Frequently Asked Questions About Endowed Funds at Appalachian State University Foundation, Inc.

1. What is an endowment?

An endowment is a dedicated fund created through donor gifts totaling at least $25,000. These funds are permanently set aside by Appalachian State University Foundation, Inc., to provide benefits to students, faculty or programs, year after year, for generations to come.

For endowed funds, the principal (endowment corpus) must be invested and a fixed portion of the income will be expended to carry out the donor’s purpose. To guard against the eroding consequences of inflation, the remaining portion of investment return is then added to the earnings reserve. The goal is to ensure that the fund maintains its purchasing power over time to support future generations.

Note on minimum funding of endowments: Contributions exceeding $25,000 (including additional contributions made in the years following fund establishment) are added to endowment principal unless designated for current use in writing by the donor.

2. Why are endowments important to Appalachian State University?

An endowment creates financial stability, allowing Appalachian to be less dependent on unpredictable sources of revenue, such as state appropriations and research sponsorship. Endowments allow for a rich variety of activities such as scholarships and fellowships for talented students, support for distinguished and dedicated faculty members through professorships and chairs, and support for research and support for other programs.

3. What legal requirements regulate endowments in North Carolina?

In 2009, North Carolina adopted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) (See Chapter 36E of the NC General Statutes). The amount available to award for spending is currently calculated as 4% of the three year average of net assets of the endowment as of June 30 of the previous year. Appalachian State University Foundation, Inc.’s Investments Advisory Committee reviews the spending policy annually and may revise the policy based on market trends or other relevant factors. If no net earnings exist, regardless of the size of the endowment, no expenditures will occur.

4. Do other states have the same legal requirements for endowments?

With various modifications, UPMIFA has been adopted by over 45 states and the District of Columbia. As a result of the state-by-state modifications to UPMIFA, legal requirements for endowments in other states may differ from North Carolina’s statute.
5. Who will oversee my endowment in support of Appalachian State University?

The Board of Directors of Appalachian State University Foundation, Inc. and its Investments Advisory Committee are responsible for endowment oversight.

6. How are endowment investments managed at Appalachian State University Foundation, Inc.?

Endowments are invested by Appalachian State University Foundation, Inc. in accordance with its investment policy statement. The Foundation 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 Investments Advisory Committee of the Foundation’s Board of Directors. The strategic asset allocation policy should set the course for endowment investing for many years to come. The overall investment objective is to earn a total net return equal to the sum of inflation plus the spending rate.

7. How is spending determined? What is the relationship between overall investment return and the “spending” on an endowment?

The spending policy is set by the Investments Advisory Committee of the Appalachian State University Foundation, Inc. Board of Directors (IAC). Endowment spending is based on a three-year average of net assets as of an established annual date of June 30 in order to smooth out changes in market value. The spending rate is currently four percent (4%). As previously stated, the spending policy is reviewed annually by the IAC.

8. How soon will new endowments start to spend for programmatic purposes?

New endowments must be invested for at least one year to be eligible for spending. However, funds must first have earnings reserves to support spending.

9. What happens to any “excess returns” in the endowment?

Any earnings beyond the amount needed for scholarship/programmatic spending are added back to earnings reserves to promote growth and protect against inflation for future programs. These excess returns may also provide available funds for expenditure in periods of economic down-turns.

10. What happens when investment returns are negative?

An endowment can spend from prior years’ excess returns (also referred to as earnings reserves). If there are no earnings reserves available, no spending can occur.

11. What is an “underwater” endowment?
This is an endowment which, through declining market performance, has used all accumulated earnings and has eroded so that the fund’s net asset value is less than the original gift value, or corpus. We also refer to “underwater” endowments as endowments with eroded corpus.

12. Can spending occur if an endowment is “underwater”?

Foundation policy provides that spending will not occur in “underwater” endowments. A donor may make an additional current gift to support program or scholarship spending if an endowment fund is underwater.

13. Can an endowment be designated for a specific purpose?

Absolutely - As with any gift to the Appalachian State University Foundation, Inc., an endowed gift offers alumni and 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. Examples include the following:

- Some donors create unrestricted endowments, recognizing that the needs and challenges of the future will differ from those of today. Unrestricted gifts are used for the highest priority needs on campus, and provide the greatest flexibility to address changing needs.

- Many donors create undergraduate scholarships or graduate fellowships to support deserving students majoring in a course of study within a specific college.

- Other donors choose to direct their gifts to areas or programs of special concern to them, knowing that these additional funds provide an opportunity for those programs to grow and excel.