

# School Force Endowment Policies

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## Introduction

This document is designed for donors to the School Force Endowment Fund. It provides an overview of the governing policies for the Endowment Fund of the Belmont-Redwood Shores “School Force” Public School Foundation.

## 1. Definition and Purpose of Endowment

- 1.1. Definition of Endowment Fund:** “Endowment Fund” means an institutional fund or any part thereof, not wholly expendable by the institution on a current basis under the terms of the applicable gift instrument. (California Uniform Management of Institutional Funds Act. Calif. Probate Code §18501).
- 1.2. Definition of Annual Fund:** The “Annual Fund” is the School Force non-profit fund that collects donations and provides funds to the Belmont-Redwood Shores public school district on an annual basis to help pay for specific needs of the district including, but not limited to, programs and teachers for reading, technology, music, libraries, and science.
- 1.3. Purpose of Endowment Fund:** Provide a stable and growing annual contribution to the School Force Annual Fund. The School Force Endowment Fund will transfer a percentage of the interest and capital gains earned on the Endowment Fund principle to the Annual Fund each year according to Section 5. Payout Policies and Rates of Return.

## 2. Governance: Investment Committee

- 2.1. Purpose of Investment Committee:** The Endowment Fund Investment Committee is a sub-committee of the School Force Board of Directors. The Investment Committee is responsible for setting and reviewing Investment and Payout Policies.
- 2.2. Investment Committee Members:** The Investment Committee will be made up of three voting members and two non-voting members.
  - 2.2.1. Voting Members:** The three voting members will be elected by the Board of Directors for a one year term. They may serve multiple consecutive terms. Voting members of the Investment Committee can be removed from the Investment Committee by a majority vote of the School Force Board. At least one of the voting members must be a member of the School Force Board of Directors.
  - 2.2.2. Non-Voting Members:** The two non-voting members will be made up of:
    - 1) an individual representing the money management firm chosen by the investment committee to manager the Endowment Funds
    - 2) the individual who is managing a fundraising program to try to raise funds for the Endowment Fund (“Program Manager”). Program manager can choose to be one of the 3 voting members, with approval from the School Force board.

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**2.3. Frequency of Meetings:** The Investment Committee will meet at a minimum once every six months, although emergency meetings may be required to discuss, for example, restricted gift proposals. Meetings by teleconference are acceptable.

**2.4. Roles and Responsibilities of Investment Committee:** The Investment Committee has four primary roles:

**2.4.1. Hiring and ongoing evaluation of Money Manager:** Decide on which person and/or firm will be used to manage the money of the Endowment Fund, initially and on an on-going basis.

**2.4.2. Investment Strategy:** Decide on the investment strategy for Endowment Fund the next 6 months (determine what types of investments to make, asset allocation, risk profile, etc.). Take input on this from the money management firm who will execute the decisions of the Investment Committee.

**2.4.3. Gift Acceptance Policies:** Decide on specific gift acceptance policies and types of gifts that will be allowed. In cases where a potential gift is outside of the standard gift acceptance policies, meet to decide on a course of action for handling the restricted gift proposal.

**2.4.4. Payout Policies:** Determine how much money can be transferred from the Endowment Fund to the Annual Fund in a given year, based on policies outlined in Section 5. Payout Policies and Rates of Return.

**2.5. Voting:** In order to maintain good accounting controls, the Investment Committee must have a unanimous vote of its three voting members for any motion to pass. In any case where a unanimous vote cannot be achieved, the matter will be taken up with the School Force Board of Directors for a majority vote.

## 3. Gift Acceptance Policies

**3.1. Definition of School Force “General” Endowment Fund:** The primary endowment fund that provides regular and on-going funds to the School Force Annual fund as described in section 5. The School Force Annual Fund then provides funds to the school district annually to support specific programs and the hiring of teachers.

