



TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Operating Policy and Procedure

HSC OP: 02.08, **Operation and Maintenance of Endowment Funds**

PURPOSE: The purpose of this Health Sciences Center Operating Policy and Procedure is to set forth definitions, outline, and establish policies and operating procedures pertaining to the endowment funds of Texas Tech University Health Sciences Center.

REVIEW: This Operating Policy and Procedure will be reviewed on April 1 of each even-numbered year (ENY) by the Vice Chancellor for Institutional Advancement, with recommendations for revision forwarded to the Executive Vice President for Finance and Administration.

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, further, that in order for Texas Tech University Health Sciences Center (TTUHSC) 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 number one development priority to be building the endowment of TTUHSC.

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 which generates income or which 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 anything in return for their "gift", the "gift" must be reduced by the value of that which they have received, and that part must be recorded as non-gift income.

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

- (a) has specified a particular purpose of use, or
- (b) has given for the use and benefit of one of the schools of TTUHSC, or a specified unit within TTUHSC (may be "unrestricted" as to 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 the TTU System may divert such a gift, whether principal or income generated from the fund, for any other purpose unless authorized by law. (*Regents' Rule 06.02*)

(2) An unrestricted gift is a gift for which the donor has not specified any particular purpose or use, and is given to TTUHSC for its unrestricted use.

b. **Endowment.** An endowment is established with a gift from the private sector, which comprises the corpus or principal of the endowment. The corpus is invested, and the 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 which 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 then 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 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 Others.** 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 TTUHSC or TTFI. In accordance with generally accepted accounting principles, the existence of the trust must be disclosed in the notes to the financial statements of TTUHSC 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 President and the Vice Chancellor for Institutional Advancement 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
- (b) \$1,000,000 for other chairs

The donor is allowed to name an endowed chair in the school 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 postdoctoral students in the particular discipline. Without the prior approval of the President, no more than 50% 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 President and the Vice Chancellor for Institutional Advancement 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
- (b) \$500,000 for other selected professorships

The donor is allowed to name an endowed professorship in the school 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% 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% 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 honoraria, publicity, and other expenses incurred in bringing distinguished leaders to lecture on campus.

b. **Student Support**

- (1) **Presidential Scholarship Endowment.** The minimum donation to establish a presidential scholarship endowment is \$100,000. Presidential scholarships are awarded to outstanding entering students on the basis of academic achievement and leadership in school or community activities.

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 \$500,000. The spendable income will be utilized to support research in particular academic areas and on topics of research specified by the donor, as agreed by the respective academic dean.
- (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 from time to time 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 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, which are meant to be endowed, will be established in a Current Restricted Account where:

- (a) The initial gift must be at least \$5,000, 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 a separately established scholarship endowment.

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

If the original gift was not designated for a particular school within TTUHSC, the funds will be transferred into a scholarship endowment designated for the institution as a whole.

- b. **Endowment Agreements.** For all endowments, the TTUHSC contact for the gift should work with 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.

6. **Administration.**

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

Current Restricted accounts established at less than the minimum amount required for an endowment will be invested in the SITIF, and 100% of the earnings will be directed to the corpus account until such time as the corpus account reaches the minimum required amount. Upon reaching the minimum amount for an endowment to be established, the funds will be transferred to the Long Term Investment Fund (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% of the earnings will be made available for spending and 10% of the earnings will be directed to the corpus account. The purpose of the reinvestment of 10% of the earnings is to hedge against inflationary effects.

- b. **Endowments Invested in the LTIF (Long Term Investment Fund).** 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 *Regents' Rules*, Section 09.02, Endowment and certain long term institutional funds investment policy. Effective September 1, 2005, all endowment funds invested in the LTIF will be subject to an investment management fee of one-half of one percent (.5%) in accordance with *Regents' Rule* 09.02.

- c. **Other.** Restrictions by the donor on investment by TTUHSC or TTFI outside the mission or current programs of TTUHSC shall not be honored without prior approval by the Board of Regents of TTUS and 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 accept the direction of real property into the endowment.
- b. **Other.** Any gift of \$100,000 or more, which 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 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 of TTUS or the Board of Directors of TTFI.

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 EVPFA.
- (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 EVPFA, vice president, and the VCIA.
- (3) Designation as the manager of an endowment operating fund will be assigned to an individual by the benefiting unit's vice president or dean.
- (4) Unless otherwise specified by the donor, all endowment income will be credited to a separate endowment operating fund in the current restricted fund group of TTUHSC. 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, if budgeted, as directed in the annual instructions for submitting budgets.

b. **Procedures for Recording Endowments.**

- (1) TTUHSC Endowment funds will be recorded in fund number 5XXXXX, and TTFI Endowment funds will be recorded in fund number range 81XXXX – 85XXXX.
- (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.