and is assessed on the prior quarter's invested balance.

**Deferred gift accounts – charitable remainder trusts:** There are no fees other than those charged by the outside investment management firms. However, fees related to trust accounting and required reporting may be allocated to the trust during the trust term.

**Deferred gift accounts - charitable gift annuities:** There are no fees other than those charged by the outside investment management firms. However, fees related to the required reporting may be allocated to the investment during the annuity term.

**ENDOWMENT SPENDING AND INVESTMENT INCOME ALLOCATION POLICY**

**Permanent endowment funds**

Investment earnings, net of fees, are posted quarterly and are accumulated in a separate account related to each endowment known as the reinvested earnings account.

The spending calculation is as follows:

- Up to 20% of Invested Gifts can be used for spending allocation if necessary
- The spending allocation budget is calculated on investment balances as projected at the end of the fiscal year to be made available on July 1 of the following fiscal year. This amount is encumbered but not divested.
- Initially, the budget is  $(80\% \times (\text{Current Year Allocation} + \text{CPI or other factor})) + (20\% \times \text{Projected year end Market Value} \times 4\% \text{ payout rate})$ .
- The board establishes the target spending rate and the adjustment factor. Both to be reviewed annually.
- Those funds that have some capacity but not enough for the full budget allocation calculated above would get an amount that would leave at least 80% of Invested Gifts balance.
- Those funds where Market Value is below 80% of Invested Gifts receive four quarters of estimated interest and dividends (forward looking based on the September 30 actual).
- Actual spending is limited to the target spending rate plus 1%.
- Funds that have donor agreements that specifically state that MSUF is not to spend any of the Invested Gifts balance, and the Market Value of the fund is less than the Invested Gifts balance, would receive no allocation

On July 1 of each year, the previously budgeted spending distribution is recorded for each individual endowment fund for current use. This policy will result in some accounts receiving less than a 4% spending distribution or in the case of a fund with a Market Value of less than 80% of Invested Gifts, interest and dividends only.

If a permanent endowment to which a naming opportunity is attached is initiated with a gift that is less than the minimum required, the normal spending distribution policy will commence when the permanent endowment achieves the minimum required for the naming opportunity. Until then, all earnings/losses, net of fees, will be accumulated in the reinvested earnings account.

**Quasi-endowment funds**

Quasi-endowment funds are managed in the same manner as Permanent Endowments with one exception. The budgeted amount is limited to 100% of the Market Value of a fund as of the end of the fiscal year. Exceptions to this limit can be made on a case by case basis.

**Current use funds**

The Board of Directors may allocate investment income to balances held in accounts for current use. The allocation is determined on a year-by-year basis and is distributed annually on June 30 based on the prior fiscal year's average balance.

**Distribution Schedule for Current Use Funds-June 30, 2006**

<u>Annualized Average Account Balance</u>	<u>Gross Distribution<sup>1</sup></u>
\$100,000 or more	2.05%
\$50,000 to \$99,999	1.95%
\$25,000 to \$49,999	1.85%
\$Under \$25,000	1.75%

**Agency funds:** Agency funds are funds held by MSU Foundation for MSU and for other organizations related to MSU. Agency funds that are held for endowment or quasi-endowment will be invested in the Foundation's long-term investment pool and, accordingly, will be subject to the full range of principle and income risk inherent in the long-term pool. Investment earnings, net of all management, consultant, and administrative fees, will be distributed at the end of each calendar quarter.

Agency funds that are held for current use will be subject to the same income distribution schedule as Foundation's current use funds. Earnings are posted annually on June 30.

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<sup>1</sup> Gross distribution is subject to change each fiscal year.