**3.2. Definition of School Force “Special” Endowment Fund(s):** Any other endowment funds that may be setup in the future as separate endowment funds based on a restricted gift. These “Special” Endowment funds will only be setup in the case where a donor has requested that distributions from the fund be restricted in their use. These funds would only be setup in very special situations and would require approval by the Investment Committee, as per section 2.4.3. Any “Special” Endowment Fund would have a separate set of policies for it which must be documented clearly and approved by both the Donor and the Investment Committee.

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**3.3. General Endowment Fund Gift Acceptance Policy:** The School Force “General” Endowment Fund will only accept gifts with no use restrictions except for uses outlined in the “Acceptable Uses” section 5.2.1.

**3.4. Who can give to Endowment Fund:** The Endowment fund will normally accept gifts from any individual or business entity as long as it is done in accordance with local, state, and federal laws. However, the Board of Directors does reserve the right to reject any gift offer by a majority vote.

**3.4.1. Temporary Additional Approval during Endowment Start-up Phase:** In order to avoid cannibalization of the Annual Fund by the Endowment during the start-up phase, from March 1, 2008 until February 28, 2010, any gifts from parents of students currently enrolled in Belmont-Redwood Shores schools from grades Kindergarten until 7<sup>th</sup> grade must be approved by the Investment Committee. The rationale is that we want to encourage current parents to give to the annual fund. As a general principle, the Investment Committee will not allow a current parent to give to the Endowment until they have already given to the Annual Fund at the Major Donor Level (in 2008, this would be above \$1000).

**3.4.1.1. Exceptions:** The following groups of people are exempt from needing this temporary approval:

- Any current parents whose last child will be graduating from the school district this year.
- Any Board members of School Force
- Any School District Board members

**3.4.2. Endowment Seeding by Annual Fund:** Some Education Foundations are able to start their Endowments with an initial large donation, either from an individual donor or a transfer from their Annual Fund. As this is not practical for School-Force, we will fund (e.g. “seed”) our Endowment Fund over a five year period with a small donation from the Annual Fund, each year, starting with the fiscal year ended June 30, 2009. This donation from the Annual Fund to the Endowment will be equal to 4% of the funds raised in a given fiscal year for the Annual Fund. This funding will stop upon the earliest of: the fiscal year 2014-2015 or the Endowment Fund reaching over \$500,000 in asset value.

## **3.5. How Endowment Funds Can Be Received:**

**3.5.1. Cash and Publicly Traded Securities:** Endowment funds may be received in cash, check, credit/debit card, or marketable securities. Funds can be received on-line through the School Force website once the technology is made available.

**3.5.2. Others:** For any other gifts, the Investment Committee will need to determine whether or not the Endowment can accept the type of gift (examples include: real estate, personal property, closely held securities, time share units, life insurance, etc.)

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**3.6. Planned Giving:** Endowment funds can also be promised as a future gift through traditional planned giving such as a will or trust. Gifts through a bequest will be placed into the Endowment fund unless otherwise designated by the donor.

## 4. Investment Policies

**4.1. General Investment Policy:** The School Force Endowment Fund strives to grow and preserve our fund principle. As such, the investment policy should have a risk profile of “conservative to moderate” risk, as defined by traditional investment management theory.

**4.2. Types of Investments and Asset Allocation:** The School Force Endowment will be invested in a cross-section of investments that will include, but is not limited to, cash/cash equivalents, bonds, stocks, mutual funds.

**4.3. Approval required to invest more than 10% of Endowment Fund in One Asset or Security:** If the Investment Committee recommends that the Endowment Fund invest more than 10% of the fund assets in one asset or security, this transaction must have the approval of the School Force Board of Directors. For the purpose of this section and as an example, an investment in a single hedge fund would be considered an investment in one asset, even though the hedge fund may themselves invest in multiple companies.

**4.4. Use of Money Manager:** The Investment Committee will decide on whether to use an investment manager and will select and manage the relationship with the money manager.

## 5. Payout Policies and Rates of Return

**5.1. Rates of Return:** The Endowment Fund strives to obtain a rate of return of about 5% over inflation each year.

**5.2. Payout Policy and Amount:** Upon reaching a \$500,000 asset value, each year in September, the Endowment Fund will payout the larger of either: 4% of the total Endowment Fund as of June 30, or 50% of the total appreciation of the Endowment fund during the previous year (July 1 to June 30) after all fees, taxes, and commission costs, subject to the following conditions:

**5.2.1. Acceptable Uses:** The Endowment Fund payout can only be distributed to the School Force Annual Fund. All donors must understand and agree that the School Force Annual Fund acceptable uses may change year to year depending on the need. Previously, the annual fund has helped to pay for specific needs of the district including, but not limited to, programs and teachers for reading, technology, music, libraries, and science. In addition, the School Force Board may decide to give the PTA Council or District more control over where the Annual Funds are used for a given year. Therefore, by giving to the School Force Endowment Fund, donors are agreeing to an unrestricted use by School Force of only the annual payout amount.

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- 5.2.2. Loss of Value of Fund and Historic Dollar Value:** In the case where the Endowment Fund loses value in a given year, we will still plan to do the payout as outlined in section 5.2. However, by law, the Endowment fund payout cannot distribute funds such that the amount remaining in the Endowment Fund is below the historic dollar value. “Historic dollar value” is defined as the sum of all the contributions to the endowment fund from its beginning to the present, without any adjustments for investment performance, inflation or other factors.
- 5.2.3. Transfer of Funds:** Funds will be transferred from the Endowment Fund to the Annual Fund after a full accounting of the Endowment Performance, a review by the School Force Treasurer, and a vote of the School Force Board of Directors.
- 5.2.4. Emergency Exception to Payout Policy:** In a case where the funding of the Belmont-Redwood Shores school district falls by greater than 20% over the previous year, the School Force Board may approve by a two-thirds vote, a one-time distribution of up to 25% of the Endowment Fund to the Annual Fund to help cover emergency annual operating expenses. As this distribution may be in conflict with the Historic Dollar Value regulation, any distributions are subject to legal review.
- 5.2.4.1. Critical to Communicate Emergency Exception:** The Investment Committee will ensure that all documents, web pages, gift bequests, etc. communicate clearly the Acceptable Uses and Emergency Exception so that all donors have advanced knowledge of these policies at the time they donate.

### 6. Accounting Guidelines

- 6.1. Endowment Account – Accounting:** All Endowment Funds must be kept separate from annual operating funds. There can be no comingling of funds between the Annual Fund and the Endowment Fund. The School Force Treasurer will work with the chosen Investment Money Manager or bank and/or the School Force Treasurer to ensure that a separate account is setup and that separate accounting records are maintained.
- 6.2. Regular Reporting:** The Investment Committee will require a quarterly report from the Investment Money Manager / Bank that details the investment performance of the Endowment Fund. In addition, the Investment Money Manager / Bank will provide an easy way for the School Force Treasurer to check the balance of the Endowment Fund account (such as on-line access) monthly. The School Force Treasurer will report the balance to the School Force Board as requested at School Force Board Meetings.
- 6.3. Formal Presentation to Board of Directors:** The Investment Committee will make a formal presentation to the School Force Board of Directors at least once annually to outline investment performance and investment strategies for the coming year(s).

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## 7. Miscellaneous

**7.1. Governing Law:** This document is governed by the laws of the State of California. If any sections of this document are held to be void or invalid, the remaining provisions of the document shall not be affected.

**7.2. Amendments:** This document may be amended by a vote of the Board of Directors; however, any amendments to the Payout Policies Section 5 must be done very carefully and with the advice of legal counsel as changes to the Payout Policies after gifts have been accepted may create legal liability for School Force Foundation.

## 8. List of Amendments

**8.1. August 2009:** Amended to create a method for the Annual Fund to seed the Endowment fund for 5 years or until the Endowment Fund reached \$500,000, whichever is earliest.

**8.1.1.** Added section 3.4.2 (“Endowment Seeding by Annual Fund”)

**8.1.2.** Amended paragraph 5.2 (“Payoff Policy and Amount”)